UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-33139

HERTZ GLOBAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-3530539
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

225 Brae Boulevard
Park Ridge, New Jersey 07656-0713
(201) 307-2000
(Address, including Zip Code, and telephone number,
including area code, of registrant's principal executive offices)

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of May 1, 2013, 400,286,548 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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PART I—FINANCIAL INFORMATION

ITEM l. Condensed Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Hertz Global Holdings, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Hertz Global Holdings, Inc. and its subsidiaries as of March 31, 2013, and the related consolidated statements of operations, of comprehensive loss and of cash flows for the three-month periods ended March 31, 2013 and 2012 and the consolidated statement of changes in equity for the three-month period ended March 31, 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended (not presented herein), and in our report dated March 4, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Florham Park, New Jersey
May 2, 2013

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars; Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$653,783	$533,255
Restricted cash and cash equivalents	425,161	571,634
Receivables, less allowance for doubtful accounts of $29,018 and $25,113	1,555,520	1,886,596
Inventories, at lower of cost or market	109,953	105,728
Prepaid expenses and other assets	550,670	470,120
Revenue earning equipment, at cost:		
Cars	13,694,941	12,591,132
Less accumulated depreciation	(1,995,261)	(1,881,030)
Other equipment	3,313,112	3,240,095
Less accumulated depreciation	(1,043,568)	(1,041,861)
Total revenue earning equipment	13,969,224	12,908,336
Property and equipment, at cost:		
Land, buildings and leasehold improvements	1,302,509	1,288,833
Service equipment and other	1,241,864	1,261,049
	2,544,373	2,549,882
Less accumulated depreciation	(1,087,176)	(1,113,496)
Total property and equipment	1,457,197	1,436,386
Other intangible assets, net	4,002,046	4,032,111
Goodwill	1,352,694	1,341,872
Total assets	$24,076,248	$23,286,038
LIABILITIES AND EQUITY		
Accounts payable	$1,304,849	$999,061
Accrued liabilities	1,213,907	1,180,538
Accrued taxes	143,589	118,610
Debt	16,316,982	15,448,624
Public liability and property damage	321,003	332,232
Deferred taxes on income	2,738,756	2,699,668
Total liabilities	22,039,086	20,778,733
Commitments and contingencies		
Equity:		
Hertz Global Holdings, Inc. and Subsidiaries stockholders' equity		
Preferred Stock, $0.01 par value, 200,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 422,979,383 and 421,485,862 shares issued and 399,779,383 and 421,485,862 outstanding	4,230	4,215
Additional paid-in capital	3,237,348	3,233,948
Accumulated deficit	(686,022)	(703,985)
Accumulated other comprehensive loss	(51,165)	(26,892)
	2,504,391	2,507,286
Treasury Stock, at cost, 23,200,000 shares and 0 shares	(467,248)	—
Total Hertz Global Holdings, Inc. and Subsidiaries stockholders' equity	2,037,143	2,507,286
Noncontrolling interest	19	19

Total equity	2,037,162	2,507,305
Total liabilities and equity	$24,076,248	$23,286,038

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands of Dollars, except share and per share data)
Unaudited

	Three Months Ended March 31, 2013	2012
Revenues:		
Car rental	$2,006,779	$1,623,231
Equipment rental	350,482	301,326
Other	79,247	36,368
Total revenues	2,436,508	1,960,925
Expenses:		
Direct operating	1,351,190	1,114,158
Depreciation of revenue earning equipment and lease charges	587,027	515,106
Selling, general and administrative	251,709	207,752
Interest expense	176,782	162,267
Interest income	(1,834)	(1,092)
Other income, net	(598)	(457)
Total expenses	2,364,276	1,997,734
Income (loss) before income taxes	72,232	(36,809)
Provision for taxes on income	(54,269)	(19,524)
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	17,963	(56,333)
Weighted average shares outstanding (in thousands):		
Basic	415,847	418,076
Diluted	460,897	418,076
Earnings (loss) per share attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders (See Note 17—Earnings (Loss) Per Share):		
Basic	$0.04	$(0.13)
Diluted	$0.04	$(0.13)

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In Thousands of Dollars)
Unaudited

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Net income (loss)		$17,963		$(56,333)
Other comprehensive income (loss), net of tax:				
Translation adjustment changes	$(27,405)		$29,570	
Unrealized holding gains (losses) on securities, (net of tax of 2013: $0 and 2012: $1,958)	(5)		3,086	
Other, (net of tax of 2013: $0 and 2012: $0)	(44)		(87)	
Defined benefit pension plans:				
Net gains (losses) arising during the period, (net of tax of 2013: $1,682 and 2012: $0)	3,181		(231)	
Defined benefit pension plans	3,181		(231)	
Other comprehensive income (loss)		(24,273)		32,338
Comprehensive loss attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders		$(6,310)		$(23,995)

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In Thousands of Dollars)
Unaudited

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest	Total Equity
December 31, 2012	$—	421,486	$4,215	$3,233,948	$(703,985)	$(26,892)	$—	$ 19	$2,507,305
Net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders					17,963				17,963
Other comprehensive loss						(24,273)			(24,273)
Employee stock purchase plan		149	2	1,412					1,414
Net settlement on vesting of restricted stock		732	7	(10,349)					(10,342)
Share repurchase[(a)]							(467,248)		(467,248)
Stock-based employee compensation charges, net of tax				7,984					7,984
Exercise of stock options, net of tax		608	6	4,209					4,215
Common shares issued to Directors		4	—	144					144
March 31, 2013	$—	422,979	$4,230	$3,237,348	$(686,022)	$(51,165)	$(467,248)	$ 19	$2,037,162

(a) In March 2013, Hertz Holdings repurchased 23,200,000 shares at a price of $20.14 per share.

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)
Unaudited

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income (loss)	$17,963	$(56,333)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of revenue earning equipment	571,751	492,053
Depreciation of property and equipment	51,324	44,049
Amortization of other intangible assets	30,499	19,166
Amortization and write-off of deferred financing costs	11,925	17,135
Amortization and write-off of debt discount	5,352	7,742
Stock-based compensation charges	7,984	7,515
Gain on derivatives	(1,456)	(2,956)
Loss on revaluation of foreign denominated debt	—	2,498
Provision for losses on doubtful accounts	12,657	6,917
Deferred taxes on income	35,992	2,370
Gain on sale of property and equipment	(1,017)	(197)
Changes in assets and liabilities, net of effects of acquisition:		
Receivables	(33,211)	(57,554)
Inventories, prepaid expenses and other assets	(42,109)	(5,471)
Accounts payable	38,289	53,589
Accrued liabilities	22,760	(38,712)
Accrued taxes	24,660	5,334
Public liability and property damage	(9,809)	(5,144)
Net cash provided by operating activities	743,554	492,001
Cash flows from investing activities:		
Net change in restricted cash and cash equivalents	142,642	97,639
Revenue earning equipment expenditures	(3,252,980)	(2,648,695)
Proceeds from disposal of revenue earning equipment	2,237,878	2,009,336
Property and equipment expenditures	(80,060)	(74,222)
Proceeds from disposal of property and equipment	23,456	47,631
Acquisitions, net of cash acquired	(2,784)	(147,314)
Other investing activities	(469)	(140)
Net cash used in investing activities	$(932,317)	$(715,765)

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands of Dollars)
Unaudited

	Three Months Ended March 31, 2013	2012
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$1,201,582	$264,599
Payment of long-term debt	(298,631)	(453,279)
Short-term borrowings:		
Proceeds	128,785	40,650
Payments	(195,326)	(243,276)
Proceeds (payments) under the revolving lines of credit, net	(31,986)	325,247
Purchase of noncontrolling interest	—	(38,000)
Proceeds from employee stock purchase plan	1,202	985
Proceeds from exercise of stock options	4,215	4,514
Proceeds from disgorgement of stockholder short-swing profits	—	4
Purchase of treasury shares	(467,248)	—
Net settlement on vesting of restricted stock	(10,342)	(18,494)
Payment of financing costs	(15,402)	(4,217)
Net cash provided by (used in) financing activities	316,849	(121,267)
Effect of foreign exchange rate changes on cash and cash equivalents	(7,558)	7,953
Net increase (decrease) in cash and cash equivalents during the period	120,528	(337,078)
Cash and cash equivalents at beginning of period	533,255	931,779
Cash and cash equivalents at end of period	$653,783	$594,701
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	$119,097	$126,945
Income taxes	5,703	22,433
Supplemental disclosures of non-cash flow information:		
Purchases of revenue earning equipment included in accounts payable and accrued liabilities	$443,120	$518,231
Sales of revenue earning equipment included in receivables	230,715	299,577
Purchases of property and equipment included in accounts payable	58,701	41,917
Sales of property and equipment included in receivables	13,698	9,299

The accompanying notes are an integral part of these financial statements.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1—Background

Hertz Global Holdings, Inc., or "Hertz Holdings," is our top-level holding company. The Hertz Corporation, or "Hertz," is our primary operating company and a direct wholly owned subsidiary of Hertz Investors, Inc., which is wholly owned by Hertz Holdings. "We," "us" and "our" mean Hertz Holdings and its consolidated subsidiaries, including Hertz and Dollar Thrifty Automotive Group, Inc., or "Dollar Thrifty."

