

**Hovnanian Enterprises, Inc.**  
**2000 Annual Report**



**Hovnanian Enterprises, Inc.**  
10 Highway 35, PO Box 500  
Red Bank, NJ 07701  
(732) 747-7800

For additional information, visit our  
website at [khov.com](http://khov.com)



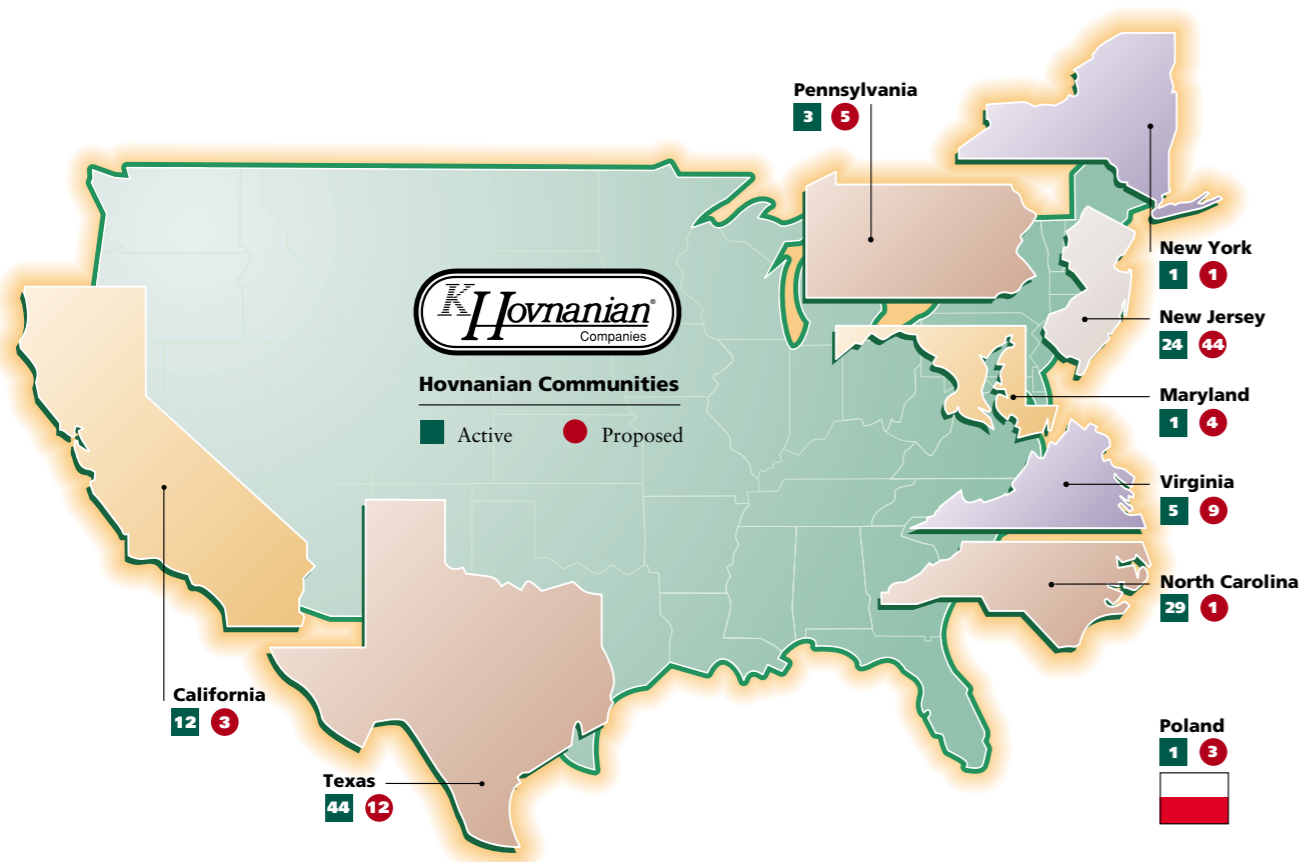
# Hovnanian Enterprises, Inc.

