

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For quarterly period ended JANUARY 31, 2012

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-8551

Hovnanian Enterprises, Inc. (Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)

22-1851059 (I.R.S. Employer Identification No.)

110 West Front Street, P.O. Box 500, Red Bank, NJ 07701 (Address of Principal Executive Offices)

732-747-7800 (Registrant's Telephone Number, Including Area Code)

N/A (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 No

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 No

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 Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 84,416,927 shares of Class A Common Stock and 14,660,059 shares of Class B Common Stock were outstanding as of March 6, 2012.

HOVNIANIAN ENTERPRISES, INC.

FORM 10-Q

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HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	January 31, 2012 <u>(Unaudited)</u>	October 31, 2011 <u>(1)</u>
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 166,033	\$ 244,356
Restricted cash	49,483	73,539
Inventories:		
Sold and unsold homes and lots under development	735,364	720,149
Land and land options held for future development or sale	243,100	245,529
Consolidated inventory not owned- Specific performance options	387	2,434
Total inventories	978,851	968,112
Investments in and advances to unconsolidated joint ventures	58,757	57,826
Receivables, deposits, and notes	53,385	52,277
Property, plant, and equipment – net	52,010	53,266
Prepaid expenses and other assets	66,700	67,698
Total homebuilding	1,425,219	1,517,074
Financial services:		
Cash and cash equivalents	3,656	6,384
Restricted cash	3,497	4,079
Mortgage loans held for sale	67,230	72,172
Other assets	2,121	2,471
Total financial services	76,504	85,106
Total assets	\$ 1,501,723	\$ 1,602,180

(1) Derived from the audited balance sheet as of October 31, 2011.

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands Except Share Amounts)

	January 31, 2012 <u>(Unaudited)</u>	October 31, 2011 <u>(1)</u>
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse land mortgages	\$ 29,322	\$ 26,121
Accounts payable and other liabilities	266,043	303,633
Customers' deposits	17,925	16,670
Nonrecourse mortgages secured by operating properties	19,510	19,748
Liabilities from inventory not owned	<u>387</u>	<u>2,434</u>
Total homebuilding	<u>333,187</u>	<u>368,606</u>
Financial services:		
Accounts payable and other liabilities	14,067	14,517
Mortgage warehouse line of credit	<u>49,043</u>	<u>49,729</u>
Total financial services	<u>63,110</u>	<u>64,246</u>
Notes payable:		
Senior secured notes	966,441	786,585
Senior notes	565,691	802,862
TEU senior subordinated amortizing notes	12,162	13,323
Accrued interest	<u>32,399</u>	<u>21,331</u>
Total notes payable	1,576,693	1,624,101
Income taxes payable	<u>42,520</u>	<u>41,829</u>
Total liabilities	<u>2,015,510</u>	<u>2,098,782</u>
Equity:		
Hovnanian Enterprises, Inc. stockholders' equity deficit:		
Preferred stock, \$.01 par value - authorized 100,000 shares; issued 5,600 shares with a liquidation preference of \$140,000 at January 31, 2012 and at October 31, 2011	135,299	135,299
Common stock, Class A, \$.01 par value – authorized 200,000,000 shares; issued 93,742,999 shares at January 31, 2012 and 92,141,492 shares at October 31, 2011 (including 11,760,763 and 11,694,720 shares at January 31, 2012 and October 31, 2011, respectively, held in Treasury)	937	921
Common stock, Class B, \$.01 par value (convertible to Class A at time of sale) – authorized 30,000,000 shares; issued 15,353,126 shares at January 31, 2012 and 15,252,212 shares at October 31, 2011 (including 691,748 shares at January 31, 2012 and October 31, 2011 held in Treasury)	154	153
Paid in capital - common stock	592,781	591,696
Accumulated deficit	(1,127,771)	(1,109,506)
Treasury stock - at cost	<u>(115,360)</u>	<u>(115,257)</u>
Total Hovnanian Enterprises, Inc. stockholders' equity deficit	(513,960)	(496,694)
Noncontrolling interest in consolidated joint ventures	<u>173</u>	<u>92</u>
Total equity deficit	<u>(513,787)</u>	<u>(496,602)</u>
Total liabilities and equity	<u>\$ 1,501,723</u>	<u>\$ 1,602,180</u>

(1) Derived from the audited balance sheet as of October 31, 2011.

See notes to condensed consolidated financial statements (unaudited).

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended January 31,	
	2012	2011
Revenues:		
Homebuilding:		
Sale of homes	\$ 252,330	\$ 235,885
Land sales and other revenues	10,579	9,588
Total homebuilding	262,909	245,473
Financial services	6,690	7,094
Total revenues	269,599	252,567
Expenses:		
Homebuilding:		
Cost of sales, excluding interest	217,427	201,430
Cost of sales interest	12,476	15,626
Inventory impairment loss and land option write-offs	3,325	13,525
Total cost of sales	233,228	230,581
Selling, general and administrative	33,254	40,207
Total homebuilding expenses	266,482	270,788
Financial services	5,177	5,470
Corporate general and administrative	12,784	15,008
Other interest	21,995	23,985
Other operations	5,398	887
Total expenses	311,836	316,138
Gain on extinguishment of debt	24,698	-
Loss from unconsolidated joint ventures	(23)	(992)
Loss before income taxes	(17,562)	(64,563)
State and federal income tax provision (benefit):		
State	633	665
Federal	70	(1,086)
Total income taxes	703	(421)
Net loss	\$ (18,265)	\$ (64,142)
Per share data:		
Basic:		
Loss per common share	\$ (0.17)	\$ (0.82)
Weighted-average number of common shares outstanding	108,735	78,598
Assuming dilution:		
Loss per common share	\$ (0.17)	\$ (0.82)
Weighted-average number of common shares outstanding	108,735	78,598

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(In Thousands Except Share Amounts)
(Unaudited)

	A Common Stock		B Common Stock		Preferred Stock		Paid-In Capital	Accumulated Deficit	Treasury Stock	Noncontrolling Interest	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, November 1, 2011	80,446,772	\$ 921	14,560,464	\$ 153	5,600	\$135,299	\$591,696	\$(1,109,506)	\$(115,257)	\$ 92	\$(496,602)
Stock options, amortization and issuances							1,052				1,052
Restricted stock amortization, issuances and forfeitures	139,693	2	117,399	1			47				50
Settlement of prepaid common stock purchase contracts	1,445,329	14					(14)				
Conversion of Class B to Class A Common Stock	16,485		(16,485)								
Changes in noncontrolling interest in consolidated joint ventures										81	81
Treasury stock purchases	(66,043)								(103)		(103)
Net loss								(18,265)			(18,265)
Balance, January 31, 2012	<u>81,982,236</u>	<u>\$ 937</u>	<u>14,661,378</u>	<u>\$ 154</u>	<u>5,600</u>	<u>\$135,299</u>	<u>\$ 592,781</u>	<u>\$(1,127,771)</u>	<u>\$(115,360)</u>	<u>\$ 173</u>	<u>\$(513,787)</u>

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Three Months Ended January 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (18,265)	\$ (64,142)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	1,658	2,319
Compensation from stock options and awards	1,187	1,940
Amortization of bond discounts and deferred financing costs	1,631	1,309
Gain on sale and retirement of property and assets	(22)	(293)
Loss from unconsolidated joint ventures	23	992
Distributions of earnings from unconsolidated joint ventures	206	525
Gain on extinguishment of debt	(24,698)	-
Expenses related to the debt for debt exchange	4,594	-
Inventory impairment and land option write-offs	3,325	13,525
Decrease (increase) in assets:		
Mortgage loans held for sale	4,942	48,683
Restricted cash, receivables, prepaids, deposits and other assets	23,540	11,077
Inventories	(14,063)	30,095
Increase (decrease) in liabilities:		
State and federal income tax liabilities	691	22,125
Customers' deposits	1,255	4,681
Accounts payable, accrued interest and other accrued liabilities	(29,126)	(70,359)
Net cash (used in) provided by operating activities	<u>(43,122)</u>	<u>2,477</u>
Cash flows from investing activities:		
Proceeds from sale of property and assets	22	360
Purchase of property, equipment, and other fixed assets	(134)	(267)
Investments in and advances to unconsolidated joint ventures	(1,858)	(2,379)
Distributions of capital from unconsolidated joint ventures	698	698
Net cash used in investing activities	<u>(1,272)</u>	<u>(1,588)</u>
Cash flows from financing activities:		
Proceeds from mortgages and notes	3,201	-
Payments related to mortgages and notes	(237)	(2,122)
Net payments related to mortgage warehouse lines of credit	(685)	(49,571)
Principal payments and debt repurchases	(20,163)	-
Payments related to the debt for debt exchange	(18,773)	-
Net cash used in financing activities	<u>(36,657)</u>	<u>(51,693)</u>
Net decrease in cash and cash equivalents	(81,051)	(50,804)
Cash and cash equivalents balance, beginning of period	250,740	367,180
Cash and cash equivalents balance, end of period	<u>\$ 169,689</u>	<u>\$ 316,376</u>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands - Unaudited)
(Continued)

	Three Months Ended January 31,	
	2012	2011
Supplemental disclosures of cash flow:		
Cash paid (received) during the period for:		
Income taxes	\$ 11	\$ (22,520)

Supplemental disclosure of noncash financing activities:

In the first quarter of fiscal 2012, we completed a debt for debt exchange. See Note 12 for further information.

In the first quarter of fiscal 2011, our partner in a land development joint venture transferred its interest in the venture to us. The consolidation resulted in increases in inventory and non-recourse land mortgages of \$9.5 million and \$18.5 million, respectively, and a decrease in other liabilities of \$9.0 million.

See notes to Condensed Consolidated Financial Statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Hovnanian Enterprises, Inc. and Subsidiaries (the "Company", "we", "us" or "our") has reportable segments consisting of six Homebuilding segments (Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West) and the Financial Services segment (see Note 17).

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts and those of all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions. Certain immaterial prior year amounts have been reclassified to conform to the current year presentation.

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2011. In the opinion of management, all adjustments for interim periods presented have been made, which include normal recurring accruals and deferrals necessary for a fair presentation of our consolidated financial position, results of operations, and cash flows. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements. Results for interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2011 has been derived from the audited Consolidated Financial Statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. For the three months ended January 31, 2012 and 2011, the Company's total stock-based compensation expense was \$1.2 million and \$1.9 million, respectively. Included in this total stock-based compensation expense was the vesting of stock options of \$1.1 million and \$1.3 million for the three months ended January 31, 2012 and 2011, respectively.

3. Interest costs incurred, expensed and capitalized were:

(In thousands)	Three Months Ended	
	January 31,	
	2012	2011
Interest capitalized at beginning of period	\$ 121,441	\$ 136,288
Plus interest incurred(1)	36,345	37,827
Less cost of sales interest expensed	(12,476)	(15,626)
Less other interest expensed(2)(3)	(21,995)	(23,985)
Interest capitalized at end of period(4)	<u>\$ 123,315</u>	<u>\$ 134,504</u>

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

(2) Other interest expensed is comprised of interest that does not qualify for interest capitalization because our assets that qualify for interest capitalization (inventory under development) do not exceed our debt. Interest on completed homes and land in planning, which does not qualify for capitalization, is expensed.

- (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, which is calculated as follows:

(In thousands)	Three Months Ended January 31,	
	2012	2011
Other interest expensed	\$ 21,995	\$ 23,985
Interest paid by our mortgage and finance subsidiaries	476	582
Increase in accrued interest	(11,067)	(8,985)
Cash paid for interest, net of capitalized interest	\$ 11,404	\$ 15,582

- (4) We have incurred significant inventory impairments in recent years, which are determined based on total inventory including capitalized interest. However, the capitalized interest amounts above are shown gross before allocating any portion of the impairments to capitalized interest.

4. Accumulated depreciation at January 31, 2012 and October 31, 2011 amounted to \$76.7 million and \$75.4 million, respectively, for our homebuilding property, plant and equipment.

5. 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 three months ended January 31, 2012, our discount rates used for the impairments recorded ranged from 16.8% to 18.5%. 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. We recorded impairment losses, which are included in the Condensed Consolidated Statement of Operations and deducted from inventory, of \$3.1 million and \$6.8 million for the three months ended January 31, 2012 and 2011, respectively.

The following table represents inventory impairments by homebuilding segment for the three months ended January 31, 2012 and 2011:

(Dollars in millions)	Three Months Ended January 31, 2012			Three Months Ended January 31, 2011		
	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)
Northeast	5	\$ 2.4	\$ 16.1	2	\$ 5.4	\$ 17.9
Mid-Atlantic	2	0.3	0.6	1	0.3	1.4
Midwest	1	0.1	1.1	-	-	-
Southeast	3	0.3	0.9	-	-	-
Southwest	-	-	-	-	-	-
West	-	-	-	1	1.1	5.5
Total	11	\$ 3.1	\$ 18.7	4	\$ 6.8	\$ 24.8

- (1) Represents carrying value, net of prior period impairments, if any, at the time of recording the applicable period's impairments.

The Condensed Consolidated Statement 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 \$0.2 million and \$6.7 million for the three months ended January 31, 2012 and 2011, respectively. 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 cost written off.

The following table represents write-offs of such costs (after giving effect to any recovered deposits in the applicable period) and the number of lots walked away from by homebuilding segment for the three months ended January 31, 2012 and 2011:

(Dollars in millions)	Three Months Ended January 31,			
	2012		2011	
	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs
Northeast	-	\$ -	989	\$ 3.1
Mid-Atlantic	179	0.1	252	0.4
Midwest	38	-	132	-
Southeast	141	0.1	983	0.2
Southwest	-	-	68	-
West	-	-	143	3.0
Total	358	\$ 0.2	2,567	\$ 6.7

We have decided to mothball (or stop development on) certain communities when we have determined the current performance does not justify further investment at the time. When we decide to mothball a community, the inventory is reclassified from “Sold and unsold homes and lots under development” to “Land and land options held for future development or sale”. During the first quarter of fiscal 2012, we did not mothball any communities but re-activated one previously mothballed community and sold one previously mothballed community. As of January 31, 2012, the net book value associated with our 57 total mothballed communities was \$137.5 million, net of impairment charges of \$493.5 million.

6. We establish a warranty accrual for repair costs under \$5,000 per occurrence to homes, community amenities, and land development infrastructure. We accrue for 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. In addition, we accrue for warranty costs over \$5,000 per occurrence as part of our general liability insurance deductible, which is expensed as selling, general, and administrative costs. For homes delivered in fiscal 2012 and 2011, our deductible under our general liability insurance is \$20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in 2012 and 2011 is \$0.1 million up to a \$5 million limit. Our aggregate retention in 2012 and 2011 is \$21 million for construction defect, warranty and bodily injury claims. Additions and charges in the warranty reserve and general liability reserve for the three months ended January 31, 2012 and 2011 are as follows:

(In thousands)	Three Months Ended January 31,	
	2012	2011
Balance, beginning of period	\$ 123,865	\$ 125,268
Additions	8,590	7,488
Charges incurred	(7,730)	(9,567)
Balance, end of period	<u>\$ 124,725</u>	<u>\$ 123,189</u>

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

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were \$0.7 million and \$5.5 million for the three months ended January 31, 2012 and 2011, respectively, for prior year deliveries.

7. 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 or results of operations, and we are subject to extensive and complex regulations that affect the development and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These 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. 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.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict the effect of these requirements, 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, 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.

The Company is also involved in the following litigation:

A subsidiary of the Company has been named as a defendant in a purported class action suit filed on May 30, 2007 in the United States District Court for the Middle District of Florida, Randolph Sewell, et al., v. D'Allesandro & Woodyard, et al., alleging violations of the federal securities acts, among other allegations, in connection with the sale of some of the subsidiary's homes in Fort Myers, Florida. Plaintiffs filed an amended complaint on October 19, 2007. Plaintiffs sought to represent a class of certain home purchasers in southwestern Florida and sought damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs. The Company's subsidiary filed a motion to dismiss the amended complaint on December 14, 2007. Following oral argument on the motion in September 2008, the court dismissed the amended complaint with leave for plaintiffs to amend. Plaintiffs filed a second amended complaint on October 31, 2008. The Company's subsidiary filed a motion to dismiss this second amended complaint. The Court dismissed portions of the second amended complaint. The Court dismissed additional portions of the second amended complaint on April 28, 2010. We settled this case with the plaintiffs for a total payment of \$3.3 million, a portion of which was covered by insurance. The settlement was paid in December 2011.

Hovnanian Enterprises, Inc. and K. Hovnanian Venture I, L.L.C. have been named as defendants in a class action suit. The action was filed by Mike D'Andrea and Tracy D'Andrea, on behalf of themselves and all others similarly situated in the Superior Court of New Jersey, Gloucester County. The action was initially filed on May 8, 2006 alleging that the HVAC systems installed in certain of the Company's homes are in violation of applicable New Jersey building codes and are a potential safety issue. On December 14, 2011, the Superior Court granted class certification; the potential class is 1,065 homes. The defendants filed a request to take an interlocutory appeal regarding the class certification decision. The Appellate Division denied the request, and the defendants filed a request for interlocutory review by the New Jersey Supreme Court, which is still pending. The plaintiff seeks unspecified damages as well as treble damages pursuant to the NJ Consumer Fraud Act. The Company believes there is insurance coverage available to it for this action. While we have determined that a loss related to this case is not probable, it is not possible to estimate a loss or range of loss related to this matter at this time. On December 19, 2011, certain subsidiaries of the Company filed a separate action seeking indemnification against the various manufactures and subcontractors implicated by the class action.