We are a successor to corporations that have been engaged in the car and truck rental and leasing business since 1918 and the equipment rental business since 1965. Hertz Holdings was incorporated in Delaware in 2005 to serve as the top-level holding company for the consolidated Hertz business. Hertz was incorporated in Delaware in 1967. Ford Motor Company acquired an ownership interest in Hertz in 1987. Prior to this, Hertz was a subsidiary of United Continental Holdings, Inc. (formerly Allegis Corporation), which acquired Hertz's outstanding capital stock from RCA Corporation in 1985.

On December 21, 2005, investment funds associated with or designated by:

- Clayton, Dubilier & Rice, Inc., which was succeeded by Clayton, Dubilier & Rice, LLC, or "CD&R,"
- The Carlyle Group, or "Carlyle," and
- Merrill Lynch & Co., Inc., or "Merrill Lynch,"

or collectively the "Sponsors," acquired all of Hertz's common stock from Ford Holdings LLC. We refer to the acquisition of all of Hertz's common stock by the Sponsors as the "Acquisition."

On November 19, 2012, Hertz completed the acquisition of Dollar Thrifty, a car and truck rental and leasing business. See Note 5—Business Combinations and Divestitures.

On December 12, 2012, Hertz completed the sale of Simply Wheelz LLC, a wholly owned subsidiary of Hertz that operated our Advantage Rent A Car business. See Note 5—Business Combinations and Divestitures.

In December 2012, the Sponsors sold 50,000,000 shares of their Hertz Holdings common stock to J.P. Morgan as the sole underwriter in the registered public offering of those shares.

In March 2013, the Sponsors sold 60,050,777 shares of their Hertz Holdings common stock to Citigroup Global Markets Inc. and Barclays Capital Inc. as the underwriters in the registered public offering of those shares. In connection with the offering, Hertz Holdings repurchased from the underwriters 23,200,000 of the 60,050,777 shares of common stock sold by the Sponsors.

As a result of our initial public offering in November 2006 and subsequent offerings in June 2007, May 2009, June 2009, March 2011, December 2012 and March 2013, the Sponsors reduced their holdings to approximately 12.5% of the outstanding shares of common stock of Hertz Holdings.

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The significant accounting policies summarized in Note 2 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the United States Securities and Exchange Commission, or "SEC," on March 4, 2013, or the "Form 10-K," have been followed in preparing the accompanying condensed consolidated financial statements.

The December 31, 2012 condensed consolidated balance sheet data was derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America, or "GAAP."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ materially from those estimates.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

In our opinion, all adjustments necessary for a fair presentation of the results of operations for the interim periods have been made. Results for interim periods are not necessarily indicative of results for a full year.

Certain prior period amounts have been reclassified to conform with current period presentation.

Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board, or "FASB," issued Accounting Standards Update, or "ASU," No. 2012-02, "Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment," or "ASU 2012-02" which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This provision is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This accounting guidance is not expected to have a material impact on our consolidated financial statements or financial statement disclosures.

In March 2013, the FASB issued ASU No. 2013-05, “Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,” or “ASU 2013-05”, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for reporting periods beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. This accounting guidance is not expected to have a material impact on our consolidated financial statements or financial statement disclosures.

Note 3—Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

In our Consolidated Statements of Cash Flows, we net cash flows from revolving borrowings in the line item "Proceeds (payments) under the revolving lines of credit, net."

Restricted cash and cash equivalents includes cash and cash equivalents that are not readily available for our normal disbursements. Restricted cash and cash equivalents are restricted for the purchase of revenue earning vehicles and other specified uses under our Fleet Debt facilities, for our Like-Kind Exchange Program, or "LKE Program," and to satisfy certain of our self-insurance regulatory reserve requirements. As of March 31, 2013 and December 31, 2012, the portion of total restricted cash and cash equivalents that was associated with our Fleet Debt facilities was $370.5 million and $494.0 million, respectively. The decrease in restricted cash and cash equivalents associated with our fleet debt of $123.5 million from December 31, 2012 to March 31, 2013 was primarily related to the timing of purchases and sales of revenue earning vehicles.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Note 4—Goodwill and Other Intangible Assets
The following summarizes the changes in our goodwill, by segment (in millions of dollars):

	Car Rental	Equipment Rental	Total
Balance as of January 1, 2013			
Goodwill	$1,287.5	$775.4	$2,062.9
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	1,241.4	100.5	1,341.9
Goodwill acquired during the period	—	—	—
Adjustments to previously recorded purchase price allocation[a]	9.2	4.6	13.8
Other changes during the period[b]	(2.9)	(0.1)	(3.0)
	6.3	4.5	10.8
Balance as of March 31, 2013			
Goodwill	1,293.8	779.9	2,073.7
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	$1,247.7	$105.0	$1,352.7

	Car Rental	Equipment Rental	Total
Balance as of January 1, 2012			
Goodwill	$419.3	$693.8	$1,113.1
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	373.2	18.9	392.1
Goodwill acquired during the year	884.9	82.0	966.9
Adjustments to previously recorded purchase price allocation[c]	(15.3)	—	

			Nine Months Ended July 31,	
(In thousands)	2017	2016	2017	2016
Interest capitalized at beginning of period	$ 90,960	$ 115,809	$ 96,688	$123,898
Plus interest incurred (1)	39,089	40,300	116,944	126,483
Less cost of sales interest expensed	19,371	28,406	58,030	66,693
Less other interest expensed (2)(3)	23,559	23,159	68,483	68,468
Less interest contributed to unconsolidated joint venture (4)	-	-	-	10,676
Interest capitalized at end of period (5)	$ 87,119	$ 104,544	$ 87,119	$104,544

(1) Data does not include interest incurred by our mortgage and finance subsidiaries.

(2) Other interest expensed includes interest that does not qualify for interest capitalization because our assets that qualify for interest capitalization (inventory under development) do not exceed our debt, which amounted to $17.2 million and $10.1 million for the three months ended July 31, 2017 and 2016, respectively, and $46.5 million and $36.8 million for the nine months ended July 31, 2017 and 2016, respectively. Other interest also includes interest on completed homes, land in planning and fully developed lots without homes under construction, which does not qualify for capitalization, and therefore, is expensed. This component of other interest was $6.4 million and $13.1 million for the three months ended July 31, 2017 and 2016, respectively, and $22.0 million and $31.6 million for the nine months ended July 31, 2017 and 2016, respectively.

(3) Cash paid for interest, net of capitalized interest, is the sum of other interest expensed, as defined above, and interest paid by our mortgage and finance subsidiaries adjusted for the change in accrued interest on notes payable, which is calculated as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2017	2016	2017	2016
Other interest expensed	$23,559	$23,159	$68,483	$68,468
Interest paid by our mortgage and finance subsidiaries	465	706	1,549	2,116
Decrease in accrued interest	17,528	8,641	18,882	9,909
Cash paid for interest, net of capitalized interest	$41,552	$32,506	$88,914	$80,493

(4) Represents capitalized interest which was included as part of the assets contributed to the joint venture the Company entered into in November 2015, as discussed in Note 17. There was no impact to the Condensed Consolidated Statement of Operations as a result of this transaction.

(5) Capitalized interest amounts are shown gross before allocating any portion of impairments, if any, to capitalized interest.

4. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the nine months ended July 31, 2017, our discount rate used for the impairments recorded ranged from 18.3% to 19.8%. For the nine months ended July 31, 2016, our discount rate used for the impairments recorded ranged from 16.8% to 18.5%. No discount rate was used for communities impaired on land held for sale and purchase offer prices were used to determine the fair value of such communities. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments.

During the nine months ended July 31, 2017 and 2016, we evaluated inventories of all 380 and 418 communities under development and held for future development or sale, respectively, for impairment indicators through preparation and review of detailed budgets or other market indicators of impairment. We performed detailed impairment calculations during the nine months ended July 31, 2017 and 2016 for 10 and 22 of those communities (i.e., those with a projected operating loss or other impairment indicators), respectively, with an aggregate carrying value of $82.7 million and $95.5 million, respectively. Of those communities tested for impairment during the nine months ended July 31, 2017 and 2016, three and 11 communities with an aggregate carrying value of $45.8 million and $47.8 million, respectively, had undiscounted future cash flows that exceeded the carrying amount by less than 20%. As a result of our impairment analysis, we recorded aggregate impairment losses of $3.2 million and $7.4 million, in one and seven communities, respectively, with aggregate pre-impairment values of $15.9 million and $37.0 million, respectively, for the three and nine months ended July 31, 2017, respectively. We recorded aggregate impairment losses of $1.3 million and $16.4 million, in two and 12 communities, respectively, with an aggregate pre-impairment values of $5.4 million and $50.8 million, respectively, for the three and nine months ended July 31, 2016, respectively, which are included in the Condensed Consolidated Statements of Operations on the line entitled "Homebuilding: Inventory impairment loss and land option write-offs" and deducted from inventory. Impairments decreased for the nine months ended July 31, 2017 compared to the same period of the prior year as the impairments recorded for the nine months ended July 31, 2016 were mainly for land held for sale in the Midwest and Northeast. The pre-impairment value represents the carrying value, net of prior period impairments, if any, at the time of recording the impairment.