## Company Profile

As one of America's leading homebuilders, we design, build and sell a wide variety of home designs, from entry-level condominiums to luxury single family homes in planned communities in California, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Texas, Virginia and Poland. We are proud of our reputation for building homes of superior quality and value. We also provide mortgage financing for our homebuyers. We employ approximately 1,450 Associates.

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## Common Stock\*

American Stock Exchange Symbol: HOV	Fiscal 2000		Fiscal 1999	
	High	Low	High	Low
First Quarter	\$6.88	\$5.25	\$9.25	\$7.75
Second Quarter	\$6.62	\$5.44	\$8.94	\$6.81
Third Quarter	\$6.38	\$5.44	\$9.50	\$7.88
Fourth Quarter	\$7.94	\$5.88	\$8.88	\$6.00

\*At October 31, 2000 our Class A Common Stock was held by approximately 723 shareholders of record and our Class B Common Stock was held by approximately 603 shareholders of record.

For additional information, visit our website at [khov.com](http://khov.com)

## Board of Directors and Corporate Officers

KEVORK S. HOVNIANIAN  
Chairman of the Board  
and Director

ARA K. HOVNIANIAN  
President, Chief Executive Officer  
and Director

ARTHUR M. GREENBAUM, ESQ.  
Director and Partner  
Greenbaum, Rowe, Smith, Ravin & Davis

DESMOND P. McDONALD  
Director

STEPHEN D. WEINROTH  
Director and Chairman  
Core Laboratories N.V.

PAUL W. BUCHANAN  
Senior Vice President –  
Corporate Controller and Director

PETER S. REINHART  
Senior Vice President  
General Counsel and Director

J. LARRY SORSBY  
Executive Vice President,  
Chief Financial Officer and Director

WILLIAM L. CARPITELLA  
Senior Vice President –  
Organizational Development

PETER S. CORSI  
Vice President for Quality

LOUIS J. CSABAY  
Assistant Vice President,  
Human Resources

PATRICK GOLDEN  
Vice President, Product Design

KEVIN C. HAKE  
Vice President and Treasurer

GARY JAMES  
Vice President and Chief Information  
Officer

NANCY A. MARRAZZO  
Assistant Treasurer

TIMOTHY P. MASON  
Vice President – Risk Management

BILL MOORE  
Assistant Vice President,  
Organizational Development  
Strategic Initiatives

ROBERT NOFERI  
Vice President, Process Redesign

## Corporate Information

### Annual Meeting

March 8, 2001, 10:30 a.m.  
American Stock Exchange  
86 Trinity Place  
New York, New York

### Stock Listing

Hovnanian Enterprises, Inc. Class A  
common stock is traded on the  
American  
Stock Exchange under symbol HOV.

### Form 10-K

A copy of form 10-K, as filed with the  
Securities and Exchange Commission,  
is available upon request to the  
Office of the Controller  
Hovnanian Enterprises, Inc.  
10 Highway 35, P.O. Box 500  
Red Bank, New Jersey 07701  
(732) 747-7800

### Investor Relations Contact

Kevin C. Hake  
Vice President and Treasurer  
(732) 747-7800  
Email: [ir@khov.com](mailto:ir@khov.com)

### Auditors

Ernst & Young LLP  
1211 Avenue of the Americas  
New York, New York 10036

### Counsel

Simpson Thacher & Bartlett  
425 Lexington Avenue  
New York, New York 10017-3909

### Transfer Agent and Registrar

EquiServe Limited Partnership  
P.O. Box 43010  
Providence, RI 02940-3010  
<http://www.EquiServe.com>

### Trustee

First Union National Bank  
Corporate Trust Bond Administration  
21 South Street  
Morristown, NJ 07960

For additional information, visit our  
website at [khov.com](http://khov.com)