8. Cash and cash equivalents include cash deposited in checking accounts, overnight repurchase agreements, 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 January 31, 2012, we had no cash equivalents as the full balance of cash and cash equivalents was held as cash.

9. 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 Statements of Operations in "Revenues: Financial services." We currently use forward sales of mortgage-backed securities, interest rate commitments from borrowers and mandatory and/or best efforts forward commitments to sell loans to investors to protect us from interest rate fluctuations. These short-term instruments, which do not require any payments to be made to the counter-party or investor 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 Statements of Operations in "Revenues: Financial services". Loans held for sale of \$2.2 million and \$1.0 million at January 31, 2012 and October 31, 2011, respectively, represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

At January 31, 2012 and October 31, 2011, respectively, \$51.8 million and \$52.7 million of such mortgages held for sale were pledged against our mortgage warehouse line of credit (see Note 10). We may incur losses with respect to mortgages that were previously sold that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have not made significant payments associated with mortgages we originated. We have reserves for potential losses on mortgages we previously sold. The reserves are included in the "Mortgage loans held for sale" balance on the Condensed Consolidated Balance Sheet.

The activity in our loan origination reserves during the three months ended January 31, 2012 and 2011 was as follows:

(In thousands)	Three Months Ended	
	January 31,	
	2012	2011
Loan origination reserves, beginning of period	\$ 5,063	\$ 5,486
Provisions for losses during the period	1,664	810
Adjustments to pre-existing provisions for losses from changes in estimates	92	(578)
Payments/settlements	(390)	(24)
Loan origination reserves, end of period	<u>\$ 6,429</u>	<u>\$ 5,694</u>

10. We do not have a revolving credit facility. We have certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of \$35.0 million and \$54.1 million of letters of credit outstanding as of January 31, 2012 and October 31, 2011, 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 January 31, 2012 and October 31, 2011, the amount of cash collateral in these segregated accounts was \$35.7 million and \$57.7 million, respectively, which is reflected in "Restricted cash" 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. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. (“Chase Master Repurchase Agreement”) is a short-term borrowing facility that provides up to \$50 million through April 4, 2012. We believe we will be able to enter into a replacement facility, but there can be no assurance of such replacement. 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 the current LIBOR subject to a floor of 1.625% plus the applicable margin ranging from 2.5% to 3.0% based on the takeout investor and type of loan. As of January 31, 2012, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was \$49.0 million.

The Chase Master Repurchase Agreement requires 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 facilities, 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 agreement, we do not consider any of these covenants to be substantive or material. As of January 31, 2012, we believe we were in compliance with the covenants of the Chase Master Repurchase Agreement.

11. As of January 31, 2012, we had \$992.0 million of outstanding senior secured notes (\$966.4 million, net of discount), comprised of \$797.0 million 10 5/8% Senior Secured Notes due 2016, \$53.2 million 2.0% Senior Secured Notes due 2021 and \$141.8 million 5.0% Senior Secured Notes due 2021. As of January 31, 2012, we also had \$568.2 million of outstanding senior notes (\$565.7 million, net of discount), comprised of \$36.7 million 6 1/2% Senior Notes due 2014, \$3.0 million 6 3/8% Senior Notes due 2014, \$21.4 million 6 1/4% Senior Notes due 2015, \$154.2 million 6 1/4% Senior Notes due 2016, \$113.3 million 7 1/2% Senior Notes due 2016, \$176.8 million 8 5/8% Senior Notes due 2017 and \$62.8 million 11 7/8% Senior Notes due 2015. In addition, we had outstanding \$12.2 million 7.25% Tangible Equity Units discussed below in Note 12.

The 10 5/8% Senior Secured Notes due 2016 are secured by a first-priority lien, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”) (the issuer of the senior secured notes) and the guarantors of such senior secured notes. At January 31, 2012, the aggregate book value of the real property collateral securing these notes was approximately \$714.4 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was \$133.9 million as of January 31, 2012, which includes \$35.7 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate investments.

On November 1, 2011, K. Hovnanian issued \$141.8 million aggregate principal amount of 5.0% Senior Secured Notes due 2021 (the “5.0% 2021 Notes”) and \$53.2 million aggregate principal amount of 2.0% Senior Secured Notes due 2021 (the “2.0% 2021 Notes” and together with the 5.0% 2021 Notes, the “2021 Notes”) in exchange for \$195.0 million of K. Hovnanian’s unsecured senior notes as follows: \$16.7 million in aggregate principal amount of 6 1/2% Senior Notes due 2014, \$26.2 million in aggregate principal amount of 6 3/8% Senior Notes due 2014, \$67.6 million in aggregate principal amount of 11 7/8% Senior Notes due 2015, \$31.3 million in aggregate principal amount of 6 1/4% Senior Notes due 2015, \$13.3 million in aggregate principal amount of 6 1/4% Senior Notes due 2016, \$20.7 million in aggregate principal amount of 7 1/2% Senior Notes due 2016 and \$19.2 million in aggregate principal amount of 8 5/8% Senior Notes due 2017. Holders of the senior notes due 2014 and 2015 that were exchanged in the exchange offer also received an aggregate of approximately \$14.2 million in cash payments and all holders of senior notes that were exchanged in the exchange offer received accrued and unpaid interest (in the aggregate amount of approximately \$3.3 million). 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 will vote together as a single class. These secured notes are guaranteed by each of Hovnanian’s subsidiaries, except for its home mortgage subsidiaries, certain of its joint ventures, joint venture holding companies (other than members of the “Secured Group” (as defined below)), certain of its title insurance subsidiaries and the Company’s foreign subsidiary.

The guarantees with respect to the 2021 Notes of K. Hovnanian JV Holdings, L.L.C. and its subsidiaries other than certain joint ventures and joint venture holding companies (collectively, the "Secured Group") 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 Secured Group. As of January 31, 2012, the collateral securing the guarantees primarily included (1) \$81.0 million of cash and cash equivalents and (2) equity interests in guarantors that are members of the Secured Group. Subsequent to such date, cash uses include general business operations and real estate and other investments. The aggregate book value of the real property of the Secured Group was approximately \$45.8 million as of January 31, 2012 (not including the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value), which upon completion of the mortgage process will be collateral for the 2021 Notes. Members of the Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of \$47.1 million as of January 31, 2012; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the Secured Group are "unrestricted subsidiaries" under K. Hovnanian's other senior and senior secured notes and Amortizing Notes (as defined below), and thus have not guaranteed such indebtedness. These senior secured 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% of the principal amount and an applicable "Make-Whole Amount." In addition, we may redeem up to 35% of the aggregate principal amount of the notes before November 1, 2014 with the net cash proceeds from certain equity offerings at 105.0% (in the case of the 5.0% 2021 Notes) and 102.0% (in the case of the 2.0% 2021 Notes) of principal. The accounting for the exchange is being treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt and the costs associated with the debt exchange were expensed as incurred as shown in "Other operations" in the Condensed Consolidated Statement of Operations.

In addition, on November 1, 2011, K. Hovnanian entered into a Second Supplemental Indenture (the "11 7/8% Notes Supplemental Indenture"), among K. Hovnanian, the Company, as guarantor, the other guarantors party thereto and Wilmington Trust Company, as trustee, amending and supplementing that certain Indenture dated February 14, 2011 (the "Base Indenture") by and among K. Hovnanian, the Company, as guarantor, and Wilmington Trust Company, as trustee, as amended by the First Supplemental Indenture dated as of February 14, 2011 (the "First Supplemental Indenture"), by and among K. Hovnanian, the Company, as guarantor, the other guarantors party thereto and Wilmington Trust Company, as trustee (the Base Indenture as amended by the First Supplemental Indenture, the "Existing Indenture"). The 11 7/8% Notes Supplemental Indenture was executed and delivered following the receipt by K. Hovnanian of consents from a majority of the holders of K. Hovnanian's 11 7/8% Senior Notes due 2015. The 11 7/8% Notes Supplemental Indenture provides for the elimination of substantially all of the restrictive covenants and certain of the default provisions contained in the Existing Indenture and the 11 7/8% Senior Notes due 2015.

During the three months ended January 31, 2012, we repurchased in open market transactions \$5.7 million principal amount of our 6 1/4% Senior Notes due 2016 and \$38.3 million principal amount of 7 1/2% Senior Notes due 2016. The aggregate purchase price for these repurchases was \$19.0 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$24.7 million for the three months ended January 31, 2012, net of the write-off of unamortized discounts and fees. The gain is included in the Condensed Consolidated Statement of Operations as "Gain on extinguishment of debt".

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, certain of our title insurance subsidiaries and our foreign subsidiary, we and each of our subsidiaries are guarantors of the senior secured, senior and senior subordinated amortizing notes outstanding at January 31, 2012 (see Note 22 to the Condensed Consolidated Financial Statements). In addition, the 2021 Notes are guaranteed by the Secured Group. Members of the Secured Group do not guarantee K. Hovnanian's other indebtedness.

The indentures governing the notes 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 certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the notes to declare the notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy, and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the 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 senior secured notes to be valid and perfected. As of January 31, 2012 we believe we were in compliance with the covenants of the indentures governing our outstanding notes.

Under the terms of the indentures (including with respect to the Amortizing Notes as defined and described in Note 12 below), we have the right to make certain redemptions 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.

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured and senior notes, 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 non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, 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 bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

12. On February 9, 2011, we issued an aggregate of 3,000,000 7.25% Tangible Equity Units (the “Units”), and on February 14, 2011, we issued an additional 450,000 Units pursuant to the over-allotment option granted to the underwriters. Each Unit initially consists of (i) a prepaid stock purchase contract (each a “Purchase Contract”) and (ii) a senior subordinated amortizing note due February 15, 2014 (each, an “Amortizing Note”). The Amortizing Notes have an aggregate principal amount of \$12.2 million as of January 31, 2012. On each February 15, May 15, August 15 and November 15, K. Hovnanian will pay holders of Amortizing Notes equal quarterly cash installments of \$0.453125 per Amortizing Note, which cash payments in the aggregate will be equivalent to 7.25% per year with respect to each \$25 stated amount of Units. Each installment constitutes a payment of interest (at a rate of 12.072% per annum) and a partial repayment of principal on the Amortizing Note, allocated as set forth in the amortization schedule provided in the indenture under which the Amortizing Notes were issued. The Amortizing Notes have a scheduled final installment payment date of February 15, 2014. If we elect to settle the Purchase Contracts early, holders of the Amortizing Notes will have the right to require K. Hovnanian to repurchase such holders’ Amortizing Notes, except in certain circumstances as described in the indenture governing Amortizing Notes.

Unless settled earlier, on February 15, 2014 (subject to postponement under certain circumstances), each Purchase Contract will automatically settle and we will deliver a number of shares of Class A Common Stock based on the applicable market value, as defined in the purchase contract agreement, which will be between 4.7655 shares and 5.8140 shares per Purchase Contract (subject to adjustment). Each Unit may be separated into its constituent Purchase Contract and Amortizing Note after the initial issuance date of the Units, and the separate components may be combined to create a Unit. The Amortizing Note component of the Units is recorded as debt, and the Purchase Contract component of the Units is recorded in equity as additional paid in capital. We have recorded \$68.1 million, the initial fair value of the Purchase Contracts, as additional paid in capital. As of January 31, 2012, 1.0 million Purchase Contracts have been converted into 4.8 million shares of our Class A Common Stock.

13. Basic earnings per share is computed by dividing net income (loss) (the “numerator”) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (the “denominator”) for the period. The basic weighted-average number of shares for the three months ended January 31, 2012 includes 11.6 million shares related to Purchase Contracts (issued as part of our 7.25% Tangible Equity Units) which are issuable in the future with no additional cash required to be paid by the holders thereof. 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 non-vested shares of restricted stock. 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.

For the three months ended January 31, 2012 and 2011, 0.02 million and 0.6 million respectively, incremental shares attributed to non-vested stock and outstanding options to purchase common stock were excluded from the computation of diluted EPS because we had a net loss for the period, and any incremental shares would not be dilutive.

In addition, shares related to out-of-the money stock options that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS were 5.0 million and 4.6 million for the three months ended January 31, 2012 and 2011 respectively, because to do so would have been anti-dilutive for the periods presented.

14. On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000. 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 months ended January 31, 2012 and 2011, we did not make any dividend payments on the Series A Preferred Stock as a result of covenant restrictions in the indentures governing our senior secured, senior and senior subordinated notes discussed above. We anticipate we will be restricted from paying dividends for the foreseeable future.

15. Each share of Class A Common Stock entitles its holder to one vote per share and each share of Class B Common Stock 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% 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, such stock must be converted into shares of Class A Common Stock.

In August 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 carryforwards (NOL) 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 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 net operating loss carryforwards 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 66,043 shares purchased during the three months ended January 31, 2012. As of January 31, 2012, 3.5 million shares of Class A Common Stock have been purchased under this program.

16. The total income tax expense was \$0.7 million for the three months ended January 31, 2012 primarily due to various state tax expenses and an increase in tax reserves for uncertain tax positions.

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. Given the continued downturn in the homebuilding industry during 2010, 2011 and 2012, resulting in additional inventory and intangible impairments, we are in a three-year cumulative loss position as of January 31, 2012. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable. Our valuation allowance for current and deferred taxes amounted to \$905.2 million and \$899.4 million at January 31, 2012 and October 31, 2011, respectively. The valuation allowance increased during the three months ended January 31, 2012 primarily due to additional reserves recorded for the federal and state tax benefits related to the losses incurred during the period.

17. 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. The Company's reportable segments consist of the following six homebuilding segments and a financial services segment:

Homebuilding:

- (1) Northeast (New Jersey and Pennsylvania)
- (2) Mid-Atlantic (Delaware, Maryland, Virginia, West Virginia, and Washington D.C.)
- (3) Midwest (Illinois, Minnesota, and Ohio)
- (4) Southeast (Florida, Georgia, North Carolina, 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 adult 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 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 debt repurchases.

Evaluation of segment performance is based primarily on operating earnings from continuing operations before provision for income taxes (“(Loss) income before income taxes”). (Loss) income before income taxes for the Homebuilding segments consists of revenues generated from the sales of homes and land, (loss) income from unconsolidated entities, management fees and other income, less the cost of homes and land sold, selling, general and administrative expenses, interest expense and non-controlling interest expense. Income before income taxes for the Financial Services segment consists of revenues generated from mortgage financing, title insurance and closing services, less the cost of such services and certain 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	
	January 31,	
	2012	2011
Revenues:		
Northeast	\$ 41,532	\$ 45,341
Mid-Atlantic	54,395	46,422
Midwest	18,199	14,090
Southeast	20,209	15,521
Southwest	91,824	91,393
West	36,751	32,749
Total homebuilding	262,910	245,516
Financial services	6,690	7,094
Corporate and unallocated	(1)	(43)
Total revenues	<u>\$ 269,599</u>	<u>\$ 252,567</u>

(Loss) income before income taxes:		
Northeast	\$ (5,648)	\$ (14,638)
Mid-Atlantic	2,611	(3,159)
Midwest	(1,156)	(1,926)
Southeast	(2,856)	(3,020)
Southwest	4,550	5,403
West	(972)	(8,614)
Homebuilding loss before income taxes	(3,471)	(25,954)
Financial services	1,513	1,624
Corporate and unallocated	(15,604)	(40,233)
Loss before income taxes	<u>\$ (17,562)</u>	<u>\$ (64,563)</u>

(In thousands)	January 31,	October 31,
	2012	2011
Assets:		
Northeast	\$ 381,302	\$ 385,217
Mid-Atlantic	218,071	219,287
Midwest	62,032	59,105
Southeast	88,524	83,044
Southwest	194,837	188,321
West	170,323	168,590
Total homebuilding	1,115,089	1,103,564
Financial services	76,504	85,106
Corporate and unallocated	310,130	413,510
Total assets	<u>\$ 1,501,723</u>	<u>\$ 1,602,180</u>

18. 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 January 31, 2012 and October 31, 2011 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 January 31, 2012, we had total cash and letters of credit deposits amounting to approximately \$25.6 million to purchase land and lots with a total purchase price of \$588.2 million. The maximum exposure to loss with respect to our land and lot options is limited to the deposits, although some deposits are refundable at our request or refundable if certain conditions are not met.

19. 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 homebuyers. 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.

During the three months ended January 31, 2011, we entered into a joint venture agreement to acquire a portfolio of homebuilding projects, including land we previously owned in the consolidated group. We sold the land we owned to the joint venture for net proceeds of \$36.1 million, which was equal to our basis in the land at that time, and recorded an investment in unconsolidated joint ventures of \$19.7 million for our interest in the venture. Separately, during the three months ended January 31, 2011, our partner in a land development joint venture transferred its interest in the venture to us. The consolidation resulted in increases in inventory and non-recourse land mortgages of \$9.5 million and \$18.5 million, respectively, and a decrease in other liabilities of \$9.0 million.