The Condensed Consolidated Statements of Operations line entitled "Homebuilding: Inventory impairment loss and land option write-offs" also includes write-offs of options and approval, engineering and capitalized interest costs that we record when we redesign communities and/or abandon certain engineering costs and we do not exercise options in various locations because the communities' pro forma profitability is not projected to produce adequate returns on investment commensurate with the risk. Total aggregate write-offs related to these items were $1.0 million and $0.2 million for the three months ended July 31, 2017 and 2016, respectively, and $1.9 million and $6.5 million for the nine months ended July 31, 2017 and 2016, respectively. Such write-offs were primarily located in our Northeast, Mid-Atlantic and Southeast segments for the first three quarters of fiscal 2017 and in all of our segments for the first three quarters of fiscal 2016. Occasionally, these write-offs are offset by recovered deposits (sometimes through legal action) that had been written off in a prior period as walk-away costs. Historically, these recoveries have not been significant in comparison to the total costs written off. The number of lots walked away from during the three months ended July 31, 2017 and 2016 were 1,200 and 1,570, respectively, and 2,739 and 5,089 during the nine months ended July 31, 2017 and 2016, respectively.

We decide to mothball (or stop development on) certain communities when we determine that the current performance does not justify further investment at the time. When we decide to mothball a community, the inventory is reclassified on our Condensed Consolidated Balance Sheets from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale." During the first three quarters of fiscal 2017, we did not mothball any additional communities, but we sold three previously mothballed communities and re-activated two previously mothballed communities. As of July 31, 2017 and October 31, 2016, the net book value associated with our 24 and 29 total mothballed communities was $61.6 million and $74.4 million, respectively, which was net of impairment charges recorded in prior periods of $239.0 million and $296.3 million, respectively.

We sell and lease back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement, for accounting purposes in accordance with ASC 360-20-40-38, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Condensed Consolidated Balance Sheets, at July 31, 2017 and October 31, 2016, inventory of $70.9 million and $79.2 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of $62.7 million and $69.7 million (net of debt issuance costs), respectively, recorded to “Liabilities from inventory not owned” for the amount of net cash received from the transactions.

We have land banking arrangements, whereby we sell our land parcels to land bankers and they provide us an option to purchase back finished lots on a predetermined basis. Because of our options to repurchase these parcels, for accounting purposes, in accordance with ASC 360-20-40-38, these transactions are considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheets, at July 31, 2017 and October 31, 2016, inventory of $67.6 million and $129.5 million, respectively, was recorded as “Consolidated inventory not owned,” with a corresponding amount of $35.8 million and $80.5 million (net of debt issuance costs), respectively, recorded to “Liabilities from inventory not owned” for the amount of net cash received from the transactions.

5. Variable Interest Entities

The Company enters into land and lot option purchase contracts to procure land or lots for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land or lots at a future point in time with predetermined terms. Under the terms of the option purchase contracts, many of the option deposits are not refundable at the Company's discretion. Under the requirements of ASC 810, certain option purchase contracts may result in the creation of a variable interest in the entity (“VIE”) that owns the land parcel under option.

In compliance with ASC 810, the Company analyzes its option purchase contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the underlying land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. As a result of its analyses, the Company determined that as of July 31, 2017 and October 31, 2016, it was not the primary beneficiary of any VIEs from which it is purchasing land under option purchase contracts.

We will continue to secure land and lots using options, some of which are with VIEs. Including deposits on our unconsolidated VIEs, at July 31, 2017, we had total cash deposits amounting to $48.6 million to purchase land and lots with a total purchase price of $942.1 million. The maximum exposure to loss with respect to our land and lot options is limited to the deposits plus any pre-development costs invested in the property, although some deposits are refundable at our request or refundable if certain conditions are not met.

6. Warranty Costs

General liability insurance for homebuilding companies and their suppliers and subcontractors is very difficult to obtain. The availability of general liability insurance is limited due to a decreased number of insurance companies willing to underwrite for the industry. In addition, those few insurers willing to underwrite liability insurance have significantly increased the premium costs. To date, we have been able to obtain general liability insurance but at higher premium costs with higher deductibles. Our subcontractors and suppliers have advised us that they have also had difficulty obtaining insurance that also provides us coverage. As a result, we have an owner controlled insurance program for certain of our subcontractors whereby the subcontractors pay us an insurance premium (through a reduction of amounts we would otherwise owe such subcontractors for their work on our homes) based on the risk type of the trade. We absorb the liability associated with their work on our homes as part of our overall general liability insurance at no additional cost to us because our existing general liability and construction defect insurance policy and related reserves for amounts under our deductible covers construction defects regardless of whether we or our subcontractors are responsible for the defect. For the nine months ended July 31, 2017 and 2016, we received $3.0 million and $3.1 million, respectively, from subcontractors related to the owner controlled insurance program, which we accounted for as a reduction to inventory.

We accrue for warranty costs that are covered under our existing general liability and construction defect policy as part of our general liability insurance deductible. This accrual is expensed as selling, general and administrative costs. For homes delivered in fiscal 2017 and 2016, our deductible under our general liability insurance is a $20 million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2017 and 2016 is $0.25 million, up to a $5 million limit. Our aggregate retention in fiscal 2017 and 2016 is $21 million for construction defect, warranty and bodily injury claims. In addition, we establish a warranty accrual for lower cost related issues to cover home repairs, community amenities and land development infrastructure that are not covered under our general liability and construction defect policy. We accrue an estimate for these warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. Additions and charges in the warranty reserve and general liability reserve for the three and nine months ended July 31, 2017 and 2016 were as follows:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
(In thousands)	2017	2016	2017	2016

Balance, beginning of period	$117,207	$136,706	$121,144	$135,053
Additions - Selling, general and administrative	2,639	4,247	8,403	13,162
Additions - Cost of sales	4,434	4,426	11,436	12,347
Charges incurred during the period	(5,489)	(5,942)	(22,192)	(21,125)
Changes to pre-existing reserves	-	-	-	-
Balance, end of period	$118,791	$139,437	$118,791	$139,437

Warranty accruals are based upon historical experience. We engage a third-party actuary that uses our historical warranty and construction defect data to assist our management in estimating our unpaid claims, claim adjustment expenses and incurred but not reported claims reserves for the risks that we are assuming under the general liability and construction defect programs. The estimates include provisions for inflation, claims handling and legal fees.

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were $0.5 million and $0.2 million for the three months ended July 31, 2017 and 2016, respectively, and $0.7 million and $3.9 million for the nine months ended July 31, 2017 and 2016, respectively, for prior year deliveries. During the first three quarters of fiscal 2016, we settled two construction defect claims relating to the Northeast segment which made up the majority of the payments.

7. Commitments and Contingent Liabilities

We are involved in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on our financial position, results of operations or cash flows, and we are subject to extensive and complex laws and regulations that affect the development of land and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These laws and regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding.

We also are subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment, including those regulating the emission or discharge of materials into the environment, the management of storm water runoff at construction sites, the handling, use, storage and disposal of hazardous substances, impacts to wetlands and other sensitive environments, and the remediation of contamination at properties that we have owned or developed or currently own or are developing (“environmental laws”). The particular environmental laws that apply to any given community vary greatly according to the community site, the site’s environmental conditions and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance, remediation and/or other costs, and can prohibit or severely restrict development and homebuilding activity. In addition, noncompliance with these laws and regulations could result in fines and penalties, obligations to remediate, permit revocations or other sanctions; and contamination or other environmental conditions at or in the vicinity of our developments may result in claims against us for personal injury, property damage or other losses.

In March 2013, we received a letter from the Environmental Protection Agency (“EPA”) requesting information about our involvement in a housing redevelopment project in Newark, New Jersey that a Company entity undertook during the 1990s. We understand that the development is in the vicinity of a former lead smelter and that recent tests on soil samples from properties within the development conducted by the EPA show elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re-development project. We responded to the EPA’s request. In August 2013, we were notified that the EPA considers us a potentially responsible party (or “PRP”) with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and/or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution but do not know the scope or extent of the Company’s obligations, if any, that may arise from the site and therefore cannot provide any assurance that this matter will not have a material impact on the Company. The EPA requested additional information in April 2014 and again in March 2017 and the Company has responded to its information requests.

The Grandview at Riverwalk Port Imperial Condominium Association, Inc. filed a construction defect lawsuit against Hovnanian Enterprises, Inc. and several of its affiliates, including K. Hovnanian at Port Imperial Urban Renewal II, LLC, K. Hovnanian Construction Management, Inc., K. Hovnanian Companies, LLC, K. Hovnanian Enterprises, Inc., K. Hovnanian North East, Inc. aka and/or dba K. Hovnanian Companies North East, Inc., K. Hovnanian Construction II, Inc., K. Hovnanian Cooperative, Inc., K. Hovnanian Development of New Jersey, Inc., and K. Hovnanian Holdings

NJ, LLC, as well as the project architect, the geotechnical engineers and various construction contractors for the project alleging various construction defects, design defects and geotechnical issues totaling approximately $41.3 million. The lawsuit included claims against the geotechnical engineers for differential soil settlement under the building, against the architects for failing to design the correct type of structure allowable under the New Jersey Building Code, and against the Hovnanian developer entity (K. Hovnanian at Port Imperial Urban Renewal II, LLC) alleging that it: (1) had knowledge of and failed to disclose the improper building classification to unit purchasers and was therefore liable for treble damages under the New Jersey Consumer Fraud Act; and (2) breached an express warranty set forth in the Public Offering Statements that the common elements at the building were fit for their intended purpose. The Plaintiff further alleged that Hovnanian Enterprises, Inc., K. Hovnanian Holdings NJ, LLC, K. Hovnanian Development of New Jersey, Inc., and K. Hovnanian Developments of New Jersey II, Inc. were jointly liable for any damages owed by the Hovnanian development entity under a veil piercing theory.