# Financial Highlights

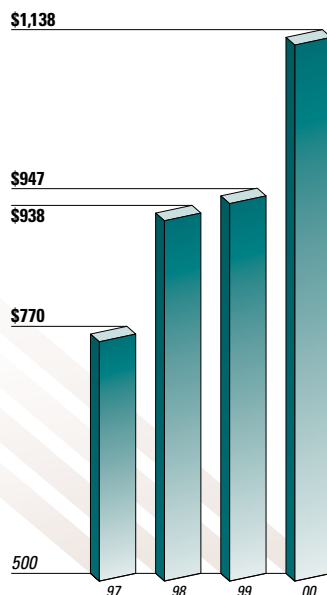
Hovnanian Enterprises, Inc.

For the Year Ended October 31,

	2000	1999	1998	1997	1996
<b>Contracts, Deliveries and Backlog</b> (Dollars in Millions)					
Net Sales Contracts	\$1,102.1	\$796.5	\$806.2	\$762.8	\$738.3
Deliveries	\$1,105.5	\$908.6	\$895.6	\$731.8	\$764.7
Contract Backlog at Year-End	\$ 538.5	\$460.7	\$381.8	\$374.3	\$292.4
<b>Revenues and Income</b> (Dollars in Millions)					
Total Revenues	\$1,137.8	\$946.7	\$937.7	\$770.4	\$796.3
Pre-tax Earnings (Loss)	\$ 51.8	\$ 50.6	\$ 41.3	\$ (12.1)	\$ 25.0
Net Income (Loss)	\$ 33.2	\$ 30.1	\$ 25.4	\$ (7.0)	\$ 17.3
EBITDA	\$ 98.2	\$ 91.3	\$ 90.6	\$ 59.7	\$ 64.0
Return on Average Stockholders' Equity	13.5%	14.0%	13.4%	(3.8)%	9.3%
<b>Assets, Debt and Equity</b> (Dollars in Millions)					
Total Assets	\$ 873.5	\$712.9	\$589.1	\$637.1	\$614.1
Total Recourse Debt	\$ 396.4	\$320.1	\$213.4	\$285.0	\$230.0
Stockholders' Equity	\$ 263.4	\$236.4	\$201.4	\$178.8	\$193.6
<b>Earnings and Book Value Per Share</b> (Shares in Thousands)					
Fully Diluted Earnings (Loss) Per Share	\$ 1.50	\$ 1.39	\$ 1.16	\$ (0.31)	\$ 0.75
Fully Diluted Weighted Average Shares Outstanding	22,043	21,612	22,016	22,506	23,120
Book Value Per Outstanding Share at Year-End	\$ 12.42	\$10.67	\$ 9.34	\$ 8.18	\$ 8.40