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)

	January 31, 2012		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	\$ 18,106	\$ 774	\$ 18,880
Inventories	303,255	14,816	318,071
Other assets	23,544	705	24,249
Total assets	\$ 344,905	\$ 16,295	\$ 361,200
Liabilities and equity:			
Accounts payable and accrued liabilities	\$ 24,646	\$ 12,383	\$ 37,029
Notes payable	188,267	21	188,288
Total liabilities	\$ 212,913	\$ 12,404	\$ 225,317
Equity of:			
Hovnanian Enterprises, Inc.	51,421	977	52,398
Others	80,571	2,914	83,485
Total equity	131,992	3,891	135,883
Total liabilities and equity	\$ 344,905	\$ 16,295	\$ 361,200
Debt to capitalization ratio	59%	1%	58%

(Dollars in thousands)

	October 31, 2011		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	\$ 21,380	\$ 287	\$ 21,667
Inventories	310,743	14,786	325,529
Other assets	25,388	-	25,388
Total assets	\$ 357,511	\$ 15,073	\$ 372,584
Liabilities and equity:			
Accounts payable and accrued liabilities	\$ 21,035	\$ 11,710	\$ 32,745
Notes payable	199,821	21	199,842
Total liabilities	220,856	11,731	232,587
Equity of:			
Hovnanian Enterprises, Inc.	52,013	1,312	53,325
Others	84,642	2,030	86,672
Total equity	136,655	3,342	139,997
Total liabilities and equity	\$ 357,511	\$ 15,073	\$ 372,584
Debt to capitalization ratio	59%	1%	59%

As of January 31, 2012 and October 31, 2011, we had advances outstanding of approximately \$13.6 million and \$11.7 million, respectively, to these unconsolidated joint ventures, which were included in the "Accounts payable and accrued liabilities" balances in the table above. On our Condensed Consolidated Balance Sheets our "Investments in and advances to unconsolidated joint ventures" amounted to \$58.8 million and \$57.8 million at January 31, 2012 and October 31, 2011, respectively. In some cases, our net investment in these joint ventures is less than our proportionate share of the equity reflected in the table above because of the differences between asset impairments recorded against our joint venture investments and any impairments recorded in the applicable joint venture. Impairments of our joint venture equity investments are recorded when we deem a decline in fair value to be other than temporary while impairments recorded in the joint ventures are recorded when undiscounted cash flows of the community indicate that the carrying amount is not recoverable. During fiscal 2011 and the first three months of fiscal 2012, we did not write down any joint venture investments based on our determination that none of the investments in our joint ventures sustained an other than temporary impairment during those periods.

(In thousands)	For the Three Months Ended January 31, 2012		
	Land		
	Homebuilding	Development	Total
Revenues	\$ 52,596	\$ 3,355	\$ 55,951
Cost of sales and expenses	(52,770)	(3,203)	(55,973)
Joint venture net (loss) income	\$ (174)	\$ 152	\$ (22)
Our share of net (loss) income	\$ (51)	\$ 116	\$ 65

(In thousands)	For the Three Months Ended January 31, 2011		
	Land		
	Homebuilding	Development	Total
Revenues	\$ 23,031	\$ 4,894	\$ 27,925
Cost of sales and expenses	(24,905)	(4,739)	(29,644)
Joint venture net (loss) income	\$ (1,874)	\$ 155	\$ (1,719)
Our share of net (loss) income	\$ (1,002)	\$ 143	\$ (859)

“(Loss) income from unconsolidated joint ventures” is reflected as a separate line in the accompanying Condensed Consolidated Statements of Operations and reflects our proportionate share of the loss or income of these unconsolidated homebuilding and land development joint ventures. The difference between our share of the loss or income from these unconsolidated joint ventures disclosed in the tables above compared to the Condensed Consolidated Statements of Operations for the three months ended January 31, 2012 and 2011, is due primarily to one joint venture that had net income for which we do not get any share of the profit because of the cumulative equity position of the joint venture, the reclassification of the intercompany portion of management fee income from certain joint ventures, and the deferral of income for lots purchased by us from certain joint ventures.

In determining whether or not we must consolidate joint ventures where we are the manager of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operations and capital decisions of the partnership, including budgets in the ordinary course of business.

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing. The amount of financing is generally targeted to be no more than 50% of the joint venture’s total assets. For our more recent joint ventures, obtaining financing has become challenging, therefore, some of our joint ventures are capitalized only with equity. However, for our most recent joint venture, a portion of our partner's contribution was in the form of mortgage financing. Including the impact of impairments recorded by the joint ventures, the average debt to capitalization ratio of all our joint ventures is currently 58%. Any joint venture financing is on a nonrecourse basis, with guarantees from us limited only to performance and completion of development, environmental warranties and indemnification, standard indemnification for fraud, misrepresentation and other similar actions, including a voluntary bankruptcy filing. In some instances, the joint venture entity is considered a VIE under ASC 810-10 "Consolidation – Overall" due to the returns being capped to the equity holders; however, in these instances, we are not the primary beneficiary, and therefore we do not consolidate these entities.

20. In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,” which provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and expands the disclosure requirements, particularly for Level 3 fair value measurements. The guidance is effective for the Company beginning February 1, 2012 and is to be applied prospectively. The adoption of this guidance, which relates primarily to disclosure, is not expected to have a material impact on our financial statements.

21. ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), provides a framework for measuring fair value, expands disclosures about fair-value measurements and establishes a fair-value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

Level 1	Fair value determined based on quoted prices in active markets for identical assets.
Level 2	Fair value determined using significant other observable inputs.
Level 3	Fair value determined using significant unobservable inputs.

Our financial instruments measured at fair value on a recurring basis are summarized below:

(In thousands)	Fair Value Hierarchy	Fair Value at January 31, 2012	Fair Value at October 31, 2011
Mortgage loans held for sale (1)	Level 2	\$ 67,570	\$ 73,126
Interest rate lock commitments	Level 2	137	142
Forward contracts	Level 2	(477)	(1,096)
		<u>\$ 67,230</u>	<u>\$ 72,172</u>

(1) The aggregate unpaid principal balance was \$64.0 million and \$70.4 million at January 31, 2012 and October 31, 2011, respectively.

We elected the fair value option for our loans held for sale for mortgage loans originated subsequent to October 31, 2008 in accordance with ASC 825, "Financial Instruments" ("ASC 825"), which permits us to measure financial instruments at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the fair value of servicing rights is included in the Company's loans held for sale as of January 31, 2012. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts. Fair value of loans held for sale is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics.

The assets accounted for using the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in the Financial Services segment's earnings (loss). The changes in fair values that are included in earnings (loss) are shown, by financial instrument and financial statement line item, below:

(In thousands)	Three Months Ended January 31, 2012		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net earnings (loss), all reflected in financial services revenues	\$ (395)	\$ (5)	\$ 618

(In thousands)	Three Months Ended January 31, 2011		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net earnings (loss), all reflected in financial services revenues	\$ (967)	\$ (69)	\$ 41

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the three months ended January 31, 2012. The assets measured at fair value on a nonrecurring basis are all within the Company's Homebuilding operations and are summarized below:

Non-financial Assets

(In thousands)	Fair Value Hierarchy	Three Months Ended January 31, 2012		
		Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 2,428	\$ (704)	\$ 1,724
Land and land options held for future development or sale	Level 3	\$ 16,315	\$ (2,437)	\$ 13,878

(In thousands)	Fair Value Hierarchy	Three Months Ended January 31, 2011		
		Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 12,132	\$ (2,204)	\$ 9,928
Land and land options held for future development or sale	Level 3	\$ 12,714	\$ (4,575)	\$ 8,139

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 its estimated future cash flows at a discount rate commensurate with the risk of the respective community. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. We recorded inventory impairments, which are included in the Condensed Consolidated Statements of Operations as "Inventory impairment loss and land option write-offs" and deducted from Inventory of \$3.1 million and \$6.8 million for the three months ended January 31, 2012 and 2011, respectively.

The Financial Services segment had a pipeline of loan applications in process of \$349.2 million at January 31, 2012. Loans in process for which interest rates were committed to the borrowers totaled approximately \$30.4 million as of January 31, 2012. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers, the total commitments do not necessarily represent future cash requirements.

The Financial Services segment uses investor commitments and forward sales of mandatory mortgage-backed securities (“MBS”) to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments, option contracts with investment banks, federally regulated bank affiliates and loan sales transactions with permanent investors meeting the segment’s credit standards. The segment’s risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At January 31, 2012, the segment had open commitments amounting to \$24.2 million to sell MBS with varying settlement dates through March 19, 2012.

Our financial instruments consist of cash and cash equivalents, restricted cash, receivables, deposits and notes, accounts payable and other liabilities, customer’s deposits, mortgage loans held for sale, nonrecourse land and operating properties mortgages, letter of credit agreements and facilities, mortgage warehouse line of credit, accrued interest, and the senior secured, senior and senior subordinated amortizing notes payable. The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. The fair value of each of the senior secured, senior and senior subordinated amortizing notes is estimated based on recent trades for the same or similar issues or the quoted market prices on the current rates offered to us for debt of the same remaining maturities. The fair value of the senior secured, senior and senior subordinated amortizing notes is estimated at \$802.0 million, \$308.3 million and \$6.6 million, respectively, as of January 31, 2012 and \$653.5 million, \$359.0 million and \$4.4 million, respectively, as of October 31, 2011. The fair value of our other financial instruments approximates their recorded values.

22. Hovnanian Enterprises, Inc., the parent company (the “Parent”), is the issuer of publicly traded common stock, preferred stock, which is represented by depository shares, and 7.25% Tangible Equity Units. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the “Subsidiary Issuer”), acts as a finance entity that as of January 31, 2012, had issued and outstanding approximately \$992.0 million of senior secured notes (\$966.4 million, net of discount), \$568.2 million senior notes (\$565.7 million, net of discount), and \$12.2 million senior subordinated amortizing notes (issued as a component of our 7.25% Tangible Equity Units). The senior secured notes, senior notes, and senior subordinated amortizing notes are fully and unconditionally guaranteed by the Parent.

In addition to the Parent, each of the wholly owned subsidiaries of the Parent other than the Subsidiary Issuer (collectively, “Guarantor Subsidiaries”), with the exception of our home mortgage subsidiaries, certain of our title insurance subsidiaries, joint ventures, subsidiaries holding interests in our joint ventures and our foreign subsidiary (collectively, the “Nonguarantor Subsidiaries”), have guaranteed fully and unconditionally, on a joint and several basis, the obligations of the Subsidiary Issuer to pay principal and interest under the registered senior secured notes, senior notes, and senior subordinated amortizing notes. The 2021 Notes are guaranteed by the Guarantor Subsidiaries and the Secured Group (see Note 11).

All of the senior secured notes, senior notes and senior subordinated amortizing notes have been registered under the Securities Act of 1933, as amended, except the 2021 notes, which are not required to be registered. The Condensed Consolidating Financial Statements presented below are in respect of our registered notes only and not the 2021 Notes. In lieu of providing separate financial statements for the Guarantor Subsidiaries of our registered senior secured, senior and senior subordinated amortizing rates, we have included the accompanying Condensed Consolidating Financial Statements. Management does not believe that separate financial statements of the Guarantor Subsidiaries of our registered notes are material to users of our Condensed Consolidated Financial Statements. Therefore, separate financial statements and other disclosures concerning such Guarantor Subsidiaries are not presented.

The following Condensed Consolidating Financial Statements present the results of operations, financial position and cash flows of (i) the Parent, (ii) the Subsidiary Issuer, (iii) the Guarantor Subsidiaries, (iv) the Nonguarantor Subsidiaries and (v) the eliminations to arrive at the information for Hovnanian Enterprises, Inc. on a consolidated basis.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET

JANUARY 31, 2012

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS:						
Homebuilding	\$ 11,133	\$ 149,320	\$ 1,060,299	\$ 204,467	\$	\$ 1,425,219
Financial services			3,942	72,562		76,504
Investments in and amounts due to and from consolidated subsidiaries	(482,732)	2,153,773	(2,470,750)	6,742	792,967	-
Total assets	\$ (471,599)	\$ 2,303,093	\$ (1,406,509)	\$ 283,771	\$ 792,967	\$ 1,501,723

LIABILITIES AND EQUITY:

Homebuilding	\$ 2,576	\$ (158)	\$ 316,929	\$ 13,840	\$	\$ 333,187
Financial services			3,530	59,580		63,110
Notes payable		1,576,498	109	86		1,576,693
Income taxes payable	39,785	-	2,735	-		42,520
Stockholders' (deficit) equity	(513,960)	726,753	(1,729,812)	210,092	792,967	(513,960)
Non-controlling interest in consolidated joint ventures				173		173
Total liabilities and equity	\$ (471,599)	\$ 2,303,093	\$ (1,406,509)	\$ 283,771	\$ 792,967	\$ 1,501,723

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET

OCTOBER 31, 2011

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS:						
Homebuilding	\$ 12,756	\$ 200,281	\$ 1,096,594	\$ 207,443	\$	\$ 1,517,074
Financial services			4,537	80,569		85,106
Investments in and amounts due to and from consolidated subsidiaries	(467,562)	2,140,349	(2,435,348)	(9,364)	771,925	-
Total assets	\$ (454,806)	\$ 2,340,630	\$ (1,334,217)	\$ (278,648)	\$ 771,925	\$ 1,602,180
LIABILITIES AND EQUITY:						
Homebuilding	\$ 2,172	\$ (33)	\$ 355,191	\$ 11,276	\$	\$ 368,606
Financial services			4,231	60,015		64,246
Notes payable		1,623,957	144			1,624,101
Income tax payable	39,716		2,113			41,829
Stockholders' (deficit) equity	(496,694)	716,706	(1,695,896)	207,265	771,925	(496,694)
Non-controlling interest in consolidated joint ventures				92		92
Total liabilities and equity	\$ (454,806)	\$ 2,340,630	\$ (1,334,217)	\$ 278,648	\$ 771,925	\$ 1,602,180

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JANUARY 31, 2012
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 4	\$ (30)	\$ 263,306	\$ 869	\$ (1,240)	\$ 262,909
Financial services			1,299	5,391		6,690
Intercompany charges			(12,352)	(999)	13,351	-
Total revenues	\$ 4	\$ (30)	\$ 252,253	\$ 5,261	\$ 12,111	\$ 269,599
Expenses:						
Homebuilding	1,740	14,621	285,337	(1,335)	6,296	306,659
Financial services	51		1,226	3,915	(15)	5,177
Total expenses	1,791	14,621	286,563	2,580	6,281	311,836
Gain on extinguishment of debt		24,698				24,698
Income (loss) from unconsolidated joint ventures			28	(51)		(23)
(Loss) income before income taxes	(1,787)	10,047	(34,282)	2,630	5,830	(17,562)
State and federal income tax (benefit) provision	(4,564)		5,267			703
Equity in (loss) income of consolidated subsidiaries	15,488				(15,488)	-
Net income (loss)	\$ 18,265	\$ 10,047	\$ (39,549)	\$ 2,630	\$ (9,658)	\$ (18,265)

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JANUARY 31, 2011
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 4	\$ (95)	\$ 245,908	\$ 895	\$ (1,239)	\$ 245,473
Financial services			1,332	5,762		7,094
Intercompany charges		28,316	(35,458)	(147)	7,289	-
Total revenues	4	28,221	211,782	6,510	6,050	252,567
Expenses:						
Homebuilding	1,544	38,390	268,974	450	1,310	310,668
Financial services	88		1,242	4,140		5,470
Total expenses	1,632	38,390	270,216	4,590	1,310	316,138
Gain on extinguishment of debt						-
Loss from unconsolidated joint ventures			(250)	(742)		(992)
(Loss) income before income taxes	(1,628)	(10,169)	(58,684)	1,178	4,740	(64,563)
State and federal income tax (benefit) provision	(5,881)		5,460			(421)
Equity in (loss) income of consolidated subsidiaries	(68,395)				68,395	-
Net (loss) income	\$ (64,142)	\$ (10,169)	\$ (64,144)	\$ 1,178	\$ 73,135	\$ (64,142)

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JANUARY 31, 2012
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ 18,265	\$ 10,047	\$ (39,549)	\$ 2,630	\$ (9,658)	\$ (18,265)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	(33,435)	14,424	23,191	(38,695)	9,658	(24,857)
Net cash (used in) provided by operating activities	(15,170)	24,471	(16,358)	(36,065)	-	(43,122)
Net cash (used in) investing activities	-	-	(102)	(1,170)	-	(1,272)
Net cash (used in) provided by financing activities	-	(39,173)	3,201	(685)	-	(36,657)
Intercompany investing and financing activities – net	15,170	(13,424)	14,360	(16,106)	-	-
Net (decrease) increase in cash	-	(28,126)	1,101	(54,026)	-	(81,051)
Cash and cash equivalents balance, beginning of period	-	112,122	(4,989)	143,607	-	250,740
Cash and cash equivalents balance, end of period	<u>\$ -</u>	<u>\$ 83,996</u>	<u>\$ (3,888)</u>	<u>\$ 89,581</u>	<u>\$ -</u>	<u>\$ 169,689</u>

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JANUARY 31, 2011
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	\$ (64,142)	\$ (10,169)	\$ (64,144)	\$ 1,178	\$ 73,135	\$ (64,142)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities	15,725	14,051	91,484	18,494	(73,135)	66,619
Net cash (used in) provided by operating activities	(48,417)	3,882	27,340	19,672	-	2,477
Net cash (used in) investing activities	-	-	(233)	(1,355)	-	(1,588)
Net cash (used in) provided by financing activities	-	-	(2,122)	(49,571)	-	(51,693)
Intercompany investing and financing activities – net	48,417	(38,227)	(23,904)	13,714	-	-
Net (decrease) increase in cash	-	(34,345)	1,081	(17,540)	-	(50,804)
Cash and cash equivalents balance, beginning of period	10	212,370	(12,812)	167,612	-	367,180
Cash and cash equivalents balance, end of period	<u>\$ 10</u>	<u>\$ 178,025</u>	<u>\$ (11,731)</u>	<u>\$ 150,072</u>	<u>\$ -</u>	<u>\$ 316,376</u>

23. Subsequent Events - Pursuant to agreements with bondholders dated February 22, 2012 and February 28, 2012, we issued an aggregate of 1,182,801 shares of our Class A common stock, par value \$0.01 per share, in exchange for an aggregate of approximately \$4.8 million of our outstanding indebtedness, consisting of \$3.0 million aggregate principal amount of our outstanding 8.625% Senior Notes due 2017 and approximately \$1.8 million aggregate principal amount of our 12.072% senior subordinated amortizing notes (the “exchanges”).