The parties reached a settlement on the construction defect issues prior to trial, but attempts to settle the subsidence, building classification issue and Consumer Fraud Act claims were unsuccessful. The trial commenced on April 17, 2017 in Hudson County, New Jersey. In the third week of the trial, all of the Hovnanian defendants resolved the geotechnical claims for an amount immaterial to the Company, but the balance of the case continued to be tried before the jury. On June 1, 2017, the jury rendered a verdict against K. Hovnanian at Port Imperial Urban Renewal II, LLC on the breach of warranty and New Jersey Consumer Fraud claims in the total amount of $3 million, which resulted in a total verdict of $9 million against that entity due to statutory trebling, plus a to-be-determined portion of Plaintiff's counsel fees, per the statute. The jury also found in favor of Plaintiff on its veil piercing theory. The parties have fully briefed post-trial motions on three issues: (1) the Hovnanian defendants' motion for a judgment notwithstanding the verdict or a new trial; (2) the Hovnanian defendants' motion addressing whether any of the Hovnanian entities could be jointly liable under a veil piercing theory for the damages awarded against K. Hovnanian at Port Imperial Urban Renewal II, LLC; and (3) the Hovnanian defendants' motion for contractual indemnification against the project architect. The judge has set a return date of September 29, 2017 for all three motions. Once these motions are decided, the relevant Hovnanian defendants plan on appealing any remaining adverse portions of the verdict and judgment. With respect to this case, depending on the rulings of the judge and the outcome of any appeals, the range of loss is between $0 and $9 million plus the to-be-determined attorneys' fees. Management believes that a loss is probable and reasonably estimable and that the Company has reserved for its estimated probable loss amount in its construction defect reserves. However, our assessment of the probable loss may differ from the ultimate resolution of this matter.

The Condominium Association of a second condominium project located nearby the Grandview at Riverwalk Port Imperial Condominium project also initiated a lawsuit against Hovnanian Enterprises, Inc. and several of its affiliates, including K. Hovnanian at Port Imperial Urban Renewal III, LLC, K. Hovnanian Homes (not a legal entity but named as a defendant), K. Hovnanian Shore Acquisitions, LLC, K. Hovnanian Construction Management, Inc., K. Hovnanian Companies, LLC, K. Hovnanian Northeast, Inc., K. Hovnanian Enterprises, Inc., K. Hovnanian Construction III, Inc., K. Hovnanian Cooperative, Inc., and K. Hovnanian Investments, LLC, as well as other design professionals and contractors asserting similar claims for construction defects, design defects and geotechnical issues. Plaintiff in this case asserts damages of approximately $70 million, which amount is potentially subject to treble damages. Discovery is ongoing in this matter, and the trial is scheduled for January 2018. The Hovnanian defendants intend to defend these claims vigorously. With respect to this case, it is not yet possible to determine if a loss is probable or reasonably estimable.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot reliably predict the extent of any effect these requirements may have on us, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. In addition, our ability to obtain or renew permits or approvals and the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond our control, such as changes in policies, rules and regulations and their interpretations and application.

8. Restricted Cash and Deposits

Cash represents cash deposited in checking accounts. Cash equivalents include certificates of deposit, Treasury bills and government money market funds with maturities of 90 days or less when purchased. Our cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. We believe we help to mitigate this risk by depositing our cash in major financial institutions. At July 31, 2017 and October 31, 2016, $6.4 million and $9.4 million, respectively, of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

Restricted cash and cash equivalents on the Condensed Consolidated Balance Sheets totaled $25.4 million and $22.9 million as of July 31, 2017 and October 31, 2016, respectively, which includes cash collateralizing our letter of credit agreements and facilities as discussed in Note 10. Also included in this balance were (1) homebuilding and financial services customers' deposits of $0.3 million and $20.6 million at July 31, 2017, respectively, and $2.2 million and $15.1 million as of October 31, 2016, respectively, which are restricted from use by us, and (2) $2.8 million of restricted cash at July 31, 2017 and $3.9 million at October 31, 2016 under the terms of our mortgage warehouse lines of credit.

Total Homebuilding Customers' deposits are shown as a liability on the Condensed Consolidated Balance Sheets. These liabilities are significantly more than the applicable periods' restricted cash balances because in some states, the deposits are not restricted from use and, in other states, we are able to release the majority of these customer deposits to cash by pledging letters of credit and surety bonds.

9. Mortgage Loans Held for Sale

Our mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market within a short period of time of origination. Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. We have elected the fair value option to record loans held for sale and therefore these loans are recorded at fair value with the changes in the value recognized in the Condensed Consolidated Statements of Operations in "Revenues: Financial services." We currently use forward sales of mortgage-backed securities ("MBS"), interest rate commitments from borrowers and mandatory and/or best efforts forward commitments to sell loans to third-party purchasers to protect us from interest rate fluctuations. These short-term instruments, which do not require any payments to be made to the counterparty or purchaser in connection with the execution of the commitments, are recorded at fair value. Gains and losses on changes in the fair value are recognized in the Condensed Consolidated Statements of Operations in "Revenues: Financial services."

At July 31, 2017 and October 31, 2016, $65.4 million and $147.4 million, respectively, of mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note 10). We may incur losses with respect to mortgages that were previously sold that are delinquent and which had underwriting defects, but only to the extent the losses are not covered by mortgage insurance or the resale value of the home. The reserves for these estimated losses are included in the “Financial services - Accounts payable and other liabilities” balances on the Condensed Consolidated Balance Sheets. As of July 31, 2017 and 2016, we had reserves specifically for 94 and 130 identified mortgage loans, respectively, as well as reserves for an estimate for future losses on mortgages sold but not yet identified to us.

The activity in our loan origination reserves during the three and nine months ended July 31, 2017 and 2016 was as follows:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
(In thousands)	2017	2016	2017	2016
Loan origination reserves, beginning of period	$3,782	$8,306	$8,137	$8,025
Provisions for losses during the period	$41	45	$120	203
Adjustments to pre-existing provisions for losses from changes in estimates	(51)	(27)	$(4,485)	96
Payments/settlements		(197)		(197)
Loan origination reserves, end of period	$3,772	$8,127	$3,772	$8,127

10. Mortgages and Notes Payable

We had nonrecourse mortgage loans for certain communities totaling $70.8 million and $82.1 million (net of debt issuance costs) at July 31, 2017 and October 31, 2016, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of $170.9 million and $201.8 million, respectively. The weighted-average interest rate on these obligations was 5.5% and 4.9% at July 31, 2017 and October 31, 2016, respectively, and the mortgage loan payments on each community primarily correspond to home deliveries. We also had nonrecourse mortgage loans on our corporate headquarters totaling $13.3 million and $14.3 million at July 31, 2017 and October 31, 2016, respectively. These loans had a weighted-average interest rate of 8.9% at July 31, 2017 and 8.8% at October 31, 2016, respectively. As of July 31, 2017, these loans had installment obligations with annual principal maturities in the years ending October 31 of: $0.3 million in 2017, $1.4 million in 2018, $1.5 million in 2019, $1.7 million in 2020, $1.8 million in 2021 and $6.6 million after 2021.

In June 2013, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”), as borrower, and we and certain of our subsidiaries, as guarantors, entered into a five-year, $75.0 million unsecured revolving credit facility (the “Credit Facility”) with Citicorp USA, Inc., as administrative agent and issuing bank, and Citibank, N.A., as a lender. The Credit Facility is available for both letters of credit and general corporate purposes. The Credit Facility does not contain any financial maintenance covenants, but does contain certain restrictive covenants that track those contained in our indenture governing the 8.0% Senior Notes due 2019, which are described in Note 11. The Credit Facility also contains certain customary events of default which would permit the administrative agent at the request of the required lenders to, among other things, declare all loans then outstanding to be immediately due and payable if such default is not cured within applicable grace periods, including the failure to make timely payments of amounts payable under the Credit Facility or other material indebtedness or the acceleration of other material indebtedness, the failure to comply with agreements and covenants or for representations or warranties to be correct in all material respects when made, specified events of bankruptcy and insolvency, and the entry of a material judgment against a loan party. Outstanding borrowings under the Credit Facility accrue interest at an annual rate equal to either, as selected by K. Hovnanian, (i) the alternate base rate plus the applicable spread determined on the date of such borrowing or (ii) an adjusted London Interbank Offered Rate ("LIBOR") rate plus the applicable spread determined as of the date two business days prior to the first day of the interest period for such borrowing. As of July 31, 2017 there were $52.0 million of borrowings and $15.0 million of letters of credit outstanding under the Credit Facility. As of October 31, 2016, there were $52.0 million of borrowings and $17.9 million of letters of credit outstanding under the Credit Facility. As of July 31, 2017, we believe we were in compliance with the covenants under the Credit Facility.