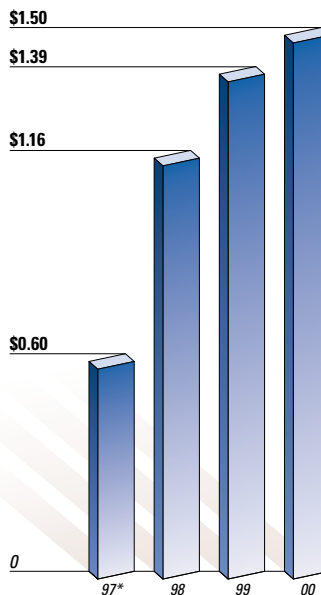
## Revenues

Dollars in Millions



## Earnings Per Share

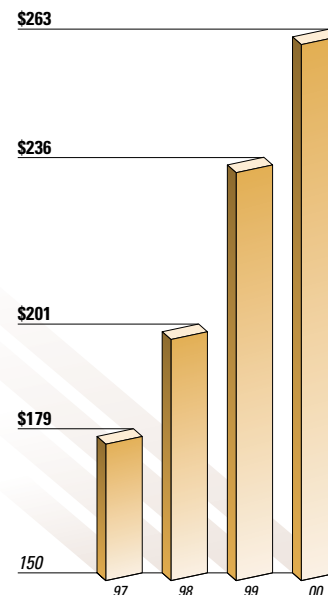
Fully diluted



\*Excluding the impact of writedowns and interest policy refinement

## Stockholders' Equity

Dollars in Millions



## *To Our Shareholders and Associates*

We are pleased to report another record-breaking performance in fiscal 2000 and continued progress on our journey to become *THE BEST* home building company. For the first time in our four-decade history, total revenues exceeded one billion dollars in fiscal 2000 and earnings climbed to a record \$1.50 per share. These achievements are the direct result of our associates' hard work. Strong housing markets, particularly in our Northeast Region, and continued improvements from our strategic initiatives also contributed. As anticipated, the opening of many new communities early in the year weighted earnings toward the fourth quarter, with profit in that quarter more than double last year's result. Despite a softening economy, sales continued to show strength through the end of the year, with fourth quarter net contracts up 27% over the prior year period. As a result, we enter fiscal 2001 with a record contract backlog that positions us for further growth in revenues and earnings.

For the fiscal year ended October 31, 2000, net income increased 10% to \$33.2 million, or \$1.50 per share, from \$30.1 million or \$1.39 per share in 1999. Total fiscal 2000 revenues were \$1.14 billion, a 20% increase from 1999. Deliveries reached 4,367 homes versus fiscal 1999's 3,768 homes. These are good numbers, but we can and will do even better.

### ***Competitive Positioning and Growth Strategies***

Since 1998, we have welcomed four homebuilding companies into our fold, culminating with the acquisition of Goodman Family of Builders in Dallas a year ago. Each of our acquisitions has enhanced our core strategies of concentrating in a handful of select markets and diversifying our profits outside the Northeast Region. Each of our acquisitions is confirming the many advantages of market concentration by exceeding our financial and operating expectations.

We are continuing our strategic growth with the most significant merger in our history, the combination of Hovnanian and Washington Homes, Inc., which was announced in August. Once the merger is completed in early 2001, Hovnanian will become the largest builder in North Carolina and the second largest in the Washington D.C. area, while remaining the market leader in our Northeast market. We expect to rank among the nation's ten largest homebuilders. Washington Homes will add depth to our management team and accelerate our geographic diversity. The two companies are very compatible culturally and philosophically. Both minimize land risk and maximize asset turnover. Both believe in the development of their associates for greater responsibilities. Our combined future is very bright, with expected record profits and nearly 7,000 home deliveries in fiscal 2001.

### ***Operating Strategies***

For the most part, our homebuilding markets continue to exhibit healthy demand. Our Northeast Region operations showed consistent and impressive strength, with 1,939 homes delivered at a value of \$561 million during the year. In Metro D.C. our volume increased by 45%, and our Texas operation built and delivered more than 900 homes. In North Carolina, severe competition caused a decrease in production, but we have repositioned our product in many communities and have turned around the decline. Our anticipated growth in California was delayed by slow approvals, which resulted in late openings of a few communities. We are now off and running in 2001, with four new communities. Our homebuilding operations in Florida are now completely sold out in accordance with plan. Finally, we re-structured our mortgage company activities, replaced the senior management and have experienced nearly immediate success.

During the past few years we have made substantial investments in understanding and improving our various homebuilding processes, in new technology and software to support our operations and in the training and development of our associates. Early in 2001 we will begin to roll out a fully integrated homebuilding system that will allow us to achieve further productivity gains and to take advantage of the many e-commerce opportunities that are starting to become available over the internet. We have surpassed the billion-dollar revenue mark, and our significant investment in the necessary infrastructure to continue our growth, our profitability and our success has become essential.