The exchanges were effected with existing bondholders and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchanges. Accordingly, the exchanges were effected pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since the second half of our fiscal year ended October 31, 2006, the U.S. housing market has been impacted by declining consumer confidence, high home foreclosure rates and large supplies of resale and new home inventories. The result has been weakened demand for new homes, slower sales, higher than normal cancellation rates and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products became more constrained starting in February 2007 when the mortgage industry began to more closely scrutinize subprime, Alt-A, and other nonprime mortgage products, and over the past few years, many lenders have significantly tightened their underwriting standards. The overall economy has weakened significantly and fears of further prolonged economic weakness are still present due, among other factors, to high unemployment levels, deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we experienced significant decreases in our revenues and gross margins during 2007, 2008, 2009 and 2010 compared with prior years. During 2011 and through January 31, 2012, the homebuilding market exhibited a large degree of choppiness. Signs of this choppiness can be seen in key measures, such as our gross margin, cancellation rates and total deliveries. In the first quarter of fiscal 2012, for the first time since the third quarter of fiscal 2006, we saw an increase in revenues, as compared to the same period of the prior year, however, our gross margin percentage decreased slightly to 16.5% for the three months ended January 31, 2012 from 16.9% for the three months ended January 31, 2011, but increased sequentially from 15.5% in the fourth quarter of fiscal 2011. Our contract cancellation rate of 20% in fiscal 2011 and 21% in the first quarter of fiscal 2012 was consistent with more normalized levels, as seen in fiscal 2003 and 2004. Active selling communities increased to 197 compared to 188 in the same period a year ago and net contracts per average active selling community increased to 4.9 for the three months ended January 31, 2012 compared to 4.3 in the same period in the prior year. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels, economic weakness and uncertainty, and the threat of more foreclosures continue to hinder a recovery in the housing market.

Over the course of this multiple year downturn in the homebuilding market, we have recorded \$2.4 billion in inventory impairment and option walkaway charges from the first quarter of fiscal 2006 through the first quarter of 2012. We have exposure to additional impairments of our inventories, which, as of January 31, 2012, have a book value of \$978.9 million, net of \$768.5 million of impairments recorded on 135 of our communities. This includes \$24.4 million of cash invested in 9,139 lots under option as of January 31, 2012. In addition, we had \$1.2 million in letters of credit deposits on optioned lots as of January 31, 2012. We write off amounts associated with an option if we determine it is probable we will not exercise it. As of January 31, 2012, we had total investments in, and advances to, unconsolidated joint ventures of \$58.8 million. Each of our joint ventures assesses its inventory and other long-lived assets for impairment and we separately assess our equity investment in joint ventures for other than temporary declines in value, which has resulted in total reductions in our equity investment in joint ventures of \$119.1 million from the second half of fiscal 2006, the first period in which we had impairments on our joint ventures, through January 31, 2012. There have been no write downs of our equity investment in unconsolidated joint ventures since fiscal 2009, however, a community in one of our joint ventures in the Northeast recorded an asset impairment in the fourth quarter of fiscal 2011. We recorded our proportional share of this impairment charge as part of our share of the net loss of the venture. We still have exposure to future write-downs of our equity investment in unconsolidated joint ventures if conditions deteriorate further in the markets in which our joint ventures operate.

As the market for new homes declined, we adjusted our approach to land acquisition and construction practices and shortened our land pipeline, reduced production volumes, and balanced home price and profitability with sales pace. We delayed and cancelled planned land purchases and renegotiated land prices and significantly reduced our total number of controlled lots owned and under option. Additionally, we significantly reduced our total number of speculative homes put into production over the past several years. Since January 2009, however, we have begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces and plan to continue pursuing such land acquisitions. New land purchases at pricing that we believe will generate appropriate investment returns and drive greater operating efficiencies are needed to return to profitability. During the first quarter of fiscal 2012, we opened 14 new communities, purchased approximately 600 lots within 81 newly identified communities (which we define as communities that were controlled subsequent to January 31, 2009) and optioned approximately 450 lots in 20 newly identified communities. During fiscal 2011, our active selling communities fluctuated, but at the end of fiscal 2011 we had the same number of active selling communities as the end of fiscal 2010. In the first quarter of fiscal 2012, we grew our community count by five communities. We have also continued to closely evaluate and make reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses \$9.2 million from \$55.2 million in the first quarter of fiscal 2011 to \$46.0 million in the first quarter of fiscal 2012 due in large part to a 78.5% reduction in head count at the end of the first quarter of fiscal 2012 from our peak in June 2006. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the three months ended January 31, 2012, homebuilding selling, general and administrative costs declined 17.3% to \$33.3 million compared to the three months ended January 31, 2011.

CRITICAL ACCOUNTING POLICIES

Management believes that the following critical accounting policies require its most significant judgments and estimates used in the preparation of the condensed consolidated financial statements:

Income Recognition from Home and Land Sales - We are primarily engaged in the development, construction, marketing and sale of residential single-family and multi-family homes where the planned construction cycle is less than 12 months. For these homes, in accordance with ASC 360-20, "Property, Plant and Equipment - Real Estate Sales" ("ASC 360-20"), revenue is recognized when title is conveyed to the buyer, adequate initial and continuing investments have been received, and there is no continued involvement. In situations where the buyer's financing is originated by our mortgage subsidiary and the buyer has not made an adequate initial investment or continuing investment as prescribed by ASC 360-20, the profit on such sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed.

Income Recognition from Mortgage Loans - Our Financial Services segment originates mortgages, primarily for our homebuilding customers. We use mandatory investor commitments and forward sales of mortgage-backed securities ("MBS") to hedge our mortgage-related interest rate exposure on agency and government loans.

We elected the fair value option for our loans held for sale for mortgage loans originated subsequent to October 31, 2008 in accordance with ASC 825, "Financial Instruments", which permits us to measure our loans held for sale at fair value. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, we recognize the fair value of our rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in loans held for sale. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts.

Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations and warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to the sellers' representations and warranties in particular loan sale agreements. To date, we have not made significant payments to the purchasers of our loans and we have established reserves for probable losses. Included in mortgage loans held for sale at January 31, 2012 is \$2.2 million of mortgage loans, which represent the fair value of loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

Inventories - Inventories consist of land, land development, home construction costs, capitalized interest and construction overhead and property taxes. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs are allocated based on buildable acres to product types within each community, then charged to cost of sales equally based upon the number of homes to be constructed in each product type.

We record inventories in our condensed consolidated balance sheets at cost unless the inventory is determined to be impaired, in which case the inventory is written down to its fair value. Our inventories consist of the following three components: (1) sold and unsold homes and lots under development, which includes all construction, land, capitalized interest, and land development costs related to started homes and land under development in our active communities; (2) land and land options held for future development or sale, which includes all costs related to land in our communities in planning or mothballed communities; and (3) consolidated inventory not owned, which includes all costs related to specific performance options, variable interest entities, and other options, which consists primarily of model homes financed with an investor and inventory related to structured lot options.

We have decided to mothball (or stop development on) certain communities where we have determined the current market conditions do not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale". As of January 31, 2012, the net book value associated with our 57 mothballed communities was \$137.5 million, net of impairment charges of \$493.5 million. We regularly review communities to determine if mothballing is appropriate. During the first quarter of fiscal 2012, we did not mothball any communities, but re-activated one community and sold one community which was previously mothballed.

The recoverability of inventories and other long-lived assets are assessed in accordance with the provisions of ASC 360-10, "Property, Plant and Equipment - Overall" ("ASC 360-10"). ASC 360-10 requires long-lived assets, including inventories, held for development to be evaluated for impairment based on undiscounted future cash flows of the assets at the lowest level for which there are identifiable cash flows. As such, we evaluate inventories for impairment at the individual community level, the lowest level of discrete cash flows that we measure.

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly. As part of this process, we prepare detailed budgets for all of our communities at least semi-annually and identify those communities with a projected operating loss. For those communities with projected losses, we estimate the remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

The projected operating profits, losses, or cash flows of each community can be significantly impacted by our estimates of the following:

- future base selling prices;
- future home sales incentives;
- future home construction and land development costs; and
- future sales absorption pace and cancellation rates.

These estimates are dependent upon specific market conditions for each community. While we consider available information to determine what we believe to be our best estimates as of the end of a quarterly reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact our estimates for a community include:

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;

- community-specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;
- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community; and
- current local market economic and demographic conditions and related trends and forecasts.

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair-value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community, or in limited circumstances, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale), and recent bona fide offers received from outside third parties. Our discount rates used for all impairments recorded from October 31, 2006 to January 31, 2012 range from 13.5% to 20.3%. The estimated future cash flow assumptions are virtually the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative fair value basis.

From time to time, we write off deposits and approval, engineering and capitalized interest costs when we determine that it is no longer probable that we will exercise options to buy land in specific locations or when we redesign communities and/or abandon certain engineering costs. In deciding not to exercise a land option, we take into consideration changes in market conditions, the timing of required land takedowns, the willingness of land sellers to modify terms of the land option contract (including timing of land takedowns), and the availability and best use of our capital, among other factors. The write-off is recorded in the period it is deemed probable that the optioned property will not be acquired. In certain instances, we have been able to recover deposits and other pre-acquisition costs that were previously written off. These recoveries have not been significant in comparison to the total costs written off.

Inventories held for sale, which are land parcels where we have decided not to build homes, represented \$13.9 million of our total inventories at January 31, 2012, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Insurance Deductible Reserves - For homes delivered in fiscal 2012 and 2011, our deductible under our general liability insurance is \$20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2012 and 2011 is \$0.1 million up to a \$5 million limit. Our aggregate retention in 2012 and 2011 is \$21 million for construction defect, warranty and bodily injury claims. We do not have a deductible on our worker's compensation insurance in fiscal 2012 and 2011. Reserves for estimated losses for construction defects, warranty, bodily injury and worker's compensation claims have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty and construction defect data, worker's compensation data, and other industry 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 worker's compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices, and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Land Options - Costs incurred to obtain options to acquire improved or unimproved home sites are capitalized. Such amounts are either included as part of the purchase price if the land is acquired or charged to operations if we determine we will not exercise the option. If the options are with variable interest entities and we are the primary beneficiary, we record the land under option on the Condensed Consolidated Balance Sheets under "Consolidated inventory not owned" with an offset under "Liabilities from inventory not owned". The evaluation of whether or not we are the primary beneficiary can require significant judgment. Similarly, if the option obligation is to purchase under specific performance or has terms that require us to record it as financing, then we record the option on the Condensed Consolidated Balance Sheets under "Consolidated inventory not owned" with an offset under "Liabilities from inventory not owned". In accordance with ASC 810-10, "Consolidation - Overall" ("ASC 810-10"), we record costs associated with other options on the Condensed Consolidated Balance Sheets under "Land and land options held for future development or sale".

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but our voting interests are generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, "Investments - Equity Method and Joint Ventures - Overall" ("ASC 323-10"), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture's projected cash flows. This process requires significant management judgment and estimates. During fiscal 2011 and the first quarter of fiscal 2012, there were no write-downs of our joint venture investments.

Post-Development Completion and Warranty Costs - In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. In addition, we estimate and accrue warranty costs as part of cost of sales for repair costs under \$5,000 per occurrence to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs over \$5,000 per occurrence as part of our general liability insurance deductible expensed as selling, general, and administrative costs. Warranty accruals require our management to make significant estimates about the cost of future claims. Both of these liabilities are recorded in "Accounts payable and other liabilities" on the Condensed Consolidated Balance Sheets.

Income Taxes - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes. If the combination of future years' income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years or carried forward to future years. In accordance with ASC 740-10, "Income Taxes - Overall" ("ASC 740-10"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740-10 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. See "Total Taxes" below under "Results of Operations" for further discussion of the valuation allowances.

We recognize tax liabilities in accordance with ASC 740-10, and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a liability that is materially different from our current estimate. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Recent Accounting Pronouncements - See Note 20 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q. There have been no accounting pronouncements that have been issued but not yet implemented that we believe will materially impact our financial statements.

CAPITAL RESOURCES AND LIQUIDITY

Our operations consist primarily of residential housing development and sales in the Northeast (New Jersey, Pennsylvania), the Mid-Atlantic (Delaware, Maryland, Virginia, West Virginia, Washington D.C.), the Midwest (Illinois, Minnesota, Ohio), the Southeast (Florida, Georgia, North Carolina, South Carolina), the Southwest (Arizona, Texas), and the West (California). In addition, we provide certain financial services to our homebuilding customers.

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities and the issuance of new debt and equity securities. In light of the challenging homebuilding market conditions we have been experiencing over the past several years, we had been operating with a primary focus to generate cash flows from operations through reductions in assets during fiscal 2007 through fiscal 2010. The generation of cash flow, together with debt repurchases and exchanges at prices below par, allowed us to reduce net debt (debt less cash) over these years. In fiscal 2011 and the first quarter of fiscal 2012, we saw more opportunities to purchase land at prices that make economic sense given current home sales prices and sales paces. As such, in fiscal 2011 and the first quarter of fiscal 2012, we have acquired new land at higher levels than in the previous few years. As a result, our net debt increased during the last half of fiscal 2010, for the year ended October 31, 2011, and again in the first quarter of fiscal 2012.

Our homebuilding cash balance at January 31, 2012 decreased by \$78.3 million from October 31, 2011. The significant uses of cash during the first quarter of fiscal 2012 were primarily due to spending approximately \$74.1 million on land and land development, \$20.5 million, including \$1.5 million for accrued interest, for the repurchase of certain of our senior notes and \$22.1 million for the November 2011 debt exchange including accrued interest and costs associated with the transaction. These items were partially offset by a \$24.1 million reduction of restricted cash. Most of this restricted cash became unrestricted as the letters of credit the cash collateralized were released during the first quarter of fiscal 2012. The remaining change in cash came from normal operations.

Our cash uses during the three months ended January 31, 2012 and 2011 were for operating expenses, land purchases, land deposits, land development, construction spending, debt payments, state income taxes, interest payments and investments in joint ventures. We provided for our cash requirements from available cash on hand, housing and land sales, financial service revenues, and other revenues. We believe that these sources of cash will be sufficient through fiscal 2012 to finance our working capital requirements and other needs, despite continued declines in total revenues, the termination of our revolving credit facility in fiscal 2009 and the collateralization with cash in segregated accounts to support certain of our letters of credit. We may also enter into land sale agreements or joint ventures to generate cash from our existing balance sheet.

On November 1, 2011, we completed an exchange offer of \$195.0 million of certain of our unsecured senior notes with maturities ranging from 2014 through 2017 for new senior secured notes due 2021. See Note 11 to the Condensed Consolidated Financial Statements. In addition, during the three months ended January 31, 2012, we repurchased in open market transactions \$5.7 million principal amount of our 6 1/4% Senior Notes due 2016 and \$38.3 million principal amount of 7 1/2% Senior Notes due 2016. The aggregate purchase price for these repurchases was \$19.0 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$24.7 million for the three months ended January 31, 2012, net of the write-off of unamortized discounts and fees. The gain is included in the Condensed Consolidated Statement of Operations as "Gain on extinguishment of debt".

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and noncash charges relating to depreciation, amortization of computer software costs, stock compensation awards and impairment losses for inventory. When we are expanding our operations, inventory levels, prepaids, and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what happened during the last half of fiscal 2007 through fiscal 2009, allowing us to generate positive cash flow from operations during this period. Since the latter part of fiscal 2009, as a result of the new land purchases and land development we have used cash in operations as we add new communities. Looking forward, given the depressed housing market, it will continue to be difficult to generate positive cash flow from operations until we return to profitability. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity while also taking steps to return to profitability, including through land acquisitions. We continue to focus on maximizing cash flow by limiting our investment in currently owned communities that we believe will not generate positive cash flow in the near term, and by seeking to identify and purchase new land parcels generating acceptable returns based on our underwriting standards and positive cash flow.

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 66,043 shares purchased during the three months ended January 31, 2012. As of January 31, 2012, 3.5 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 2 for information on equity purchases).

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000. 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 beginning on the fifth anniversary of their issuance. 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 months ended January 31, 2012 and 2011, we did not make any dividend payments on our Series A Preferred Stock as a result of 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.

We do not have a revolving credit facility. We have certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of \$35.0 million and \$54.1 million of letters of credit outstanding as of January 31, 2012 and October 31, 2011, 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 January 31, 2012 and October 31, 2011, the amount of cash collateral in these segregated accounts was \$35.7 million and \$57.7 million, respectively, which is reflected in "Restricted cash" 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. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement") is a short-term borrowing facility that provides up to \$50 million through April 4, 2012. We believe we will be able to enter into a replacement facility, but there can be no assurance of such replacement. 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 the current LIBOR subject to a floor of 1.625% plus the applicable margin ranging from 2.5% to 3.0% based on the takeout investor and type of loan. As of January 31, 2012, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was \$49.0 million.