In addition to the Credit Facility, we have certain stand-alone cash collateralized letter of credit agreements and facilities under which there was a total of $1.7 million letters of credit outstanding at both July 31, 2017 and October 31, 2016, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of both July 31, 2017 and October 31, 2016, the amount of cash collateral in these segregated accounts was $1.7 million, which is reflected in "Restricted cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage"), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. In certain instances, we retain the servicing rights for a small amount of loans. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement"), which was amended on July 31, 2017 to extend the maturity to July 31, 2018, is a short-term borrowing facility that provides up to $50.0 million through maturity. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at an adjusted LIBOR rate, which was 1.23% at July 31, 2017, plus the applicable margin of 2.5% or 2.63% based upon type of loan. As of July 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Chase Master Repurchase Agreement was $24.7 million and $44.1 million, respectively.

K. Hovnanian Mortgage has another secured Master Repurchase Agreement with Customers Bank (“Customers Master Repurchase Agreement”), which was amended on February 17, 2017, which is a short-term borrowing facility that provides up to $50.0 million through its maturity on February 16, 2018. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR rate, plus the applicable margin ranging from 2.5% to 5.25% based on the type of loan and the number of days outstanding on the warehouse line. As of July 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Customers Master Repurchase Agreement was $31.2 million and $38.8 million, respectively.

K. Hovnanian Mortgage also has a secured Master Repurchase Agreement with Comerica Bank (“Comerica Master Repurchase Agreement”), which was amended on June 23, 2017 to extend the maturity date to June 21, 2018. The Comerica Master Repurchase Agreement is a short-term borrowing facility that provides up to $50.0 million through maturity. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly at the current LIBOR rate, subject to a floor of 0.25%, plus the applicable margin of 2.5%. As of July 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Comerica Master Repurchase Agreement was $6.2 million and $29.8 million, respectively.

K. Hovnanian Mortgage had a secured Master Repurchase Agreement with Credit Suisse First Boston Mortgage Capital LLC which was a short-term borrowing facility that provided up to $50.0 million through its maturity on February 21, 2017. The facility was not renewed after maturity, therefore there were no outstanding borrowings thereunder as of July 31, 2017. As of October 31, 2016, the aggregate principal amount of all borrowings outstanding was $32.9 million.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Comerica Master Repurchase Agreement (together, the “Master Repurchase Agreements”) require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the applicable agreement, we do not consider any of these covenants to be substantive or material. As of July 31, 2017, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

11. Senior Notes and Term Loan

Senior Notes and Term Loan balances as of July 31, 2017 and October 31, 2016, were as follows:

(In thousands)	July 31, 2017(1)(2)	October 31, 2016(1)(2)
Senior Secured Term Loan, net of debt issuance costs	$72,699	$72,646
Senior Secured Notes:		
7.25% Senior Secured First Lien Notes due October 15, 2020	$-	$569,641
10.0% Senior Secured Second Lien Notes due October 15, 2018 (net of discount)	-	68,951
9.125% Senior Secured Second Lien Notes due November 15, 2020	-	143,337
9.5% Senior Secured Notes due November 15, 2020	74,298	74,140
2.0% Senior Secured Notes due November 1, 2021 (net of discount)	53,049	53,022
5.0% Senior Secured Notes due November 1, 2021 (net of discount)	133,292	131,998
10.0% Senior Secured Notes due July 15, 2022	435,060	-
10.5% Senior Secured Notes due July 15, 2024	395,507	-
Total Senior Secured Notes, net of debt issuance costs	$1,091,206	$1,041,089
Senior Notes:		
7.0% Senior Notes due January 15, 2019	$131,839	$148,800
8.0% Senior Notes due November 1, 2019	234,084	247,348
Total Senior Notes, net of debt issuance costs	$365,923	$396,148
11.0% Senior Amortizing Notes due December 1, 2017, net of debt issuance costs	$2,018	$6,152
Senior Exchangeable Notes due December 1, 2017, net of debt issuance costs	$53,155	$57,298

(1) “Notes payable and term loan” on our Condensed Consolidated Balance Sheets as of July 31, 2017 and October 31, 2016 consists of the total senior secured, senior, senior amortizing and senior exchangeable notes and senior secured term loan shown above, as well as accrued interest of $13.5 million and $32.4 million, respectively.

(2) As discussed in Note 1, we adopted ASU 2015-03 in November 2016. We applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the fiscal 2017 presentation. As a result, $20.2 million of debt issuance costs at October 31, 2016, were reclassified from prepaids and other assets to a reduction in our senior secured term loan, senior secured, senior, senior amortizing and senior exchangeable notes. Debt issuance costs at July 31, 2017 were $15.9 million.

General

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures and certain of our title insurance subsidiaries, we and each of our subsidiaries are guarantors of the senior secured term loan and senior secured, senior, senior amortizing and senior exchangeable notes outstanding at July 31, 2017 (collectively, the "Notes Guarantors"). In addition to the Notes Guarantors, the 5.0% Senior Secured Notes due 2021 (the "5.0% 2021 Notes"), the 2.0% Senior Secured Notes due 2021 (the "2.0% 2021 Notes" and together with the 5.0% 2021 Notes, the "2021 Notes") and the 9.5% Senior Secured Notes due 2020 (the "9.5% 2020 Notes" and collectively with the 2021 Notes, the "JV Holdings Secured Group Notes") are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries, except for certain joint ventures and joint venture holding companies (collectively, the "JV Holdings Secured Group"). Members of the JV Holdings Secured Group do not guarantee K. Hovnanian's other indebtedness.

The Term Loan Credit Agreement (defined below) and the indentures governing the notes outstanding at July 31, 2017 do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than nonrecourse indebtedness, certain permitted indebtedness and refinancing indebtedness (under the Term Loans (defined below) and the 9.5% 2020 Notes, any new or refinancing indebtedness may not be scheduled to mature earlier than January 15, 2021 (so long as no member of the JV Holdings Secured Group is an obligor thereon), or February 15, 2021 (if otherwise), and under the 10.0% Senior Secured Notes due 2022 (the "10.0% 2022 Notes") and the 10.5% Senior Secured Notes due 2024 (the "10.5% 2024 Notes"), any refinancing indebtedness of the 7.0% Senior Notes due 2019 (the "7.0% Notes") and 8.0% Senior Notes due 2019 (the "8.0% Notes" and together with the 7.0% Notes, the "2019 Notes") may not be scheduled to mature earlier than July 16, 2024)), pay dividends and make distributions on common and preferred stock, repurchase subordinated indebtedness (with respect to the Term Loan and certain of the senior secured and senior notes) and common and preferred stock, make other restricted payments, including investments, sell certain assets (including in certain land banking transactions), incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets, enter into certain transactions with affiliates and make cash repayments of the 2019 Notes (with respect to the 10.0% 2022 Notes and 10.5% 2024 Notes). The Term Loan Credit Agreement and the indentures also contain events of default which would permit the lenders/holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Term Loan Facility (defined below) (the "Term Loans")/notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the Term Loans/notes or other material indebtedness, cross default to other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy and insolvency, with respect to the Term Loans, material inaccuracy of representations and warranties and a change of control, and, with respect to the Term Loans and senior secured notes, the failure of the documents granting security for the Term Loans and senior secured notes to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the Term Loans and senior secured notes to be valid and perfected. As of July 31, 2017, we believe we were in compliance with the covenants of the Term Loan Facility and the indentures governing our outstanding notes.

If our consolidated fixed charge coverage ratio, as defined in the agreements governing our debt instruments (other than the senior exchangeable notes discussed below), is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and nonrecourse indebtedness. As a result of this ratio restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. We anticipate that we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under our debt instruments or otherwise affect compliance with any of the covenants contained in our debt instruments.

Under the terms of our debt agreements, we have the right to make certain redemptions and prepayments and, depending on market conditions and covenant restrictions, may do so from time to time. We also continue to evaluate our capital structure and may also continue to make debt purchases and/or exchanges for debt or equity from time to time through tender offers, open market purchases, private transactions, or otherwise, or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

Any liquidity-enhancing transaction will depend on identifying counterparties, negotiation of documentation and applicable closing conditions and any required approvals. Due to covenant restrictions in our debt instruments, we are currently limited in the amount of debt we can incur that does not qualify as refinancing indebtedness with certain maturity requirements as discussed above (a limitation that we expect to continue for the foreseeable future), even if market conditions would otherwise be favorable, which could also impact our ability to grow our business.

Fiscal 2017

During the nine months ended July 31, 2017, we repurchased in open market transactions $17.5 million aggregate principal amount of 7.0% Notes, $14.0 million aggregate principal amount of 8.0% Notes and 6,925 Units (defined below under "Units") representing $6.9 million stated amount of Units. The aggregate purchase price for these transactions was $30.8 million, plus accrued and unpaid interest. These transactions resulted in a gain on extinguishment of debt of $7.8 million, which is included as "Loss on Extinguishment of Debt" on the Condensed Consolidated Statement of Operations. This gain was offset by $0.4 million of costs associated with the 9.5% 2020 Notes issued during the fourth quarter of fiscal 2016 and the debt transactions during the third quarter of fiscal 2017 discussed below.