### **Financial Strategies**

As we have done throughout our 41-year history, we will continue to manage our balance sheet leverage and our land position very carefully. Together with Washington Homes, we have locked-in more than five years worth of prime building lots. More than 60% of these lots are controlled under option contracts that allow us to maximize our flexibility and manage our inventory on a just-in-time basis.

Our leverage target is a debt-to equity ratio of 1.1 to 1 by fiscal 2003. This ratio was at 1.4 to 1 at the end of fiscal 2000 after adjusting for excess cash balances. Even taking into account the merger with Washington Homes, we anticipate a decline in our leverage ratio this fiscal year, keeping us on target to achieve our goal. In September, we took advantage of a window in the capital markets to issue \$150 million of senior notes for seven years. This gives us significant liquidity to manage through a slowdown or to take advantage of new opportunities.

The Washington Homes merger will add to our market capitalization, with shareholder equity exceeding \$300 million and total assets approaching \$1 billion. Shareholder liquidity will be enhanced by an increase in the number of common shares outstanding. We will maintain our sharp focus on return on equity and our use of targets and incentives measured on that basis. We are hard at work every day to maximize the value of the Company for all of our fellow shareholders.

### **Looking Ahead**

All indications are that housing markets will remain vibrant during the next decade as baby boomers reach their peak earning years and seek move-up, second home and active adult housing alternatives. The next generation is looking for entry-level housing with significantly more amenities earlier in their buying cycle. This offers substantial opportunity for Hovnanian. Our customers are demanding more choices and technology is opening a whole range of possibilities to accommodate their needs better, faster and without error. There has never been a better or more challenging time to run a homebuilding business.

We believe our investments in processes and people, customer focus and long term strategies will deliver our vision of becoming *THE BEST* in everything we do. We are excited about what the future holds. We thank you for being part of our journey.



KEVORK S. HOVNANIAN  
Founder and Chairman



ARA K. HOVNANIAN  
President and  
Chief Executive Officer

## **THE DELICATE BALANCE OF EXCELLENCE**

What are the traits that will make us THE BEST in homebuilding? The answer lies not only in separate achievements, but in how they interact and balance with one another. We have to delight our Customers. We have to be a place where our Associates can flourish and love their jobs. We must work with our Business Partners as allies to our mutual benefit. Finally, we have to achieve superior returns to validate our Shareholders' continued investment. Much as the Company competes in its many and varied markets, these four "constituencies" – Customer, Associate, Business Partner and Shareholder – vie for dominance and attention. Yet true excellence lies in the delicate balance of satisfying these demands. That is the underlying foundation

of our concept of building better.

### **Customer**

The most powerful way to prevail in the homebuilding business is to understand and anticipate the needs of our Customers and prospects. The expectations of our Customers

are rising exponentially. The explosive growth of the internet has made information available at everyone's fingertips. It has caused us to rethink how a prospect becomes a Customer, how the needs of that Customer are fulfilled and how that relationship can be maintained and nurtured.

We are looking at new ways to strengthen our Customer relationships. Technology has provided limitless opportunities bounded only by imagination. We are scratching the surface of ways to introduce a prospect to our communities, select an appropriate lot, customize and design a unique home through a design gallery, see the pricing, access financing and check delivery dates – all over the internet.



***"The most powerful way to prevail in the homebuilding business is to understand and anticipate the needs of our customers and prospects."***

### **2000 Deliveries**

Total Number of Homes  
4,367

New Jersey  
1,709

New York  
35

Pennsylvania  
195

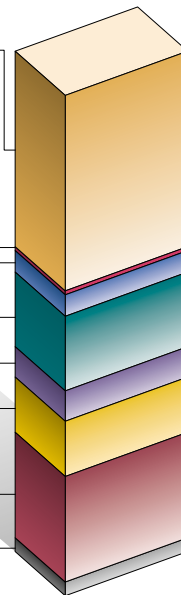
North Carolina  
653

Virginia  
263

California  
480

Texas  
914

Other  
118





The contracted Customer can have a personal website with all his home and product information, building progress and warranties.