The Chase Master Repurchase Agreement requires 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 facilities, 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 agreement, we do not consider any of these covenants to be substantive or material. As of January 31, 2012, we believe we were in compliance with the covenants of the Chase Master Repurchase Agreement.

As of January 31, 2012, we had \$992.0 million of outstanding senior secured notes (\$966.4 million, net of discount), comprised of \$797.0 million 10 5/8% Senior Secured Notes due 2016, \$53.2 million 2.0% Senior Secured Notes due 2021 and \$141.8 million 5.0% Senior Secured Notes due 2021. As of January 31, 2012, we also had \$568.2 million of outstanding senior notes (\$565.7 million, net of discount), comprised of \$36.7 million 6 1/2% Senior Notes due 2014, \$3.0 million 6 3/8% Senior Notes due 2014, \$21.4 million 6 1/4% Senior Notes due 2015, \$154.2 million 6 1/4% Senior Notes due 2016, \$113.3 million 7 1/2% Senior Notes due 2016, \$176.8 million 8 5/8% Senior Notes due 2017 and \$62.8 million 11 7/8% Senior Notes due 2015. In addition, we had outstanding \$12.2 million 7.25% Tangible Equity Units.

During the first quarter of 2012, we exchanged 5.0% Senior Secured Notes due 2021 and 2.0% Senior Secured Notes due 2021 (collectively, the "2021 Notes") together with cash payments of \$17.5 million, including \$3.3 million for accrued interest, for certain unsecured senior notes. Costs associated with this transaction were \$4.6 million. During the first quarter of fiscal 2012, we also repurchased in open market transactions certain senior notes. See Note 11 to the Condensed Consolidated Financial Statements for more detail on these transactions.

The 10 5/8% Senior Secured Notes due 2016 are secured by a first-priority lien, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian Enterprises, Inc. ("K. Hovnanian") (the issuer of the senior secured notes) and the guarantors of such senior secured notes. At January 31, 2012, the aggregate book value of the real property collateral securing these notes was approximately \$714.4 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was \$133.9 million as of January 31, 2012, which includes \$35.7 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate investments.

The guarantees with respect to the 2021 Notes of K. Hovnanian JV Holdings, L.L.C. and its subsidiaries other than certain joint ventures and joint venture holding companies (collectively, the "Secured Group") 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 Secured Group. As of January 31, 2012, the collateral securing the guarantees primarily included (1) \$81.0 million of cash and cash equivalents and (2) equity interests in guarantors that are members of the Secured Group. Subsequent to such date, cash uses include general business operations and real estate and other investments. The aggregate book value of the real property of the Secured Group was approximately \$45.8 million as of January 31, 2012 (not including the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value), which upon completion of the mortgage process will be collateral for the 2021 Notes. Members of the Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of \$47.1 million as of January 31, 2012; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the Secured Group are "unrestricted subsidiaries" under K. Hovnanian's other senior notes, senior secured notes and senior subordinated amortizing notes, and thus have not guaranteed such indebtedness. The accounting for the exchange is being treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt and the costs associated with the debt exchange were expensed as incurred as shown in "Other operations" in the Condensed Consolidated Statement of Operations.

Under the terms of the indentures (including with respect to the senior subordinated amortizing notes described in Note 12 to the Condensed Consolidated Financial Statements), we have the right to make certain redemptions 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.

The indentures governing the notes 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 certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the notes to declare the notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy, and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the 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 senior secured notes to be valid and perfected. As of January 31, 2012 we believe we were in compliance with the covenants of the indentures governing our outstanding notes.

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured and senior notes, 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 non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, 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 bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

During fiscal 2011 and thereafter, Fitch Ratings ("Fitch"), Moody's Investor Services ("Moody's") and Standard and Poor's ("S&P"), took certain rating actions as follows:

- On June 28, 2011, S&P downgraded our corporate credit rating from CCC+ to CCC.
- On September 8, 2011, Moody's downgraded our corporate family and probability of default ratings to Caa2 from Caa1. Moody's also lowered the rating on our 10 5/8% senior secured notes to B2 from B1 and our senior unsecured notes to Caa3 from Caa2. The rating on our preferred stock was affirmed at Ca, and our speculative grade liquidity assessment remained SGL-3.
- On October 5, 2011, S&P downgraded our corporate credit ratings and its ratings on our 10 5/8% senior secured notes to "CC" from "CCC". S&P also lowered the rating on our senior unsecured notes to C from CC.
- On October 20, 2011, Moody's changed our probability of default ratings to Caa2/LD from Caa2 and also lowered the rating on our 10 5/8% senior secured notes to B3 from B2 and assigned a rating of B3 to our 2.0% and 5.0% senior secured notes (issued in November 2011). Subsequently, on October 25, 2011, the LD designation on our probability of default ratings was removed.

- On October 29, 2011, S&P lowered our corporate credit rating to Selective Default (“SD”) from CC and lowered our rating on our senior unsecured notes from C to D. Subsequently, on November 3, 2011, S&P raised the Company’s corporate credit rating to CCC- from SD. S&P also raised our ratings on our 10 5/8% senior secured notes to CCC- from CC and our senior unsecured notes to CC from D.
- On November 2, 2011, Fitch lowered our Issuer Default Rating (“IDR”) to Restricted Default (“RD”) from CCC. Subsequently, on November 14, 2011, Fitch raised our IDR from RD back to CCC.

Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt or affect the interest rates charged on any of our debt issues or our debt covenant requirements or cause any other operating issue. A potential risk from negative changes in our credit ratings is that they may make it more difficult or costly for us to access capital. However, due to our available cash resources, the downgrades and revisions to our credit ratings in 2011 discussed above have not impacted management’s operating plans, or our financial condition, results of operations or liquidity.

Total inventory, excluding consolidated inventory not owned, increased \$12.8 million during the three months ended January 31, 2012. Total inventory, excluding consolidated inventory not owned, increased in the Midwest \$2.3 million, in the Southeast \$3.8 million, in the Southwest \$5.8 million and in the West \$3.6 million. These increases were offset by decreases in the Northeast of \$0.9 million and in the Mid-Atlantic of \$1.8 million. During the first quarter of fiscal 2012, we incurred \$3.1 million in impairments, the majority of which related to properties that are held for sale in the Northeast. In addition, we wrote-off costs in the amount of \$0.2 million during fiscal 2012 related to land options that expired or that we terminated, as the communities’ forecasted profitability was not projected to produce adequate returns on investment commensurate with the risk. In the last two years, we have been able to acquire new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. There can be no assurances that this trend will continue in the near term. Substantially all homes under construction or completed and included in inventory at January 31, 2012 are expected to be closed during the next 12 months.

The total inventory increase discussed above excluded the decrease in consolidated inventory not owned of \$2.0 million consisting of specific performance options that were added to our balance sheet in accordance with ASC 470-40, “Debt-Product Financing Arrangements”. This decrease was primarily due to property taken down in the West during the period.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. The costs associated with optioned properties are included in “Land and land options held for future development or sale inventory”. Also included in “Land and land options held for future development or sale inventory” are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we decide against spending money to improve land today and save the raw land until such times as the markets improve. As of January 31, 2012, we have mothballed land in 57 communities. The book value associated with these communities at January 31, 2012 was \$137.5 million, net of impairment charges of \$493.5 million. We continually review communities to determine if mothballing is appropriate. During fiscal 2012, we did not mothball any communities, but re-activated one community and sold one community which were previously mothballed. Our inventory representing “Land and land options held for future development or sale” at January 31, 2012, on the Condensed Consolidated Balance Sheets, decreased by \$2.4 million compared to October 31, 2011. The decrease is due to the movement of certain of our communities from held for future development to active during the quarter, combined with a land sale in the Northeast and additional impairments taken primarily in the Northeast in fiscal 2012, offset by an increase due to the acquisition of new land in all segments as land prices became more attractive during fiscal 2012.

The following table summarizes home sites included in our total residential real estate. The decrease in total home sites available at January 31, 2012 compared to October 31, 2011 is attributable to terminating certain option agreements and delivering homes, offset by signing new land option agreements and acquiring new land parcels.

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
January 31, 2012:				
Northeast	15	1,435	2,989	4,424
Mid-Atlantic	23	2,192	3,140	5,332
Midwest	28	1,844	469	2,313
Southeast	22	1,828	821	2,649
Southwest	94	3,928	1,269	5,197
West	15	2,200	5,026	7,226
Consolidated total	<u>197</u>	13,427	13,714	27,141
Unconsolidated joint ventures		<u>2,142</u>	466	<u>2,608</u>
Total including unconsolidated joint ventures		<u>15,569</u>	<u>14,180</u>	<u>29,749</u>
Owned		7,561	10,305	17,866
Optioned		<u>5,730</u>	<u>3,409</u>	<u>9,139</u>
Controlled lots		13,291	13,714	27,005
Construction to permanent financing lots		<u>136</u>	0	<u>136</u>
Consolidated total		13,427	13,714	27,141
Lots controlled by unconsolidated joint ventures		<u>2,142</u>	466	<u>2,608</u>
Total including unconsolidated joint ventures		<u>15,569</u>	<u>14,180</u>	<u>29,749</u>

(1) Active communities are open for sale communities with 10 or more home sites available.

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
October 31, 2011:				
Northeast	15	1,511	3,228	4,739
Mid-Atlantic	24	2,256	3,336	5,592
Midwest	26	1,354	745	2,099
Southeast	22	1,950	896	2,846
Southwest	89	3,963	1,564	5,527
West	16	2,334	5,168	7,502
Consolidated total	<u>192</u>	13,368	14,937	28,305
Unconsolidated joint ventures		<u>2,160</u>	<u>571</u>	<u>2,731</u>
Total including unconsolidated joint ventures		<u>15,528</u>	<u>15,508</u>	<u>31,036</u>
Owned		7,651	10,626	18,277
Optioned		<u>5,602</u>	<u>4,311</u>	<u>9,913</u>
Controlled lots		13,253	14,937	28,190
Construction to permanent financing lots		<u>115</u>	<u>0</u>	<u>115</u>
Consolidated total		13,368	14,937	28,305
Lots controlled by unconsolidated joint ventures		<u>2,160</u>	<u>571</u>	<u>2,731</u>
Total including unconsolidated joint ventures		<u>15,528</u>	<u>15,508</u>	<u>31,036</u>

(1) Active communities are open for sale communities with 10 or more home sites available.

The following table summarizes our started or completed unsold homes and models, excluding unconsolidated joint ventures, in active and substantially completed communities:

	January 31, 2012			October 31, 2011		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	102	13	115	86	18	104
Mid-Atlantic	66	29	95	73	30	103
Midwest	53	37	90	45	38	83
Southeast	42	29	71	58	30	88
Southwest	422	71	493	431	81	512
West	94	38	132	118	52	170
Total	779	217	996	811	249	1,060

Started or completed unsold homes and models per active selling communities (1)

	4.0	1.1	5.1	4.2	1.3	5.5
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(1) Active selling communities, which are communities that are open for sale with 10 or more home sites available were 197 and 192 at January 31, 2012 and October 31, 2011, respectively.

Total unsold homes compared to the prior year end has decreased, as we placed an emphasis on selling started unsold homes and models during the quarter ended January 31, 2012.

Prepaid expenses and other assets were as follows as of:

(In thousands)	January 31, 2012	October 31, 2011	Dollar Change
Prepaid insurance	\$ 2,382	\$ 1,808	\$ 574
Prepaid project costs	26,328	27,206	(878)
Senior residential rental properties	7,192	7,374	(182)
Other prepaids	21,245	21,699	(454)
Other assets	9,553	9,611	(58)
Total	<u>\$ 66,700</u>	<u>\$ 67,698</u>	<u>\$ (998)</u>

Prepaid insurance increased due to premium payments made on certain liability insurance policies during the three months ended January 31, 2012. These costs are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Prepaid project costs decreased for homes delivered and were not offset by prepaid spending for new communities. Other prepaids decreased mainly due to the amortization of the remaining prepaid debt costs.

Financial Services - Mortgage loans held for sale consist primarily of residential mortgages receivable held for sale of which \$65.0 million and \$71.2 million at January 31, 2012 and October 31, 2011, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. The decrease in mortgage loans held for sale from October 31, 2011 is related to a decrease in the volume of loans originated during the first quarter of 2012 compared to the fourth quarter of 2011, combined with a decrease in the average loan value. Also included are residential mortgages receivable held for sale of \$2.2 million and \$1.0 million at January 31, 2012 and October 31, 2011, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur losses with respect to mortgages that were previously sold that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

Nonrecourse land mortgages increased to \$29.3 million at January 31, 2012 from \$26.1 million at October 31, 2011. The increase is primarily due to additional financing for one community in the West segment during the three months ended January 31, 2012.

Accounts payable and other liabilities are as follows:

(In thousands)	January 31, 2012	October 31, 2011	Dollar Change
Accounts payable	\$ 74,703	\$ 85,415	\$ (10,712)
Reserves	138,328	141,496	(3,168)
Accrued expenses	31,854	43,151	(11,297)
Accrued compensation	12,375	23,432	(11,057)
Other liabilities	8,783	10,139	(1,356)
Total	<u>\$ 266,043</u>	<u>\$ 303,633</u>	<u>\$ (37,590)</u>

The decrease in accounts payable was primarily due to the lower volume of deliveries in the first quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. The decrease in the reserves is primarily related to the payment to settle the Sewell litigation, as discussed in Note 7 to the Condensed Consolidated Financial Statements. The decrease in accrued expenses is primarily due to decreases in property tax and payroll expenses and amortization of abandoned lease space accruals. The decrease in accrued compensation is primarily due to the payment of our fiscal year 2011 bonuses during the first quarter of 2012 only partially offset by the first quarter fiscal 2012 accrual.

Customer deposits increased \$1.2 million from \$16.7 million at October 31, 2011 to \$17.9 million at January 31, 2012. This increase is primarily attributable to the increase in backlog during the quarter.

Liabilities from inventory not owned decreased \$2.0 million from \$2.4 million at October 31, 2011 to \$0.4 million at January 31, 2012. The decrease is primarily due to the take-down of property in the West during the quarter, which had a specific performance purchase obligation.

Accrued interest increased \$11.1 million to \$32.4 million at January 31, 2012. This increase is due to the timing of semi-annual interest payments on our bonds. A larger amount of interest is paid in the second and fourth quarter of each year, resulting in higher accruals at the end of the first and third quarters.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2012 COMPARED TO THE THREE MONTHS ENDED JANUARY 31, 2011

Total revenues

Compared to the same prior period, revenues increased/(decreased) as follows:

(Dollars in thousands)	Three Months Ended			
	January 31, 2012	January 31, 2011	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	\$ 252,330	\$ 235,885	\$ 16,445	7.0%
Land sales and other revenues	10,579	9,588	991	10.3%
Financial services	6,690	7,094	(404)	(5.7)%
Total revenues	\$ 269,599	\$ 252,567	\$ 17,032	6.7%

Homebuilding

For the three months ended January 31, 2012, sale of homes revenues increased \$16.4 million, or 7.0%, as compared to the same period of the prior year. This increase was primarily due to the number of home deliveries increasing 5.2% for the three months ended January 31, 2012, compared to the three months ended January 31, 2011. The average price per home increased to \$284,000 in the three months ended January 31, 2012 from \$279,000 in the three months ended January 31, 2011. The fluctuations in average prices are a result of geographic and community mix of our deliveries rather than price increases or decreases in individual communities. Land sales are ancillary to our homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on the increase in land sales and other revenues, see the section titled "Land Sales and Other Revenues" below.

Information on homes delivered by segment is set forth below:

(Dollars in thousands)	Three Months Ended January 31,		
	2012	2011	% Change
Northeast:			
Dollars	\$ 33,077	\$ 43,285	(23.6)%
Homes	76	101	(24.8)%
Mid-Atlantic:			
Dollars	\$ 53,113	\$ 46,263	14.8%
Homes	126	121	4.1%
Midwest:			
Dollars	\$ 18,157	\$ 14,034	29.4%
Homes	80	81	(1.2)%
Southeast:			
Dollars	\$ 20,125	\$ 15,504	29.8%
Homes	87	68	27.9%
Southwest:			
Dollars	\$ 91,153	\$ 87,227	4.5%
Homes	388	360	7.8%
West:			
Dollars	\$ 36,705	\$ 29,573	24.1%
Homes	132	114	15.8%
Consolidated total:			
Dollars	\$ 252,330	\$ 235,886	7.0%
Homes	889	845	5.2%
Unconsolidated joint ventures			
Dollars	\$ 52,400	\$ 22,534	132.5%
Homes	123	47	161.7%
Totals:			
Housing revenues	\$ 304,730	\$ 258,420	17.9%
Homes delivered	1,012	892	13.5%

The overall increase in housing revenues and deliveries during the three months ended January 31, 2012, as compared to the same period of the prior year, was primarily attributed to growing our community count and an increase in sales pace per community.