On July 27, 2017, K. Hovnanian issued $440.0 million aggregate principal amount of 10.0% 2022 Notes and $400.0 million aggregate principal amount of 10.5% 2024 Notes. The net proceeds from these issuances together with available cash were used to (i) purchase $575,912,000 principal amount of 7.25% Senior Secured First Lien Notes due 2020 (the "7.25% First Lien Notes"), $87,321,000 principal amount of 9.125% Senior Secured Second Lien Notes due 2020 (the "9.125% Second Lien Notes" and, together with the 7.25% First Lien Notes, the "2020 Secured Notes") and all $75,000,000 principal amount of 10.0% Senior Secured Second Lien Notes (the "10.0% Second Lien Notes") that were tendered and accepted for purchase pursuant to K. Hovnanian's offers to purchase for cash (the "Tender Offers") any and all of the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes and to pay related tender premiums and accrued and unpaid interest thereon to the date of purchase and (ii) satisfy and discharge all obligations (and cause the release of the liens on the collateral securing such indebtedness) under the indentures under which the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes were issued and in connection therewith to call for redemption on October 15, 2017 and on November 15, 2017 all remaining $1,088,000 principal amount of 7.25% First Lien Notes and all remaining $57,679,000 principal amount of 9.125% Second Lien Notes, respectively, that were not validly tendered and purchased in the applicable Tender Offer in accordance with the redemption provisions of the indentures governing the 2020 Secured Notes. These transactions resulted in a loss on extinguishment of debt of $42.3 million, which is included as "Loss on Extinguishment of Debt" on the Condensed Consolidated Statement of Operations.

The 10.0% 2022 Notes have a maturity of July 15, 2022 and bear interest at a rate of 10.0% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.0% 2022 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2019 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." K. Hovnanian may also redeem some or all of the 10.0% 2022 Notes at 105.0% of principal commencing July 15, 2019, at 102.50% of principal commencing July 15, 2020 and at 100.0% of principal commencing July 15, 2021. In addition, K. Hovnanian may also redeem up to 35% of the aggregate principal amount of the 10.0% 2022 Notes prior to July 15, 2019 with the net cash proceeds from certain equity offerings at 110.0% of principal.

The 10.5% 2024 Notes have a maturity of July 15, 2024 and bear interest at a rate of 10.5% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.5% 2024 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2020 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." K. Hovnanian may also redeem some or all of the 10.5% 2024 Notes at 105.25% of principal commencing July 15, 2020, at 102.625% of principal commencing July 15, 2021 and at 100.0% of principal commencing July 15, 2022. In addition, K. Hovnanian may also redeem up to 35.0% of the aggregate principal amount of the 10.5% 2024 Notes prior to July 15, 2020 with the net cash proceeds from certain equity offerings at 110.50% of principal.

All of K. Hovnanian's obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes are guaranteed by the Notes Guarantors. In addition to the pledges of the equity interests in K. Hovnanian and the subsidiary Notes Guarantors which secure the 10.0% 2022 Notes and the 10.5% 2024 Notes, the 10.0% 2022 Notes and the 10.5% 2024 Notes and the guarantees thereof will also be secured in accordance with the terms of the indenture and security documents governing such Notes by pari passu liens on substantially all of the assets owned by K. Hovnanian and the Notes Guarantors, in each case subject to permitted liens and certain exceptions (the collateral securing the 10.0% 2022 Notes and the 10.5% 2024 Notes will be the same as that securing the Term Loans). The liens securing the 10.0% 2022 Notes and the 10.5% 2024 Notes rank junior to the liens securing the Term Loans and any other future secured obligations that are senior in priority with respect to the assets securing the 10.0% 2022 Notes and the 10.5% 2024 Notes.

In connection with the issuance of the 10.0% 2022 Notes and the 10.5% 2024 Notes, K. Hovnanian and the Notes Guarantors entered into security and pledge agreements pursuant to which K. Hovnanian and the Notes Guarantors pledged substantially all of their assets to secure their obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes, subject to permitted liens and certain exceptions as set forth in such agreements. K. Hovnanian and the Notes Guarantors also entered into applicable intercreditor and collateral agency agreements which set forth agreements with respect to the relative priority of their various secured obligations.

The indenture governing the 10.0% 2022 Notes and the 10.5% 2024 Notes was entered into on July 27, 2017 among K. Hovnanian, the Notes Guarantors and Wilmington Trust, National Association, as trustee and collateral agent. The covenants and events of default in the indenture are described above under "—General".

Other Secured Obligations

Our $75.0 million senior secured term loan facility (the “Term Loan Facility”) has a maturity of August 1, 2019 (provided that if any of K. Hovnanian’s 7.0% Notes remain outstanding on October 15, 2018, the maturity date of the Term Loan Facility will be October 15, 2018, or if any refinancing indebtedness with respect to the 7.0% Notes has a maturity date prior to January 15, 2021, the maturity date of the Term Loan Facility will be October 15, 2018) and bears interest at a rate equal to LIBOR plus an applicable margin of 7.0% or, at K. Hovnanian’s option, a base rate plus an applicable margin of 6.0%, payable monthly. At any time from and after September 8, 2018, K. Hovnanian may voluntarily repay outstanding Term Loans, provided that voluntary prepayments of Eurodollar loans made on a date other than the last day of an interest period applicable thereto are subject to customary breakage costs and voluntary prepayments made prior to February 1, 2019 are subject to a premium equal to 1.0% of the aggregate principal amount of the Term Loans so prepaid (any prepayment of the Term Loans made on or after February 1, 2019 are without any prepayment premium).

Our 9.5% 2020 Notes have a maturity of November 15, 2020, and bear interest at a rate of 9.50% per annum, payable semi-annually on February 15 and August 15 of each year, commencing February 15, 2017, to holders of record at the close of business on February 1 and August 1, as the case may be, immediately preceding such interest payment dates. The 9.5% 2020 Notes are redeemable in whole or in part at our option at any time prior to November 15, 2018 at 100.0% of their principal amount plus an applicable “Make-Whole Amount.” At any time and from time to time on or after November 15, 2018, K. Hovnanian may also redeem some or all of the 9.5% 2020 Notes at a redemption price equal to 100.0% of their principal amount. In addition, we may also redeem up to 35.0% of the aggregate principal amount of the 9.5% 2020 Notes prior to November 15, 2018 with the net cash proceeds from certain equity offerings at 109.50% of principal.

The 5.0% 2021 Notes and the 2.0% 2021 Notes were issued as separate series under an indenture, but have substantially the same terms other than with respect to interest rate and related redemption provisions, and vote together as a single class. The 2021 Notes are redeemable in whole or in part at our option at any time, at 100.0% of the principal amount plus the greater of 1.0% of the principal amount and an applicable “Make-Whole Amount.”

All of K. Hovnanian’s obligations under the Term Loan Facility are guaranteed by the Notes Guarantors. The Term Loan Facility and the guarantees thereof are secured, subject to permitted liens and other exceptions, on a first lien priority basis relative to the 10.0% 2022 Notes and the 10.5% 2024 Notes (and on a first lien super priority basis relative to future first lien indebtedness). The 9.5% 2020 Notes are guaranteed by the Notes Guarantors and the members of the JV Holdings Secured Group. The 9.5% 2020 Notes are secured on a pari passu first lien basis with K. Hovnanian’s 2021 Notes, by substantially all of the assets of the members of the JV Holdings Secured Group, subject to permitted liens and certain exceptions.

At July 31, 2017, the aggregate book value of the real property that constituted collateral securing the Term Loans was $544.3 million, which does not include the impact of inventory investments, home deliveries or impairments thereafter and which may differ from the value if it were appraised. Cash and cash equivalents collateral that secured the Term Loans was $202.5 million as of July 31, 2017, which included $1.7 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, fluctuations as a result of cash uses include general business operations and real estate and other investments along with cash inflow primarily from deliveries. In addition, collateral securing the Term Loans includes equity interests in K. Hovnanian and the subsidiary Notes Guarantors.

The guarantees of the JV Holdings Secured Group with respect to the 2021 Notes and the 9.5% 2020 Notes are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets of the members of the JV Holdings Secured Group. As of July 31, 2017, the collateral securing the guarantees included (1) $77.7 million of cash and cash equivalents (subsequent to such date, fluctuations as a result of cash uses include general business operations and real estate and other investments along with cash inflow primarily from deliveries); (2) $150.9 million aggregate book value of real property of the JV Holdings Secured Group, which does not include the impact of inventory investments, home deliveries or impairments thereafter and which may differ from the value if it were appraised; and (3) equity interests in guarantors that are members of the JV Holdings Secured Group. Members of the JV Holdings Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of $84.5 million as of July 31, 2017; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the JV Holdings Secured Group are “unrestricted subsidiaries” under K. Hovnanian's other senior secured notes and senior notes and the Term Loan Facility, and thus have not guaranteed such indebtedness.

Senior Notes

K. Hovnanian’s 7.0% Notes are redeemable in whole or in part at our option at any time at 101.75% of principal commencing January 15, 2017 and 100.0% of principal commencing January 15, 2018.

K. Hovnanian’s 8.0% Notes are redeemable in whole or in part at K. Hovnanian’s option at any time prior to August 1, 2019 at a redemption price equal to 100.0% of their principal amount plus an applicable “Make-Whole Amount.” At any time and from time to time on or after August 1, 2019, K. Hovnanian may also redeem some or all of the notes at a redemption price equal to 100.0% of their principal amount.