Building better has assumed a much wider definition when it comes to the Customer. The buyer is knowledgeable and armed with information about the building process, and he is expecting updates and answers along the way. We are building a better Company infrastructure to meet Customer demands and expectations. The task is impossible if at the same time the Company lacks trained personnel who can make that vision a reality, who can carry it through our Business Partners and who understand the need to do so profitably.

### **Associate**

People remain the source of our strength. Our Associates are the very essence of our Company, what we are all about. Building better rests for the most part in those who do the work. The knowledge, attitudes, skills and habits of our Associates contribute to the overall excellence.



The new operating processes which are being rolled out throughout the Company demand Associates who are flexible and adaptable and ready for change.

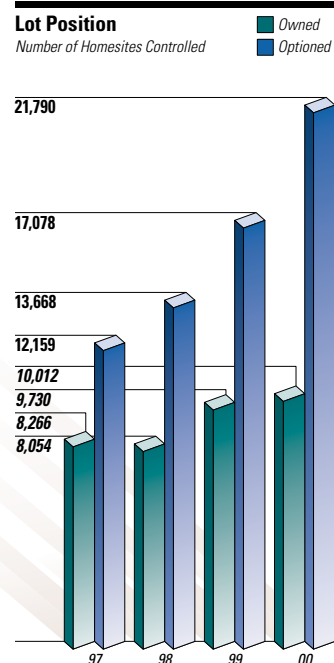
Over the past few years we have added new companies to our family of homebuilding entities. They bring with them cultures and philosophies not unlike our own but not completely the same. In the future we will

seek additional companies to enhance our strategic positioning.

This, too, is a delicate balance of creating universal standards of excellence. We do so through leadership development, ongoing training and encouraging attitudes of continuous improvement. Our Associates are the foundation of excellence in becoming *THE BEST*.



***“People remain the source of our strength. Our Associates are the very essence of our Company, what we are all about.”***



### ***Business Partner***

As we have pointed out repeatedly, our Associates do not directly build our homes. Instead, we are in a form of partnership with those who design, supply and physically construct our buildings. With a clear understanding of what we want to do and what our partners need to accomplish, a best way to work can be established for our mutual benefit. Above all else, a good working relationship with our partners accommodates our sometimes divergent objectives with optimum speed, quality and price.

Certain initiatives such as even flow production, lot specific and vendor specific web-hosted plans, real-time scheduling, electronic purchase orders and payments are just some of the things that are revolutionizing the way we do business and the way our Partners do business. Managing the flow of information among all the parties seamlessly is critical. The process will continue to require extensive training on both sides to achieve true excellence. The new approach of communication and cooperation has engendered an atmosphere of trust that allows a fair balance among competing priorities.

### ***Shareholder***

Shareholders expect a sound strategic direction that will yield orderly growth, improving profitability, superior returns on capital and manageable risks. We can accomplish these things by achieving a stronger presence in our existing markets and, when we diversify, by making sure that these new markets are sustainable and that we can also achieve market dominance in them over the long run.

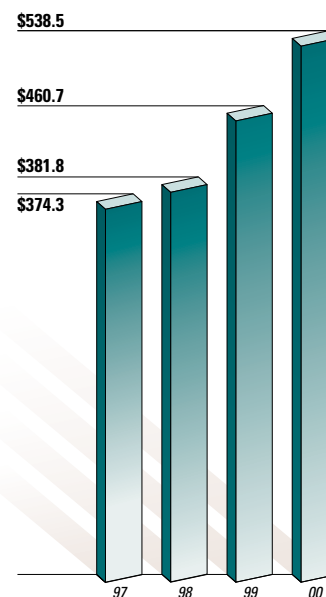


***“A good working relationship with our partners accommodates our sometimes divergent objectives with speed, quality and price.”***



### **Contract Backlog**

*Backlog value in millions of dollars*





Strategically, our systems have been designed so that they are readily exportable. We can hit the ground running with standardized processes and mitigate some of the risks of geographical expansion.