An important indicator of our future results are recently signed contracts and our home contract backlog for future deliveries. Our sales contracts and homes in contract backlog by segment are set forth below:

(Dollars in thousands)	Net Contracts (1) for the Three Months Ended January 31,		Contract Backlog as of January 31,	
	2012	2011	2012	2011
Northeast:				
Dollars	\$ 28,198	\$ 37,435	\$ 106,724	\$ 90,400
Homes	68	92	257	227
Mid-Atlantic:				
Dollars	\$ 49,622	\$ 52,013	\$ 133,916	\$ 112,268
Homes	127	127	326	268
Midwest:				
Dollars	\$ 28,408	\$ 12,331	\$ 56,162	\$ 33,987
Homes	143	65	289	206
Southeast:				
Dollars	\$ 24,471	\$ 15,640	\$ 34,430	\$ 20,525
Homes	108	68	145	82
Southwest:				
Dollars	\$ 103,860	\$ 85,787	\$ 99,650	\$ 90,045
Homes	398	357	341	334
West:				
Dollars	\$ 30,206	\$ 22,282	\$ 26,487	\$ 20,353
Homes	96	83	80	79
Consolidated total:				
Dollars	\$ 264,765	\$ 225,488	\$ 457,369	\$ 367,578
Homes	940	792	1,438	1,196
Unconsolidated joint ventures:				
Dollars	\$ 61,212	\$ 23,596	\$ 121,070	\$ 68,134
Homes	139	58	292	156
Totals:				
Dollars	\$ 325,977	\$ 249,084	\$ 578,439	\$ 435,712
Homes	1,079	850	1,730	1,352

(1) Net contracts are defined as new contracts executed during the period for the purchase of homes, less cancellations of contracts in the same period.

In the first quarter of 2012, our open for sale community count increased to 197 from 192 at October 31, 2011, which is the net result of opening 14 new communities and having closed 9 communities since the beginning of fiscal 2012. Our reported level of sales contracts (net of cancellations) has been impacted by a slight increase in the pace of sales in most of the Company's segments, due to better market conditions and lower interest rates on mortgages. Contracts per average active selling community for the three months ended January 31, 2012 were 4.9 compared to 4.3 of the same period in the prior year, demonstrating an increase in sales pace.

Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures:

<u>Quarter</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
First	21%	22%	21%	31%	38%
Second		20%	17%	24%	29%
Third		18%	23%	23%	32%
Fourth		21%	24%	24%	42%

Another common and meaningful way to analyze our cancellation trends is to compare the number of contract cancellations as a percentage of beginning backlog. The following table provides this historical comparison, excluding unconsolidated joint ventures:

<u>Quarter</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
First	18%	18%	13%	22%	16%
Second		22%	17%	31%	24%
Third		20%	15%	23%	20%
Fourth		18%	25%	20%	30%

Historically, most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks after the signing of the contract. Cancellations also occur as a result of a buyer's failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, beginning in fiscal 2007, we started experiencing higher than normal numbers of cancellations later in the construction process. These cancellations were related primarily to falling prices, sometimes due to new discounts offered by us and other builders, leading the buyer to lose confidence in their contract price and due to tighter mortgage underwriting criteria leading to some customers' inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. Our cancellation rate both based on gross sales contracts and as a percentage of beginning backlog for the first quarter of fiscal 2012 is closer to more normalized levels and is flat when compared to the percentage in the fourth quarter of fiscal 2011. Given market conditions, it is difficult to predict if this trend will continue.

“Total cost of sales” includes expenses for consolidated housing and land and lot sales, including inventory impairment loss and land option write-offs (defined as “land charges” in the tables below). A breakout of such expenses for housing sales and housing gross margin is set forth below:

(Dollars in thousands)	Three Months Ended	
	January 31,	
	2012	2011
Sale of homes	\$ 252,330	\$ 235,885
Cost of sales, net of impairment reversals and excluding interest	<u>210,573</u>	<u>195,914</u>
Homebuilding gross margin, before cost of sales interest expense and land charges	41,757	39,971
Cost of sales interest expense, excluding land sales interest expense	<u>10,936</u>	<u>13,493</u>
Homebuilding gross margin, after cost of sales interest expense, before land charges	30,821	26,478
Land charges	<u>3,325</u>	<u>13,525</u>
Homebuilding gross margin, after cost of sales interest expense and land charges	<u>\$ 27,496</u>	<u>\$ 12,953</u>
Gross margin percentage, before cost of sales interest expense and land charges	16.5%	16.9%
Gross margin percentage, after cost of sales interest expense, before land charges	12.2%	11.2%
Gross margin percentage, after cost of sales interest expense and land charges	10.9%	5.5%

Cost of sales expenses as a percentage of consolidated home sales revenues are presented below:

	Three Months Ended	
	January 31,	
	2012	2011
Sale of homes	100.0%	100.0%
Cost of sales, net of impairment reversals and excluding interest:		
Housing, land and development costs	71.0%	70.8%
Commissions	3.4%	3.4%
Financing concessions	2.0%	2.1%
Overheads	7.1%	6.8%
Total cost of sales, before interest expense and land charges	83.5%	83.1%
Gross margin percentage, before cost of sales interest expense and land charges	16.5%	16.9%
Cost of sales interest	4.3%	5.7%
Gross margin percentage, after cost of sales interest expense and before land charges	12.2%	11.2%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margins, before interest expense and land impairment and option write off charges, decreased to 16.5% during the three months ended January 31, 2012 compared to 16.9% for the same period last year. The decrease in gross margin percentage is primarily due to the mix of lower margin homes delivered in the first quarter of 2012 compared to the same period of the prior year. There was also a slight increase in price concessions and reduced lot location premiums, which have impacted our margins for the current quarter.

Reflected as inventory impairment loss and land option write-offs in cost of sales ("land charges"), we have written-off or written-down certain inventories totaling \$3.3 million and \$13.5 million during the three months ended January 31, 2012 and 2011, respectively, to their estimated fair value. During the three months ended January 31, 2012, we wrote-off residential land options and approval and engineering costs amounting to \$0.2 million compared to \$6.7 million for the three months ended January 31, 2011, which are included in the total land charges discussed above. When a community is redesigned or abandoned, engineering costs are written-off. Option, approval and engineering costs are written-off when a community's pro forma profitability is not projected to produce adequate returns on the investment commensurate with the risk and we believe it is probable we will cancel the option. Such write-offs were located in our Mid-Atlantic and Southeast segments in the first quarter of fiscal 2012, and in our Northeast, Mid-Atlantic, Southeast and West segments in the first quarter of 2011. We recorded inventory impairments of \$3.1 million and \$6.8 million during the three months ended January 31, 2012 and 2011, respectively. Inventory impairments in the first quarter of 2012 and 2011 were lower than they had been in several years as we have begun to see some stabilization in prices and sales pace in some of our segments. It is difficult to predict if this trend will continue and, should it become necessary to further lower prices, or should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments. See "Notes to Condensed Consolidated Financial Statements" – Note 5 for an additional information of segment impairments.

Land Sales and Other Revenues:

Land sales and other revenues consist primarily of land and lot sales. A breakout of land and lot sales is set forth below:

(In thousands)	Three Months Ended January 31,	
	2012	2011
Land and lot sales	\$ 8,604	\$ 8,043
Cost of sales, excluding interest	6,854	5,516
Land and lot sales gross margin, excluding interest	1,750	2,527
Land sales interest expense	1,540	2,133
Land and lot sales gross margin, including interest	\$ 210	\$ 394

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Although we budget land sales, they are often dependent upon receiving approvals and entitlements, the timing of which can be uncertain. As a result, projecting the amount and timing of land sales is difficult. The number of land sales in the first quarter of fiscal 2012 was similar to the number in the same period of the prior year and resulted in only a minor increase in land sales revenue of \$0.6 million.

Land sales and other revenues increased \$1.0 million for the three months ended January 31, 2012, compared to the same period in the prior year. Other revenues include income from contract cancellations, where the deposit has been forfeited due to contract terminations, interest income, cash discounts, buyer walk-aways and miscellaneous one-time receipts. For the three months ended January 31, 2012, compared to the three months ended January 31, 2011, there were minor fluctuations in other revenues, resulting in a net increase of \$0.4 million. This is in addition to the increase of \$0.6 million in land sales revenue, described above.

Homebuilding Selling, General and Administrative

Homebuilding selling, general and administrative expenses decreased \$7.0 million for the three months ended January 31, 2012 compared to the same period last year as we have continued to reduce these costs through headcount reduction, administration consolidation, and other cost saving measures. In addition, homebuilding selling, general and administrative as a percentage of homebuilding revenues improved to 12.6% for the three months ended January 31, 2012 compared to 16.4% for the three months ended January 31, 2011.

HOMEBUILDING OPERATIONS BY SEGMENT

Segment Analysis

(Dollars in thousands, except average sales price)	Three Months Ended January 31,			
	2012	2011	Variance	Variance %
Northeast				
Homebuilding revenue	\$ 41,532	\$ 45,341	\$ (3,809)	(8.4)%
Loss before taxes	\$ (5,648)	\$ (14,638)	\$ 8,990	(61.4)%
Homes delivered	76	101	(25)	(24.8)%
Average sales price	\$ 435,224	\$ 428,564	\$ 6,660	1.6%
Contract cancellation rate	37.0%	20.7%	16.3%	
Mid-Atlantic				
Homebuilding revenue	\$ 54,395	\$ 46,422	\$ 7,973	17.2%
Income (loss) before taxes	\$ 2,611	\$ (3,159)	\$ 5,770	(182.7)%
Homes delivered	126	121	5	4.1%
Average sales price	\$ 421,532	\$ 382,339	\$ 39,193	10.3%
Contract cancellation rate	29.8%	29.4%	0.4%	
Midwest				
Homebuilding revenue	\$ 18,199	\$ 14,090	\$ 4,109	29.2%
Loss before taxes	\$ (1,156)	\$ (1,926)	\$ 770	(40.0)%
Homes delivered	80	81	(1)	(1.2)%
Average sales price	\$ 226,963	\$ 173,259	\$ 53,704	31.0%
Contract cancellation rate	12.3%	22.6%	(10.3)%	
Southeast				
Homebuilding revenue	\$ 20,209	\$ 15,521	\$ 4,688	30.2%
Loss before taxes	\$ (2,856)	\$ (3,020)	\$ 164	(5.4)%
Homes delivered	87	68	19	27.9%
Average sales price	\$ 231,322	\$ 228,000	\$ 3,322	1.5%
Contract cancellation rate	14.3%	18.1%	(3.8)%	
Southwest				
Homebuilding revenue	\$ 91,824	\$ 91,393	\$ 431	0.5%
Income before taxes	\$ 4,550	\$ 5,403	\$ (853)	(15.8)%
Homes delivered	388	360	28	7.8%
Average sales price	\$ 234,930	\$ 242,297	\$ (7,367)	(3.0)%
Contract cancellation rate	19.4%	21.0%	(1.6)%	
West				
Homebuilding revenue	\$ 36,751	\$ 32,749	\$ 4,002	12.2%
Loss before taxes	\$ (972)	\$ (8,614)	\$ 7,642	(88.7)%
Homes delivered	132	114	18	15.8%
Average sales price	\$ 278,068	\$ 259,412	\$ 18,656	7.2%
Contract cancellation rate	22.6%	21.7%	0.9%	

Homebuilding Results by Segment

Northeast - Homebuilding revenues decreased 8.4% for the three months ended January 31, 2012 compared to the same period of the prior year. The decrease for the three months ended January 31, 2012 was attributed to a 24.8% decrease in homes delivered, partially offset by a \$6.5 million increase in land sales revenue and a 1.6% increase in average sales price. The increase in average sales price was the result of the mix of communities delivering in the three months ended January 31, 2012 compared to the same period of 2011.

Loss before income taxes decreased \$9.0 million compared to the prior year to a loss of \$5.6 million for the three months ended January 31, 2012. This decrease is mainly due to a \$6.1 million decrease in inventory impairment losses and land option write-offs recorded for the three months ended January 31, 2012. In addition, selling, general and administrative costs were down \$2.4 million due to decreased salaries from headcount reductions and other overhead cost savings. Gross margin percentage before interest expense increased for the three months ended January 31, 2012.

Mid-Atlantic - Homebuilding revenues increased 17.2% for the three months ended January 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 4.1% increase in homes delivered and a 10.3% increase in average sales price for the three months ended January 31, 2012. The increase in average sales prices was the result of the mix of communities delivering in the three months ended January 31, 2012 compared to the same period of 2011.

Loss before income taxes decreased \$5.8 million to a profit of \$2.6 million for the three months ended January 31, 2012 due primarily to the increase in homebuilding revenues discussed above, combined with a \$0.3 million decrease in inventory impairment losses and land option write-offs and a \$1.2 million decrease in selling, general and administrative costs for the three months ended January 31, 2012. Gross margin percentage before interest expense for the three months ended January 31, 2012 was relatively flat compared to the same period of the prior year.

Midwest - Homebuilding revenues increased 29.2% for the three months ended January 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 31.0% increase in average sales price, partially offset by a 1.2% decrease in homes delivered for the three months ended January 31, 2012. The increase in average sales price was the result of the mix of communities delivering in the three months ended January 31, 2012 compared to the same period of 2011.

Loss before income taxes decreased \$0.8 million to a loss of \$1.2 million for the three months ended January 31, 2012. The decrease in the loss for the three months ended January 31, 2012 was primarily due to a slight increase gross margin percentage before interest expense for the period.

Southeast - Homebuilding revenues increased 30.2% for the three months ended January 31, 2012 compared to the same period in the prior year. The increase for the three months ended January 31, 2012 was attributed to the 27.9% increase in homes delivered which was further impacted by a 1.5% increase in average sales price. The increase in average sales price was primarily due to the different mix of communities delivering in 2012 compared to 2011.

Loss before income taxes decreased \$0.2 million to a loss of \$2.9 million for the three months ended January 31, 2012 primarily due to a \$0.5 million decrease in selling, general and administrative costs, partially offset by a decrease in gross margin percentage before interest expense.

Southwest - Homebuilding revenues increased 0.5% for the three months ended January 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 7.8% increase in homes delivered for the three months ended January 31, 2012, as a result of the different mix of communities delivering in the three months ended January 31, 2012 compared to the same period in 2011, offset by a 3.0% decrease in average sales price.

Income before income taxes decreased \$0.9 million to \$4.6 million for the three months ended January 31, 2012. The decrease was primarily due to a decrease of \$2.9 million in land sales revenues offset by a \$1.0 million decrease in selling, general and administrative costs for the three months ended January 31, 2012 compared to the same period of the prior year. Gross margin before interest expense for the three months ended January 31, 2012 was relatively flat compared to the same period of the prior year.

West - Homebuilding revenues increased 12.2% for the three months ended January 31, 2012 compared to the same period in the prior year. The increase for the three months ended January 31, 2012 was attributed to a 15.8% increase in homes delivered, along with a 7.2% increase in average sales price, due to the different mix of communities delivering in the three months ended January 31, 2012 compared to the same period of the prior year.

Loss before income taxes decreased \$7.6 million to a loss of \$1.0 million for the three months ended January 31, 2012. The decreased loss for the three months ended January 31, 2012 was primarily due to a \$4.1 million decrease in inventory impairments and land option write-offs taken and a \$1.8 million decrease in selling, general and administrative costs for the three months ended January 31, 2012 compared to the same period in the prior year. Gross margin before interest expense for the three months ended January 31, 2012 increased compared to the same period of the prior year.

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. We use mandatory investor commitments and forward sales of mortgage-backed securities ("MBS") to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of nonagency and nongovernmental loans, including Alt-A (FICO scores below 680 and depending on credit criteria) and sub-prime loans (FICO scores below 580 and depending on credit criteria), we no longer originate Alt-A or sub-prime loans. As Alt-A and sub-prime originations were eliminated, we have seen an increase in our level of Federal Housing Administration and Veterans Administration ("FHA/VA") loan origination. FHA/VA loans represented 45.8% and 48.4% for the first quarter of fiscal 2012 and 2011, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

During the three months ended January 31, 2012, financial services provided a \$1.5 million pretax profit compared to \$1.6 million of pretax profit for the same period of fiscal 2011. While revenues were down 5.7% for the first quarter of fiscal 2012 from the first quarter of fiscal 2011, costs were down 5.4% for such period. Mortgage settlements decreased for the three months ended January 31, 2012 compared to the same period in the prior year, contributing to the decrease in revenues. The decrease in costs are attributed to the decrease in salaries from a reduction in headcount and other overhead cost savings. In the market areas served by our wholly owned mortgage banking subsidiaries, approximately 79.5% and 77.8% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the three months ended January 31, 2012 and 2011, respectively. Servicing rights on new mortgages originated by us are sold with the loans.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality and safety. Corporate general and administrative expenses decreased to \$12.8 million for the three months ended January 31, 2012 compared to \$15.0 million for the three months ended January 31, 2011, primarily due to a reduction in depreciation expense, resulting mainly from capitalized software becoming fully depreciated, coupled with no new significant additions of depreciable assets. Also contributing to the decrease was reduced salaries from headcount reduction and a continued tightening of variable spending.

Other Interest

Other interest decreased \$2.0 million for the three months ended January 31, 2012 compared to the three months ended January 31, 2011. Our assets that qualify for interest capitalization (inventory under development) are less than our debt, and therefore a portion of interest not covered by qualifying assets must be directly expensed. As our inventory balances for the qualifying assets have increased and our debt has decreased, the amount of interest required to be directly expensed has decreased.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, rent expense for commercial office space, amortization of prepaid bond fees, noncontrolling interest relating to consolidated joint ventures, and corporate owned life insurance. Other operations increased to \$5.4 million for the three months ended January 31, 2012 compared to \$0.9 million for the three months ended January 31, 2011. The increases were primarily due to \$4.6 million of costs incurred from the debt exchange on November 1, 2011. This debt exchange was accounted for as troubled debt restructuring, which requires any cost incurred associated with the exchange to be expensed as incurred. See Note 11 to the Condensed Consolidated Financial Statements.