Units

On October 2, 2012, the Company and K. Hovnanian issued $100,000,000 aggregate stated amount of 6.0% Exchangeable Note Units (the “Units”) (equivalent to 100,000 Units). Each $1,000 stated amount of Units initially consists of (1) a zero coupon senior exchangeable note due December 1, 2017 (a “Senior Exchangeable Note”) issued by K. Hovnanian, which bears no cash interest and has an initial principal amount of $768.51 per Senior Exchangeable Note, and that will accrete to $1,000 at maturity and (2) a senior amortizing note due December 1, 2017 (a “Senior Amortizing Note”) issued by K. Hovnanian, which has an initial principal amount of $231.49 per Senior Amortizing Note, bears interest at a rate of 11.0% per annum, and has a final installment payment date of December 1, 2017. Each Unit may be separated into its constituent Senior Exchangeable Note and Senior Amortizing Note after the initial issuance date of the Units, and the separate components may be combined to create a Unit.

Each Senior Exchangeable Note had an initial principal amount of $768.51 (which will accrete to $1,000 over the term of the Senior Exchangeable Note at an annual rate of 5.17% from the date of issuance, calculated on a semi-annual bond equivalent yield basis). Holders may exchange their Senior Exchangeable Notes at their option at any time prior to 5:00 p.m., New York City time, on the business day immediately preceding December 1, 2017. Each Senior Exchangeable Note will be exchangeable for shares of Class A Common Stock at an initial exchange rate of 185.5288 shares of Class A Common Stock per Senior Exchangeable Note (equivalent to an initial exchange price, based on $1,000 principal amount at maturity, of approximately $5.39 per share of Class A Common Stock). The exchange rate will be subject to adjustment in certain events. If certain corporate events occur prior to the maturity date, the Company will increase the applicable exchange rate for any holder who elects to exchange its Senior Exchangeable Notes in connection with such corporate event. In addition, holders of Senior Exchangeable Notes will also have the right to require K. Hovnanian to repurchase such holders’ Senior Exchangeable Notes upon the occurrence of certain of these corporate events. As of July 31, 2017, 18,305 Senior Exchangeable Notes have been converted into 3.4 million shares of our Class A Common Stock, all of which were converted during the first quarter of fiscal 2013. In September 2016, K. Hovnanian purchased a total of 20,823 Units for an aggregate purchase price of $20.6 million, in November 2016, K. Hovnanian purchased a total of 6,925 Units for an aggregate purchase price of $6.9 million and during the nine months ended July 31, 2017, K. Hovnanian purchased certain Units as discussed above under “—Fiscal 2017”.

On each June 1 and December 1 (each, an “installment payment date”), K. Hovnanian will pay holders of Senior Amortizing Notes equal semi-annual cash installments of $30.00 per Senior Amortizing Note (except for the June 1, 2013 installment payment, which was $39.83 per Senior Amortizing Note), which cash payment in the aggregate will be equivalent to 6.0% per year with respect to each $1,000 stated amount of Units. Each installment will constitute a payment of interest (at a rate of 11.0% per annum) and a partial repayment of principal on the Senior Amortizing Note. Following certain corporate events that occur prior to the maturity date, holders of the Senior Amortizing Notes will have the right to require K. Hovnanian to repurchase such holders’ Senior Amortizing Notes.

12. Per Share Calculation

Basic earnings per share is computed by dividing net income (loss) (the “numerator”) by the weighted-average number of common shares outstanding, adjusted for nonvested shares of restricted stock (the “denominator”) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of options and nonvested shares of restricted stock, as well as common shares issuable upon exchange of our Senior Exchangeable Notes issued as part of our Units. Any options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation.

All outstanding nonvested shares that contain nonforfeitable rights to dividends or dividend equivalents that participate in undistributed earnings with common stock are considered participating securities and are included in computing earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and participation rights in undistributed earnings in periods when we have net income. The Company’s restricted common stock (“nonvested shares”) are considered participating securities.

There were no incremental shares attributed to nonvested stock and outstanding options to purchase common stock for the three and nine months ended July 31, 2017 and 2016. Also, for the three and nine months ended July 31, 2017, 10.0 million and 10.1 million shares, respectively, of common stock issuable upon the exchange of our senior exchangeable notes (which were issued in fiscal 2012) were excluded from the computation of diluted earnings per share because we had a net loss for the period. For both the three and nine months ended July 31, 2016, 15.2 million shares of common stock issuable upon the exchange of our senior exchangeable notes were excluded from the computation of diluted earnings per share because we had a net loss for the period.

In addition, shares related to out-of-the money stock options that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share were 4.5 million and 4.6 million for the three and nine months ended July 31, 2017, respectively, and 6.8 million and 7.3 million for the three and nine months ended July 31, 2016, respectively, because to do so would have been anti-dilutive for the periods presented.

13. Preferred Stock

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000 per share. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company’s common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the NASDAQ Global Market under the symbol “HOVNP.” During the three and nine months ended July 31, 2017 and 2016, we did not pay any dividends on the Series A Preferred Stock due to covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

14. Common Stock

Each share of Class A Common Stock entitles its holder to one vote per share, and each share of Class B Common Stock generally entitles its holder to ten votes per share. The amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110.0% of the corresponding regular cash dividend payable on a share of Class B Common Stock. If a shareholder desires to sell shares of Class B Common Stock (other than to Permitted Transferees (as defined in the Company’s amended Certificate of Incorporation)), such stock must be converted into shares of Class A Common Stock at a one to one conversion rate.

On August 4, 2008, our Board of Directors adopted a shareholder rights plan (the “Rights Plan”) designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss (“NOL”) carryforwards and built-in losses under Section 382 of the Internal Revenue Code. Our ability to use NOLs and built-in losses would be limited if there was an “ownership change” under Section 382. This would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of our stock increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an “ownership change” occurring as defined by Section 382. Under the Rights Plan, one right was distributed for each share of Class A Common Stock and Class B Common Stock outstanding as of the close of business on August 15, 2008. Effective August 15, 2008, if any person or group acquires 4.9% or more of the outstanding shares of Class A Common Stock without the approval of the Board of Directors, there would be a triggering event causing significant dilution in the voting power of such person or group. However, existing stockholders who owned, at the time of the Rights Plan’s adoption, 4.9% or more of the outstanding shares of Class A Common Stock will trigger a dilutive event only if they acquire additional shares. The approval of the Board of Directors’ decision to adopt the Rights Plan may be terminated by the Board of Directors at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 15, 2018, unless it expires earlier in accordance with its terms. The approval of the Board of Directors’ decision to adopt the Rights Plan was submitted to a stockholder vote and approved at a special meeting of stockholders held on December 5, 2008. Also at the Special

Meeting on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our NOLs and built-in losses under Section 382 of the Internal Revenue Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in the amended Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to (i) increase the direct or indirect ownership of our stock by any person (or public group) from less than 5% to 5% or more of our common stock; (ii) increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or (iii) create a new public group. Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. There were no shares purchased during the three and nine months ended July 31, 2017. As of July 31, 2017, the maximum number of shares of Class A Common Stock that may yet be purchased under this program is 0.5 million.

15. Income Taxes

The total income tax expense of $287.0 million and $286.5 million for the three and nine months ended July 31, 2017, respectively, was primarily due to increasing our valuation allowance to fully reserve against our deferred tax assets ("DTAs"). In addition, the same periods were also impacted by state tax expense from income generated in some states, which was not offset by tax benefits in other states that had losses for which we fully reserve the net operating losses.

The total income tax expense of $1.6 million for the three months ended July 31, 2016 was primarily due to deferred taxes. The same period was also impacted by state tax expenses and state tax reserves for uncertain tax positions. The income tax benefit of $4.6 million for the nine months ended July 31, 2016 was primarily due to incremental losses with no associated valuation allowance and a federal tax benefit related to receiving a specified liability loss refund of taxes paid in fiscal year 2002, partially offset by a permanent difference related to stock compensation, state tax expenses, and state tax reserves for uncertain tax positions.

The permanent difference related to stock compensation arose because for tax purposes, the amount of stock compensation the Company expenses is the amount reported on an associate's W-2 when the equity award is exercised or received, whereas for accounting purposes, the amount the Company expenses is based on the fair value of the equity award on the date of grant. Therefore, the permanent difference for the first nine months of fiscal 2016 due to stock compensation was because of this different treatment, which does not arise until the time the equity award is exercised or received by the associate and therefore reported on an associate's W-2. The amount was significant because of the issuance in fiscal 2016 of stock to Company executives in respect of awards that had been granted over ten years ago at significantly higher stock prices and thus significantly higher fair values as compared to the time of issuance to the executive. As a result, at the time the stock awards were issued in fiscal 2016, a significant permanent difference between book and tax was created impacting the effective tax rate for 2016.

The federal specified liability loss refund of taxes in fiscal year 2002 was due to an amendment of a prior year's tax return. The Internal Revenue Service issued the refund following the Company's application therefor during the year ended October 31, 2016. The refund related to the portion of the fiscal year 2012 NOL attributable to a specified liability loss which, pursuant to Internal Revenue Code Section 172(b)(1)(C), can be carried back ten years to October 31, 2002. A specified liability is any amount allowable as a deduction attributable to a product liability or expense incurred in investigation or settlement of claims because of a product liability. The refund was received in February 2016 and therefore the tax credit was recorded in the second quarter of fiscal 2016.

Our state NOLs of $2.2 billion expire between 2017 and 2036. Of the total amount, $301.7 million will expire between 2017 through 2021 $253.9 million will expire between 2022 through 2026 $1,327.3 million will expire between 2027 through 2031   and $348.0 million will expire between 2032 through 2036.