Our Company can outperform the competition only if we can establish an advantage that is sustainable. We believe that our investment in systems, streamlined and standardized processes, people and technology is sustainable and will yield superior returns. This is our advantage. It is especially true now that we have made several acquisitions and may acquire additional companies within our industry. The Company is very focused on the continual reduction of cycle times and the levels of inventory. Our homebuilding gross margin continues to improve and we are convinced that additional productivity improvements are not only possible but very realizable.

We are balancing the goals of delighting our Customers, creating a flourishing environment for our Associates, cooperating with our Business Partners, and achieving superior financial



performance. We have grown to understand and appreciate the many interrelationships between people and processes, performance and problem solving, that drive our progress.

We are breaking down functional barriers within and among our

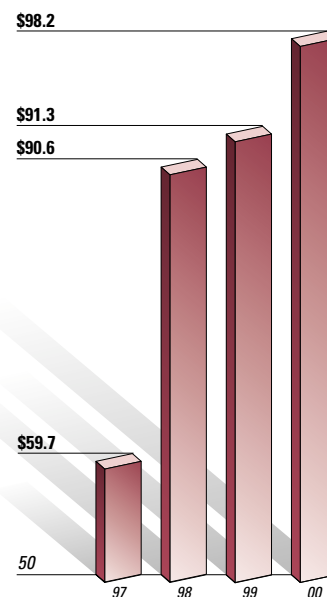
constituencies as we identify and reach for new levels of excellence. Through this process, we have been able to increase the rewards for all of our constituencies. We are becoming better, but our journey to excellence is never ending.



***“We believe that our investment in systems, streamlined and standardized processes, people and technology will yield superior returns.”***

#### EBITDA

(Dollars in millions)



## Board of Directors



KEVORK S. HOVNANIAN (77) is the founder of the Company and has served as Chairman of the Board since its original incorporation in 1967. He served as Chief Executive Officer from 1967 through 1997. In 1996, the New Jersey Institute of Technology awarded Mr. Hovnanian a President's Medal for "Distinguished Achievement to an Outstanding Entrepreneur". In 1992, Mr. Hovnanian was granted one of five nationwide Harvard Dively Awards for Leadership in Corporate Public Initiatives.



ARA K. HOVNANIAN (43) has been Chief Executive Officer since 1997 after being appointed President in 1988 and Executive Vice President in 1983; joining the Company in 1979. In 1985, Governor Kean appointed Mr. Hovnanian to The Council on Affordable Housing and he was reappointed to the Council in 1990 by Governor Florio. In 1994, Governor Whitman appointed him as member of the Governor's Economic Master Plan Commission. Mr. Hovnanian serves as a Member of the Advisory Council of PNC Bank, The Monmouth Real Estate Investment Corporation and is on the Boards of a variety of charitable organizations.



ARTHUR M. GREENBAUM, ESQ. (75) has been a senior partner of Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, a law firm since 1950.



DESMOND P. McDONALD\* (73) was a Director of Midlantic Bank, N.A. from 1976 to December 1995, Executive Committee Chairman of Midlantic Bank, N.A. from August 1992 to December 1995 and was President of Midlantic Bank, N.A. from 1976 to June 1992. He was also a Director of Midlantic Corporation to December 1995 and was Vice Chairman of Midlantic Corporation from June 1990 to July 1992.



STEPHEN D. WEINROTH\* (62) is Chairman of the Board of Core Laboratories N.V. He is also a senior partner in Andersen, Weinroth & Co. L.P., a merchant banking firm. He has held such positions since 1994 and the beginning of 1996 respectively. From November 1993 until December 1995 he was Co-Chairman and Co-Chief Executive Officer of VETTA Sports, Inc. From 1989 to the present, Mr. Weinroth has been Co-Chairman of the Board of Directors and Chairman of the Investment Committee of First Britannia N.V.