Gain on Extinguishment of Debt

During the three months ended January 31, 2012, we repurchased in the open market a total of \$44.0 million principal amount of various issues of our unsecured senior notes due 2016 for an aggregate purchase price of \$19.0 million, plus accrued and unpaid interest. We recognized a gain of \$24.7 million net of the write-off of unamortized discounts and fees related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. There were no debt repurchases and/or exchanges during the three months ended January 31, 2011. Under the terms of our indentures governing our bonds, we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We may also continue to make additional debt purchases and/or exchanges for debt or equity from time to time through tender offers, open market purchases, private transactions or otherwise from time to time depending on market conditions and covenant restrictions. As noted above, the accounting for the November 1, 2011 debt exchange is being treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt.

Loss From Unconsolidated Joint Ventures

Loss from unconsolidated joint ventures was less than \$0.1 million for the three months ended January 31, 2012, compared to \$1.0 million for the three months ended January 31, 2011. The decrease in the loss is mainly due to two of our joint ventures that delivered more homes and are reporting profits in the first quarter of fiscal 2012, but reported losses in the first quarter of fiscal 2011.

Total Taxes

The total income tax expense was \$0.7 million for the three months ended January 31, 2012 primarily due to various state tax expenses and an increase in tax reserves for uncertain tax positions.

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. Given the continued downturn in the homebuilding industry during 2010, 2011 and 2012, resulting in additional inventory and intangible impairments, we are in a three-year cumulative loss position as of January 31, 2012. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable. Our valuation allowance for current and deferred taxes amounted to \$905.2 million and \$899.4 million at January 31, 2012 and October 31, 2011, respectively. The valuation allowance increased during the three months ended January 31, 2012 primarily due to additional reserves recorded for the federal and state tax benefits related to the losses incurred during the period.

Inflation

Inflation has a long-term effect, because increasing costs of land, materials, and labor result in increasing sale prices of our homes. In general, these price increases have been commensurate with the general rate of inflation in our housing markets and have not had a significant adverse effect on the sale of our homes. A significant risk faced by the housing industry generally is that rising house construction costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers.

Inflation has a lesser short-term effect, because we generally negotiate fixed price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 56% of our homebuilding cost of sales.

Safe Harbor Statement

All statements in this Quarterly Report on Form 10-Q that are not historical facts should be considered “Forward-Looking Statements” within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to:

- . Changes in general and local economic and industry and business conditions and impacts of the sustained homebuilding downturn;
- . Adverse weather and other environmental conditions and natural disasters;
- . Changes in market conditions and seasonality of the Company’s business;
- . Changes in home prices and sales activity in the markets where the Company builds homes;
- . Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment;
- . Fluctuations in interest rates and the availability of mortgage financing;
- . Shortages in, and price fluctuations of, raw materials and labor;
- . The availability and cost of suitable land and improved lots;
- . Levels of competition;
- . Availability of financing to the Company;
- . Utility shortages and outages or rate fluctuations;
- . Levels of indebtedness and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;
- . The Company's sources of liquidity;
- . Changes in credit ratings;
- . Availability of net operating loss carryforwards;
- . Operations through joint ventures with third parties;
- . Product liability litigation, warranty claims and claims made by mortgage investors;
- . Successful identification and integration of acquisitions;
 - . Changes in tax laws affecting the after-tax costs of owning a home;
- . Significant influence of the Company's controlling stockholders; and
- . Geopolitical risks, terrorist acts and other acts of war.

Certain risks, uncertainties, and other factors are described in detail in Part I, Item 1 “Business” and Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended October 31, 2011. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale, and the associated mortgage warehouse line of credit under our Chase Master Repurchase Agreement are subject to interest rate risk; however, such obligations repriced frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly, the risk from mortgage loans is not material. We do not use financial instruments to hedge interest rate risk except with respect to mortgage loans. We are also subject to foreign currency risk but we do not believe that this risk is material. The following table sets forth as of January 31, 2012, our long-term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value (“FV”).

Long Term Debt as of January 31, 2012 by Fiscal Year of Expected Maturity Date								FV at
(Dollars in thousands)	2012	2013	2014	2015	2016	Thereafter	Total	January 31, 2012
Long term debt(1):								
Fixed rate	\$ 33,756	\$ 6,514	\$ 7,121	\$ 122,096	\$ 1,065,781	\$ 385,910	\$ 1,621,178	\$ 1,165,550
Weighted average interest rate	7.98%	7.18%	6.87%	9.19%	9.66%	6.32%	8.77%	

(1) Does not include the mortgage warehouse line of credit made under our Chase Master Repurchase Agreement. See Note 10 to our Condensed Consolidated Financial Statements for more information.

During November 2011, we exchanged senior secured notes with longer dated maturities for certain unsecured senior notes and also repurchased, in the open market, certain senior notes. See Note 11 to our Condensed Consolidated Financial Statements for further information.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of January 31, 2012. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company's internal control over financial reporting that occurred during the quarter ended January 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

Information with respect to legal proceedings is incorporated into this Part II, Item 1 from Note 7 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

For information with respect to unregistered sales of equity securities subsequent to the end of the first fiscal quarter, see Note 23 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

No shares of our 7.625% Series A Preferred Stock or 7.25% Tangible Equity Units were purchased by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the first quarter of fiscal 2012. The table below provides information with respect to purchases of shares of our Class A Common Stock and Class B Common Stock made by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the first quarter of fiscal 2012.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs (1)
November 1, 2011 through November 30, 2011				612,668
December 1, 2011 through December 31, 2011				612,668
January 1, 2012 through January 31, 2012	66,043	\$1.55	66,043	546,625
	(Class A Common Stock)			

(1) In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock (adjusted for a 2 for 1 stock dividend on March 5, 2004).

Item 6. Exhibits

- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(2)
- 3(c) Restated Bylaws of the Registrant.(3)
- 4(a) Secured Notes Indenture dated as of November 1, 2011 relating to the 5.0% Senior Secured Notes due 2021 and 2.0% Senior Secured Notes due 2021, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors named therein and Wilmington Trust, National Association, as Trustee and Collateral Agent, including the forms of 5.0% Senior Secured Notes due 2021 and 2.0% Senior Secured Notes due 2021.(7)
- 4(b) Supplemental Indenture dated as of November 1, 2011, relating to the 11 $\frac{7}{8}$ % Senior Notes due 2015, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., as guarantor, the other guarantors named therein and Wilmington Trust Company, as Trustee.(7)
- 4(c) Specimen Class A Common Stock Certificate.(6)
- 4(d) Specimen Class B Common Stock Certificate.(6)
- 4(e) Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated January 12, 2005.(4)
- 4(f) Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
- 4(g) Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C.(5)
- 10(a) First Lien Pledge Agreement, dated as of November 1, 2011, among the Secured Group members, as Pledgors, and Wilmington Trust, National Association, as Collateral Agent.(7)
- 10(b) First Lien Security Agreement, dated as of November 1, 2011, among Secured Group members, as Grantors, and Wilmington Trust, National Association, as Collateral Agent.(7)
- 10(c)* Form of Change in Control Severance Protection Agreement entered into with each of Brad G. O'Connor and David G. Valiaveedan.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32(a) Section 1350 Certification of Chief Executive Officer.
- 32(b) Section 1350 Certification of Chief Financial Officer.
- 101** The following financial information from our Quarterly Report on Form 10-Q for the quarter ended January 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at January 31, 2012 and October 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the three months ended January 31, 2012 and 2011, (iii) the Condensed Consolidated Statement of Equity for the three months ended January 31, 2012, (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended January 31, 2012 and 2011, and (v) the Notes to Condensed Consolidated Financial Statements (tagged as blocks of text).

* *Management contracts or compensatory plans or arrangements.*

**XBRL Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

- (1) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended July 31, 2008.
- (2) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed December 9, 2008.
- (3) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed December 21, 2009.

- (4) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on July 13, 2005.
- (5) Incorporated by reference to Exhibits to the Registration Statement on Form 8-A (No. 001-08551) of the Registrant filed August 14, 2008.
- (6) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended January 31, 2009.
- (7) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed November 7, 2011.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.
(Registrant)

DATE: March 8, 2012
/S/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and
Chief Financial Officer

DATE: March 8, 2012
/S/Brad G. O'Connor
Brad G. O'Connor
Vice President/Chief Accounting Officer/Corporate Controller

Exhibit 10(c)
CHANGE IN CONTROL SEVERANCE PROTECTION AGREEMENT

This Agreement (the "Agreement") is dated as of January 18, 2012 by and between Hovnanian Enterprises, Inc., a Delaware corporation (the "Company"), and [name] (the "Executive").

WHEREAS, the Company's Board of Directors (the "Board") considers the continued services of key executives of the Company to be in the best interests of the Company and its stockholders; and

WHEREAS, the Board desires to assure, and has determined that it is appropriate and in the best interests of the Company and its stockholders to reinforce and encourage the continued attention and dedication of key executives of the Company to their duties of employment without personal distraction or conflict of interest in circumstances which could arise from the occurrence of a change in control of the Company; and

WHEREAS, the Board has authorized the Company to enter into severance protection agreements with certain key executives of the Company, such agreements to set forth the severance compensation which the Company agrees to pay such executives under certain circumstances in connection with a change in control of the Company; and

WHEREAS, references herein to the Executive's employment with the Company shall also be deemed to refer to the Executive's employment with any of the Company's affiliates, including without limitation, K. Hovnanian Companies, LLC; and

WHEREAS, the Executive is a key executive of the Company and has been designated by the Compensation Committee of the Board (the "Committee") as an executive to be offered such a severance protection agreement with the Company.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. Term. This Agreement shall become effective on the date hereof and, subject to the Executive's continued employment by the Company, remain in effect until December 31, 2012; provided, however, that, on December 31, 2012 and on each successive one-year anniversary thereof (each, a "Renewal Date"), this Agreement shall automatically renew for a one-year term, unless the Company provides to the Executive, in writing, at least 180 days prior to any Renewal Date, notice that this Agreement shall not be renewed. Notwithstanding the foregoing, in the event that a Change in Control (as hereinafter defined) occurs at any time prior to the termination or expiration of this Agreement in accordance with the preceding sentence, this Agreement shall not terminate until the second anniversary of the Change in Control.

2. Change in Control. No compensation or other benefit shall be payable pursuant to Section 4 of this Agreement unless and until a Change in Control shall have occurred while the Executive is an employee of the Company and the Executive's employment by the Company thereafter shall have terminated in accordance with Section 3(a) hereof. For purposes of this Agreement, a "Change in Control" shall have the meaning assigned to such term under the Company's Amended and Restated 2008 Stock Incentive Plan, as amended from time to time, or under any successor plan thereto (the "Stock Plan").

3. Termination of Employment; Definitions.

(a) The Executive shall be entitled to the compensation provided for in Section 4 of this Agreement if within two years following a Change in Control, (i) the Executive's employment is involuntarily terminated by the Company other than for Cause or (ii) the Executive terminates his or her employment for Good Reason after providing the Company with a Notice of Termination at least 60 days prior to such termination of employment.

(b) Cause. For purposes of this Agreement, "Cause" shall mean the occurrence, during the term of this Agreement, of any of the following:

(i) the willful and continued failure of the Executive to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Executive by the Board, which specifically identifies the manner in which the Board believes the Executive has not substantially performed his or her duties;

(ii) dishonesty in the performance of the Executive's duties with the Company;

(iii) the Executive's conviction of, or plea of guilty or nolocontendere to, a crime under the laws of the United States or any state thereof constituting (x) a felony or (y) a misdemeanor involving moral turpitude;

(iv) the Executive's willful malfeasance or willful misconduct in connection with the Executive's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or

(v) the Executive's breach of the provisions of Section 11 of this Agreement.

(c) Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence, during the term of this Agreement, of any of the following, without the Executive's express written consent:

(i) any material diminution in the Executive's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control; provided, however, that no such material diminution shall be deemed to exist solely because of changes in the Executive's duties, titles or responsibilities as a consequence of the Company ceasing to be a company with publicly traded securities or becoming a wholly owned subsidiary of another entity; or

(ii) any reduction in the Executive's annual base salary from the Executive's annual base salary in effect immediately prior to a Change in Control.

Notwithstanding the foregoing, in the event that the Executive provides the Company with a Notice of Termination (as defined below) referencing this Section 3(c) within 60 days after the occurrence of an event giving rise to Good Reason, the Company shall have 30 days thereafter in which to cure or resolve the behavior otherwise constituting Good Reason.

(d) Notice of Termination. Any purported termination of the Executive's employment shall be communicated by a Notice of Termination to the Executive, if such termination is by the Company, or to the Company, if such termination is by the Executive. For purposes of this Agreement, "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated. For purposes of this Agreement, no purported termination of Executive's employment with the Company shall be effective without such a Notice of Termination having been given.

4. Compensation Upon Qualifying Termination of Employment. If the Executive's employment with the Company shall be terminated in accordance with and under the circumstances described under Section 3(a) (a "Qualifying Termination"), the Executive shall be entitled to the following payments and benefits:

(a) Severance Payments and Benefits. Subject to the Executive's execution, delivery and non-revocation of a general release of claims in favor of the Company and its affiliates in the form attached hereto as Exhibit A within 45 days following the date of the Executive's Qualifying Termination, the Company shall pay, or cause to be paid, or provide the Executive with the following:

(i) a cash severance payment in an amount equal to the sum of (x) one times the Executive's annual base salary on the date of the Change in Control (or, if higher, the annual base salary in effect immediately prior to the giving of the Notice of Termination) plus (y) the average amount earned by the Executive as an annual bonus with respect to the three most recent completed fiscal years preceding the date of the Change in Control. This cash severance amount shall be payable in a lump sum within 60 days after the Executive's date of Qualifying Termination; provided, however, that if such 60 day period begins in one calendar year and ends in a second calendar year, then the cash severance payment shall not be paid until the second of such two calendar years (regardless of whether the Executive delivers the required general release of claims in the first calendar year or in the second calendar year);

(ii) other than with respect to awards described under clause (iii) below, immediate 100% vesting (and settlement in the case of restricted stock units, subject to any delay required pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code")) of all outstanding stock options, stock appreciation rights, restricted stock units and restricted stock granted or issued by the Company prior to, on or upon the Change in Control (to the extent not previously vested on or following the Change in Control); and

(iii) with respect to any outstanding awards held by the Executive immediately prior to the Qualifying Termination pursuant to the Company's 2010 Long Term Incentive Program (the "LTIP"), the Executive shall be entitled to the same rights and payments, if any, thereunder as Executive would have been entitled to receive in the event that the Executive's Qualifying Termination constituted a "Retirement" for purposes of the LTIP (regardless of the Executive's actual age or years of service at the time of such Qualifying Termination).

(b) Additional Payments and Benefits. The Executive shall also be entitled to:

(i) a lump sum cash payment payable within 10 business days following the date of the Executive's termination of employment equal to the sum of (A) the Executive's accrued but unpaid base salary through the date of employment termination and (B) an amount representing the Executive's accrued but unused vacation days, if any, in each case, in full satisfaction of the Executive's rights thereto; and

(ii) all other accrued or vested benefits in accordance with the terms of any applicable Company plan (the "Accrued Benefits").

(c) Legal Expenses. The Company shall pay or reimburse the Executive for reasonable legal fees (including without limitation, any and all court costs and attorneys' fees and expenses) incurred by the Executive in connection with or as a result of any claim, action or proceeding brought by the Company or the Executive with respect to or arising out of this Agreement or any provision hereof; provided, however, that the Company shall have no obligation to pay or reimburse any such legal fees if (i) in the case of an action brought by the Executive, the Company is successful in establishing with the court that the Executive's action was taken in bad faith or was frivolous or otherwise without a reasonable legal or factual basis, or (ii) in the case of any action, the action is materially decided in favor of the Company.

5. Compensation Upon Termination for Death, Disability, Voluntary Resignation or Termination by the Company for Cause. If the Executive's employment is terminated by reason of the Executive's death, Disability (as defined under the Stock Plan), the Executive's voluntary resignation (other than for Good Reason) or due to a termination by the Company for Cause, the Executive will receive:

(a) a lump sum cash payment payable within 10 business days following the date of the Executive's termination of employment equal to the sum of (i) the Executive's accrued but unpaid base salary through the date of employment termination and (ii) an amount representing the Executive's accrued but unused vacation days, if any, in each case, in full satisfaction of the Executive's rights thereto; and

(b) the Accrued Benefits.

6. Excess Parachute Excise Tax. Notwithstanding any other provision of this Agreement,

(a) In the event that part or all of the consideration, compensation or benefits to be paid to the Executive under this Agreement together with the aggregate present value of payments, consideration, compensation and benefits under all other plans, arrangements and agreements applicable to the Executive, constitute “excess parachute payments” under Section 280G(b) of the Code subject to an excise tax under Section 4999 of the Code (collectively, the “Parachute Amount”) the amount of excess parachute payments which would otherwise be payable to the Executive or for the Executive’s benefit under this Agreement shall be reduced to the extent necessary so that no amount of the Parachute Amount is subject to an excise tax under Section 4999 (the “Reduced Amount”); provided that such amounts shall not be so reduced if, without such reduction, the Executive would be entitled to receive and retain, on a net after tax basis (including, without limitation, after any excise taxes payable under Section 4999), an amount of the Parachute Amount which is greater than the amount, on a net after tax basis, that the Executive would be entitled to retain upon receipt of the Reduced Amount.