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If the combination of future years' income (or loss) and the reversal of the timing differences results in a loss, such losses can be carried forward to future years. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard.

As of July 31, 2017, we considered all available positive and negative evidence to determine whether, based on the weight of that evidence, an additional valuation allowance for our DTAs was necessary in accordance with ASC 740. Listed below, in order of the weighting of each factor, is the available positive and negative evidence that we considered in determining that it is more likely than not that all of our DTAs will not be realized. In analyzing these factors, overall the negative evidence, both objective and subjective, outweighed the positive evidence. Based on this analysis, we increased the valuation allowance against our DTAs such that we have a full valuation allowance and determined that the current valuation allowance for deferred taxes of $922 million as of July 31, 2017 is appropriate.

1. Recent financial results, especially the $50.2 million pre-tax loss in the third quarter of 2017 primarily from the $42.3 million loss on extinguishment of debt during the quarter, that put us in a cumulative three-year loss position as of July 31, 2017. Per ASC 740, cumulative losses are one of the most objectively verifiable forms of negative evidence. (Negative Objective Evidence)
2. In the third quarter of fiscal 2017, we completed a debt refinancing/restructuring transaction which, by extending our debt maturities, will enable us to allocate cash to invest in new communities and grow our community count to get back to sustained profitability. (Positive Objective Evidence)
3. The refinancing discussed above will increase our interest incurred in fiscal 2018 and future years (based on our longer term modeling) by $23.4 million per year. (Negative Objective Evidence)
4. We incurred pre-tax losses during the housing market decline and the slower than expected housing market recovery. (Negative Objective Evidence)
5. We exited two geographic markets and are winding down operations in two other markets that have historically had losses. By exiting these underperforming markets, the Company will be able to redeploy capital to better performing markets, which over time should improve our profitability. (Positive Subjective Evidence)
6. Evidence of a sustained recovery in the housing markets in which we operate, supported by economic data showing housing starts, homebuilding volume and prices all increasing and forecasted to continue to increase. (Positive Subjective Evidence)
7. The historical cyclicality of the U.S. housing market, a more restrictive mortgage lending environment compared to before the housing downturn, the uncertainty of the overall US economy and government policies and consumer confidence, all or any of which could continue to hamper a faster, stronger recovery of the housing market. (Negative Subjective Evidence)

16. Operating and Reporting Segments

Our operating segments are components of our business for which discrete financial information is available and reviewed regularly by the chief operating decision maker, our Chief Executive Officer, to evaluate performance and make operating decisions. Based on this criteria, each of our communities qualifies as an operating segment, and therefore, it is impractical to provide segment disclosures for this many segments. As such, we have aggregated the homebuilding operating segments into six reportable segments.

Our homebuilding operating segments are aggregated into reportable segments based primarily upon geographic proximity, similar regulatory environments, land acquisition characteristics and similar methods used to construct and sell homes. Our reportable segments consist of the following six homebuilding segments and a financial services segment noted below. During fiscal 2016, we decided to exit the Minneapolis, MN and Raleigh, NC markets and in the third quarter of fiscal 2016, we completed the sale of our portfolios in those markets.

Homebuilding:

(1) Northeast (New Jersey and Pennsylvania)
(2) Mid-Atlantic (Delaware, Maryland, Virginia, Washington D.C. and West Virginia)
(3) Midwest (Illinois and Ohio)
(4) Southeast (Florida, Georgia and South Carolina)
(5) Southwest (Arizona and Texas)
(6) West (California)

Financial Services

Operations of the Company's Homebuilding segments primarily include the sale and construction of single-family attached and detached homes, attached townhomes and condominiums, urban infill and active lifestyle homes in planned residential developments. In addition, from time to time, operations of the homebuilding segments include sales of land. Operations of the Company's Financial Services segment include mortgage banking and title services provided to the homebuilding operations' customers. We do not typically retain or service mortgages that we originate but rather sell the mortgages and related servicing rights to investors.

Corporate and unallocated primarily represents operations at our headquarters in Red Bank, New Jersey. This includes our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality and safety. It also includes interest income and interest expense resulting from interest incurred that cannot be capitalized in inventory in the Homebuilding segments, as well as the gains or losses on extinguishment of debt from any debt repurchases or exchanges.

Evaluation of segment performance is based primarily on operating earnings from continuing operations before provision for income taxes ("Income (loss) before income taxes"). Income (loss) before income taxes for the Homebuilding segments consist of revenues generated from the sales of homes and land, income (loss) from unconsolidated entities, management fees and other income, less the cost of homes and land sold, selling, general and administrative expenses and interest expense. Income before income taxes for the Financial Services segment consist of revenues generated from mortgage financing, title insurance and closing services, less the cost of such services and selling, general and administrative expenses incurred by the Financial Services segment.

Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent stand-alone entity during the periods presented.

Financial information relating to the Company's segment operations was as follows:

(In thousands)	Three Months Ended July 31, 2017	2016	Nine Months Ended July 31, 2017	2016
Revenues:				
Northeast	$39,956	$69,989	$144,481	$196,539
Mid-Atlantic	113,298	111,739	314,124	295,546
Midwest	41,052	72,581	126,773	249,132
Southeast	68,435	96,323	181,654	186,873
Southwest	209,295	248,546	617,959	729,606
West	104,523	101,158	301,897	237,831
Total homebuilding	576,559	700,336	1,686,888	1,895,527
Financial services	14,993	16,485	42,336	51,714
Corporate and unallocated	483	29	755	(63)
Total revenues	$592,035	$716,850	$1,729,979	$1,947,178
(Loss) income before income taxes:				
Northeast	$(5,737)	$(995)	$(7,553)	$(4,945)
Mid-Atlantic	3,714	3,467	8,514	7,161
Midwest	(3,313)	(2,452)	(5,771)	(8,034)
Southeast	(1,580)	(5,621)	(1,446)	(14,710)
Southwest	19,010	20,532	50,718	55,392
West	5,873	3,297	7,436	(6,989)
Homebuilding income before income taxes	17,967	18,228	51,898	27,875
Financial services	6,126	7,569	19,254	24,965
Corporate and unallocated (1)	(74,266)	(24,704)	(128,701)	(82,545)
(Loss) income before income taxes	$(50,173)	$1,093	$(57,549)	$(29,705)

(1) Corporate and unallocated for the three months ended July 31, 2017 included corporate general and administrative costs of $15.7 million, interest expense of $17.2 million (a component of Other interest on our Condensed Consolidated Statements of Operations), loss on extinguishment of debt of $42.3 million and $0.9 million of other income and expenses primarily related to interest income, rental income and stock compensation. Corporate and unallocated for the nine months ended July 31, 2017 included corporate general and administrative costs of $47.4 million, interest expense of $46.5 million (a component of Other interest on our Condensed Consolidated Statements of Operations), loss on extinguishment of debt of $34.9 million and $0.1 million of other income and expenses primarily related to interest income, rental income, bond amortization and stock compensation.

(In thousands)	July 31, 2017	October 31, 2016
Assets:		

Northeast	$183,486	$219,363
Mid-Atlantic	280,711	292,899
Midwest	104,962	111,596
Southeast	246,251	226,124
Southwest	335,601	341,472
West	197,816	269,400
Total homebuilding	1,348,827	1,460,854
Financial services	109,722	197,230
Corporate and unallocated(1)	363,770	696,872
Total assets	$1,822,319	$2,354,956

(1) Includes $283.6 million of income taxes receivable, including deferred tax assets, as of October 31, 2016.

17. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

We enter into homebuilding and land development joint ventures from time to time as a means of accessing lot positions, expanding our market opportunities, establishing strategic alliances, managing our risk profile, leveraging our capital base and enhancing returns on capital. Our homebuilding joint ventures are generally entered into with third-party investors to develop land and construct homes that are sold directly to third-party home buyers. Our land development joint ventures include those entered into with developers and other homebuilders as well as financial investors to develop finished lots for sale to the joint venture's members or other third parties.

In November 2015, the Company entered into a new joint venture to which the Company contributed a land parcel that had been mothballed by the Company, but on which construction by the joint venture has now begun. Upon formation of the joint venture, the Company received $25.7 million of cash proceeds for the transferred land. In addition, during the third quarter of fiscal 2016, we entered into a new joint venture by transferring eight communities we owned and our option to buy one community to the joint venture. As a result of the formation of the joint venture, the Company received $29.8 million of cash in return for the land and option transfers. During the first quarter of fiscal 2017, we expanded this joint venture by transferring one community we owned and our option to buy three communities to the joint venture, resulting in our receiving $11.2 million of net cash.

The tables set forth below summarize the combined financial information related to our unconsolidated homebuilding and land development joint ventures that are accounted for under the equity method.

(Dollars in thousands)	July 31, 2017		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$38,501	$ 223	$38,724
Inventories	661,510	8,582	670,092
Other assets	29,817	-	29,817
Total assets	$729,828	$ 8,805	$738,633
Liabilities and equity:			
Accounts payable and accrued liabilities	$108,799	$ 469	$109,268
Notes payable	313,436	489	313,925
Total liabilities	422,235	958	423,193
Equity of:			
Hovnanian Enterprises, Inc.	84,538	3,196	87,734
Others	223,055	4,651	227,706
Total equity	307,593	7,847	315,440
Total liabilities and equity	$729,828	$ 8,805	$738,633

Debt to capitalization ratio	50	%	6	%	50