(b) If the determination made pursuant to Section 6(a) results in a reduction of the payments that would otherwise be paid to the Executive except for the application of Section 6(a), such reduction in payments due under this Agreement shall be first applied to reduce any cash severance payments that the Executive would otherwise be entitled to receive hereunder and shall thereafter be applied to reduce other payments and benefits in a manner that would not result in subjecting the Executive to additional taxation under Section 409A of the Code. Within ten days following such determination, but not later than thirty days following the date of the event under Section 280G(b)(2)(A)(i), the Company shall pay or distribute to the Executive or for the Executive’s benefit such amounts as are then due to the Executive under this Agreement and shall promptly pay or distribute to the Executive or for his benefit in the future such amounts as become due to the Executive under this Agreement.

7. Obligations Absolute; Non-Exclusivity of Rights; Joint and Several Liability .

(a) The obligations of the Company to make the payment to the Executive, and to make the arrangements, provided for herein shall be absolute and unconditional and shall not be reduced by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or any third party at any time.

(b) Nothing in this Agreement shall prevent or limit the Executive’s continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company and for which the Executive may qualify (other than any change in control or other severance plan or policy), nor shall anything herein limit or reduce such rights as the Executive may have under any agreements with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

(c) Any successors or assigns of the Company shall be joint and severally liable with the Company under this Agreement.

8. Entire Agreement; Not an Employment Agreement; No Duplication of Payments or Benefits .

(a) This Agreement constitutes the entire agreement of the parties hereto and supersedes all prior and contemporaneous agreements and understandings (including term sheets), both written and oral, between the parties hereto, or either of them, with respect to the subject matter hereof. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

(b) This Agreement is not, and nothing herein shall be deemed to create, a contract of employment between the Executive and the Company. The Company may terminate the employment of the Executive by the Company at any time, subject to the terms of this Agreement and/or any employment agreement or arrangement between the Company and the Executive that may then be in effect.

(c) To the extent, and only to the extent, a payment or benefit that is paid or provided under Section 4 would also be paid or provided under the terms of another Company plan, program or arrangement (a "Company Plan"), (i) in the event that such payment or benefit is first paid or provided under the terms of a Company Plan prior to the date such payment or benefit is paid or provided under Section 4, such payment or benefit shall offset any corresponding payment or benefit that is paid or provided under Section 4, and (ii) in the event that such payment or benefit is first paid or provided under Section 4, such Company Plan will be deemed to have been satisfied by the corresponding payment or benefit made or provided under Section 4, in each case, in a manner that would not result in duplication of benefits or the imposition of additional taxation under Section 409A of the Code.

(d) If any payments or benefits that the Company would otherwise be required to provide under this Agreement or any Company Plan cannot be provided in the manner contemplated herein or under the applicable plan without subjecting the Executive to income tax under Section 409A of the Code, the Company shall provide such intended payments or benefits to the Executive in an alternative manner that conveys an equivalent economic benefit to the Executive (without materially increasing the aggregate cost to the Company). Notwithstanding anything herein to the contrary, if at the time of the Executive's termination of employment with the Company the Executive is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Executive) until the date that is six months following the Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code without any accelerated or additional tax). For purposes of Section 409A of the Code, each payment made under this Agreement shall be designated as a "separate payment" within the meaning of the Section 409A of the Code, and references herein to the Executive's "termination of employment" shall refer to the Executive's separation from service with the Company within the meaning of Section 409A. To the extent any reimbursements or in-kind benefits due to Executive under this Agreement constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to Executive in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Additionally, to the extent that the Executive's receipt of any in-kind benefits from the Company or its affiliates must be delayed pursuant to this Section 8(d) due to Executive's status as a "specified employee," the Executive may elect to instead purchase and receive such benefits during the period in which the provision of benefits would otherwise be delayed by paying the Company (or its affiliates) for the fair market value of such benefits (as determined by the Company in good faith) during such period. Any amounts paid by the Executive pursuant to the preceding sentence shall be reimbursed to the Executive as described above on the date that is six months following the Executive's separation from service. The Company shall consult with Executive in good faith regarding the implementation of the provisions of this Section 8(d); provided that neither the Company nor any of its employees or representatives shall have any liability to Executive with respect thereto.

9. Successors; Binding Agreement, Assignment .

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business of the Company, by agreement to expressly, absolutely and unconditionally assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean (i) the Company as hereinbefore defined, and (ii) any successor to all the stock of the Company or to all or substantially all of the Company's business or assets which executes and delivers an agreement provided for in this Section 9(a) or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law, including any parent or subsidiary of such a successor.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would be payable to the Executive hereunder if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's estate or designated beneficiary. Neither this Agreement nor any right arising hereunder may be assigned or pledged by the Executive.

10. Notice. For purpose of this Agreement, notices and all other communications provided for in this Agreement or contemplated hereby shall be in writing and shall be deemed to have been duly given when personally delivered, delivered by a nationally recognized overnight delivery service or when mailed United States certified or registered mail, return receipt requested, postage prepaid, and addressed, in the case of the Company, to the Company at:

Hovnanian Enterprises, Inc.
110 West Front Street
Red Bank, NJ 07701
Attention: Board of Directors

and in the case of the Executive, to the Executive at the address set forth on the Company's books and records.

Either party may designate a different address by giving notice of change of address in the manner provided above, except that notices of change of address shall be effective only upon receipt.

11. Confidentiality. The Executive shall retain in confidence any and all confidential information concerning the Company, its shareholders, officers, directors and customers and its respective business which is now known or hereafter becomes known to the Executive, except as otherwise required by law and except information (i) ascertainable or obtained from public information, (ii) received by the Executive at any time after the Executive's employment by the Company shall have terminated, from a third party not employed by or otherwise affiliated with the Company or (iii) which is or becomes known to the public by any means other than a breach of this Section 11. Upon the Executive's termination of employment, the Executive will not take or keep any proprietary or confidential information or documentation belonging to the Company.

12. Miscellaneous.

(a) Amendments. No provision of this Agreement may be amended, altered, modified, waived or discharged unless such amendment, alteration, modification, waiver or discharge is agreed to in writing signed by the Executive and such officer of the Company as shall be specifically designated by the Committee or by the Board.

(b) Waivers. No waiver by either party, at any time, of any breach by the other party of, or of compliance by the other party with, any condition or provision of this Agreement to be performed or complied with by such other party shall be deemed a waiver of any similar or dissimilar provision or condition of this Agreement or any other breach of or failure to comply with the same condition or provision at the same time or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

13. Severability. If any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby. To the extent permitted by applicable law, each party hereto waives any provision of law that renders any provision of this Agreement invalid, illegal or unenforceable in any respect.

14. Governing Law; Venue. The validity, interpretation, construction and performance of this Agreement shall be governed on a non-exclusive basis by the laws of the State of New Jersey without giving effect to its conflict of laws rules. For purposes of jurisdiction and venue, the Company hereby consents to jurisdiction and venue in any suit, action or proceeding with respect to this Agreement in any court of competent jurisdiction in the state in which the Executive resides at the commencement of such suit, action or proceeding and waives any objection, challenge or dispute as to such jurisdiction or venue being proper.

15. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which shall be deemed to constitute one and the same instrument.

[Signatures on next page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HOVNANIAN ENTERPRISES, INC.

By: _____
Name: J. Larry Sorsby
Title: EVP, Chief Financial Officer

EXECUTIVE:

[name]

AGREEMENT AND GENERAL RELEASE¹

Original Issue Date: [insert date]

Hovnanian Enterprises, Inc., on behalf of itself, K. Hovnanian Companies, LLC and its other affiliates (referred to collectively throughout this Agreement as "Employer" or "Hovnanian"), and [] (referred to throughout this Agreement as "Employee"), agree that:

1. **Last Day of Employment.** Employee's last day of employment with Employer is [insert date]. Employee understands, however, that Employer, in its sole discretion, may request Employee to immediately cease performing work duties if Employer deems it is in its best interest to do so. Employee will, nonetheless, be paid until this last day of employment.

2. **Consideration.** In consideration for Employee's execution of this Agreement and the fulfillment of the promises contained herein, Employer agrees to make the payments described under Employee's Change in Control Severance Protection Agreement with the Company dated as of [insert date].

3. **Revocation.** Employee may revoke this Agreement for a period of seven (7) calendar days following the day Employee executes this Agreement. Any revocation within this period must be submitted, in writing, to [insert name] and state, "I hereby revoke my acceptance of our Agreement and General Release." The revocation must be personally delivered or mailed to [insert name], [insert title] at [insert address], and delivered or postmarked within seven (7) calendar days of execution of this Agreement. This Agreement shall not become effective or enforceable until the revocation period has expired. If the last day of the revocation period is a Saturday, Sunday, or legal holiday, then the revocation period shall not expire until the next following day which is not a Saturday, Sunday, or legal holiday.

4. **General Release of Claim.** Employee, Employee's heirs, executors, administrators, fiduciaries, successors and/or assigns, knowingly and voluntarily release and forever give up, to the full extent permitted by law, Employer, Employer's past, present and future direct or indirect parent organizations, subsidiaries, divisions, affiliated entities, and their partners, officers, directors, trustees, administrators, fiduciaries, employment benefit plans and/or pension plans or funds, executors, attorneys, employees, insurers, reinsurers and/or agents and their successors and assigns individually and in their official capacities (collectively referred to herein as "Released Parties" or "Released Party"), jointly and severally, of and from all claims, known or unknown, that Employee has or may have against Released Parties as of the date of execution of this Agreement including, but not limited to, any alleged violation of:

- The National Labor Relations Act;
- Title VII of the Civil Rights Act;

¹ This Agreement and General Release shall be referred to herein as "Agreement".

- Civil Rights Act of 1991;
- Sections 1981 through 1988 of Title 42 of the United States Code;
- The Employee Retirement Income Security Act;
- The Fair Credit Reporting Act;
- The Immigration Reform Control Act;
- The Americans with Disabilities Act;
- The Rehabilitation Act;
- The Age Discrimination in Employment Act, as amended;
- The Occupational Safety and Health Act;
- The Family and Medical Leave Act;
- The Equal Pay Act;
- The Uniformed Services Employment and Reemployment Rights Act;
- Worker Adjustment and Retraining Notification Act;
- Employee Polygraph Protection Act;
- any other federal, state or local law or ordinance of similar effect, to the maximum extent permitted by law;
- any public policy, contract (oral, written or implied), tort, constitution or common law;
- any claims for vacation, sick or personal leave pay, short term or long term disability benefits, or payment pursuant to any practice, policy, handbook or manual; or
- any basis for costs, fees, or other expenses including attorneys' fees.

Employee hereby releases Released Parties from any and all claims, whether sounding in contract, tort, statute or constitution, and covenants not to sue Released Parties for any and all claims. Employee understands this Release includes all claims related in any manner to Employee's employment or the cessation of that employment. Employee further understands that Employee is hereby releasing any known or unknown claim for or alleged right to discovery of information or documents of Released Parties.

5. **Affirmations.**

a. Employee affirms that Employee is not a party to, and that Employee has not filed or caused to be filed, any claim, complaint, charge or action against Released Parties in any forum or form.

b. Employee acknowledges and agrees that Employee has been paid all compensation due, except the following: (i) final paycheck for the period from [insert date] to [insert date], which will also include all vacation pay due; and (ii) any pro-rata Cash Award to which the Employee is entitled under Employer's Incentive Profit Sharing Program and Corporate Policy HR055, which will be paid as soon as administratively possible, generally at the same time as other Associates in Employee's former business unit.

c. Employee affirms that Employee has received all leave (paid or unpaid), to which Employee may be entitled and that no other leave (paid or unpaid), is due to Employee except as provided in this Agreement.

d. Employee furthermore affirms that Employee has no known workplace injuries or occupational diseases, other than those that are already the subject of an existing workers compensation claim.

6. **Confidentiality.** To the extent permitted by law, Employee agrees not to disclose any information regarding the existence or substance of this Agreement, except to Employee's spouse, tax advisor, or an attorney with whom Employee chooses to consult regarding Employee's consideration of this Agreement, each of whom shall likewise agree to keep the information confidential. Employee acknowledges that, as an officer of the Company, Employee was privy to confidential, proprietary, and/or commercially sensitive information, the disclosure of which could substantially harm the Company's interests. Employee hereby agrees to maintain the confidentiality of such information and not to disclose same except as required to comply with court or regulatory action. In the event Employee or Employee's counsel believe either is compelled to provide or disclose information described in this paragraph, they will provide written notice of such belief, via facsimile and mail, to [insert name], [insert title], at [insert address], fax [insert fax], no later than seven (7) business days prior to said production or disclosure.

7. **Non-Disparagement.** Employee agrees not to defame, disparage or demean Employer in any manner whatsoever.

8. **Non-Solicitation of Other Employees.** To the extent permitted by law, Employee agrees not to solicit, directly or indirectly, any other employee of Employer to terminate or otherwise modify or alter his or her employment with the Company for two (2) years following the Employee's Last Day of Employment (*see* paragraph 1 above).

9. **Cooperation.** Subject to Employee's other personal and professional obligations and on reasonable notice and at reasonable times, Employee will cooperate with Employer and its counsel in connection with any investigation, administrative or regulatory proceeding or litigation relating to any matter in which Employee was involved or of which Employee has knowledge as a result of Employee's employment with Employer and/or any Released Party or Released Parties.

10. **Return of Property.** Employee has returned any and all property belonging to Released Parties, including, but not limited to, cellular phones, beepers, computers, laptops, passwords for electronic access and/or to access protected documents regarding Company business, equipment, tools, materials, Company related manuals, training materials, written files, electronic files, keys, security cards, documents, supplies, customer lists, customer information, confidential documents, etc.

11. **Governing Law and Interpretation.** This Agreement shall be governed and conformed in accordance with the laws of the State of New Jersey without regard to its conflict of laws provision. In the event Employee or Employer breaches any provision of this Agreement, Employee and Employer affirm that either may institute an action against the other to specifically enforce any term or terms of this Agreement, in addition to any other legal or equitable relief permitted by law. In the event that any provision of this Agreement is declared illegal or unenforceable by a court of competent jurisdiction and cannot be modified to be enforceable, excluding the general release language, it shall be stricken, leaving the remainder of this Agreement in full force and effect.

12. **Nonadmission of Wrongdoing.** Employee agrees that neither this Agreement nor the furnishing of the consideration for this Agreement shall be deemed or construed at anytime for any purpose as an admission by Employer of any liability or unlawful conduct of any kind.

13. **Amendment.** This Agreement may not be modified, altered or changed except upon express written consent of both parties wherein specific reference is made to this Agreement.

14. **Entire Agreement.** This Agreement sets forth the entire agreement between the Employee and Released Parties hereto, and fully supersedes any prior or contemporaneous agreements or understandings between Employee and Released Parties; provided, however, that this Agreement does not supersede or affect any confidentiality, non-disclosure, non-compete, invention, assignment of proprietary rights, or non-solicitation agreement(s) signed by Employee. The obligations of such agreements remain in full force and effect and Employee expressly acknowledges Employee's intent to adhere to the promises contained in those agreements. Employee also acknowledges that Employee has not relied on any representation, promises, or agreements of any kind made in connection with the decision to sign this Agreement, except for those set forth in this Agreement.

EMPLOYEE IS ADVISED THAT EMPLOYEE HAS UP TO FORTY-FIVE (45) CALENDAR DAYS TO CONSIDER THIS AGREEMENT AND GENERAL RELEASE AND IS HEREBY ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTION OF THIS AGREEMENT AND GENERAL RELEASE.

EMPLOYEE IS ADVISED THAT ANY MODIFICATIONS, MATERIAL OR OTHERWISE, MADE TO THIS AGREEMENT AND GENERAL RELEASE DO NOT RESTART OR AFFECT IN ANY MANNER THE ORIGINAL FORTY-FIVE (45) CALENDAR DAY CONSIDERATION PERIOD.

HAVING ELECTED TO EXECUTE THIS AGREEMENT AND GENERAL RELEASE, TO FULFILL THE PROMISES SET FORTH HEREIN, AND TO RECEIVE THEREBY THE SUMS AND BENEFITS SET FORTH IN PARAGRAPH "2" ABOVE, EMPLOYEE FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTERS INTO THIS AGREEMENT AND GENERAL RELEASE INTENDING TO WAIVE SETTLE AND RELEASE ALL CLAIMS EMPLOYEE HAS OR MIGHT HAVE AGAINST RELEASED PARTIES AS OF THE DATE OF THE EXECUTION OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto knowingly and voluntarily executed this Agreement and General Release as of the date set forth below:

ON BEHALF OF EMPLOYER

[Employee]

[insert behalf of name]

[insert behalf of title]

Employee's Signature

Signature

Date

Date

CERTIFICATIONS
Exhibit 31(a)

I, Ara K. Hovnanian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2012

/S/ ARA K. HOVNANIAN

Ara K. Hovnanian
Chairman, President and Chief Executive Officer

CERTIFICATIONS

Exhibit 31(b)

I, J. Larry Sorsby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2012

/S/ J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

Exhibit 32(a)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2012

/S/ ARA K. HOVNANIAN

Ara K. Hovnanian

Chairman, President and Chief Executive Officer

Exhibit 32(b)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2012

/S/ J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