PAUL W. BUCHANAN (50) has been Senior Vice President and Corporate Controller since May 1990. Mr. Buchanan was elected a Director of the Company in March 1982. Mr. Buchanan is a CPA and prior to joining the Company, he was employed by Deloitte, Haskins & Sells.



PETER S. REINHART\* (50) has been Senior Vice President and General Counsel since April 1985 and was elected Secretary of the Company in February 1997. Mr. Reinhart was elected a Director of the Company in December 1981.



J. LARRY SORSBY (45) has been Chief Financial Officer of the Company since 1996 and Executive Vice President since November 2000. He became a member of the Board in 1997. From March 1991 to November 2000, he was Senior Vice President, and from March 1991 to July 2000, he was Treasurer. Prior to joining the Company in 1988, Mr. Sorsby was President and CEO of The MortgageBanque Inc., a wholly owned subsidiary of Gemcraft Inc. since 1985.

*\*Member of the Audit Committee*

## Communities Under Development

Net Sales Contracts	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2000	October 31, 1999	Percent Change	October 31, 2000	October 31, 1999	Percent Change
Northeast Region .....	1,963	1,885	4.1%	\$ 519,994	\$451,684	15.1%
North Carolina .....	661	728	(9.2%)	122,527	140,619	(12.9%)
Florida .....	82	123	(33.3%)	21,424	27,583	(22.3%)
Metro D. C. ....	329	232	41.8%	82,406	53,862	53.0%
California .....	502	524	(4.2%)	160,854	115,937	38.7%
Texas .....	935	25	3,640.0%	192,460	5,416	3,453.5%
Poland .....	70	18	288.9%	2,437	1,352	80.3%
Total .....	4,542	3,535	28.5%	\$1,102,102	\$796,453	38.4%

Contract Backlog	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2000	October 31, 1999	Percent Change	October 31, 2000	October 31, 1999	Percent Change
Northeast Region .....	1,149	1,125	2.1%	\$311,539	\$286,149	8.9%
North Carolina .....	215	207	3.9%	40,635	44,534	(8.8%)
Florida .....	45	37	21.6%	12,625	8,705	45.0%
Metro D.C. ....	215	149	44.3%	52,339	34,484	51.8%
California .....	151	129	17.1%	58,089	34,313	69.3%
Texas .....	282	261	8.0%	61,703	51,610	19.6%
Poland .....	39	13	200.0%	1,616	865	86.8%
Total .....	2,096	1,921	9.1%	\$538,546	\$460,660	16.9%

Deliveries	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2000	October 31, 1999	Percent Change	October 31, 2000	October 31, 1999	Percent Change
Northeast Region .....	1,939	2,063	(6.0%)	\$ 561,422	\$560,586	0.1%
North Carolina .....	653	756	(13.6%)	126,596	145,153	(12.8%)
Florida .....	74	159	(53.5%)	19,114	36,566	(47.7%)
Metro D.C. ....	263	198	32.8%	66,137	45,493	45.4%
California .....	480	514	(6.6%)	143,729	105,941	35.7%
Texas .....	914	66	1,284.8%	186,294	13,184	1,313.0%
Poland .....	44	12	266.7%	2,174	1,630	33.4%
Total .....	4,367	3,768	15.9%	\$1,105,466	\$908,553	21.7%

All statements in this Annual Report that are not historical facts should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to, changes in general economic conditions, fluctuations in interest rates, increases in raw materials and labor costs, levels of competition and other factors described in detail in the Company's Form 10K for the year ended October 31, 2000.

## Ten Year Financial Review

(In Thousands Except Number of Homes and Per Share Data)	Years Ended October 31,			
	2000	1999	1998	1997
<b>Statement of Operations Data:</b>				
Total Revenue .....	\$1,137,807	\$946,720	\$937,729	\$770,379
Writedown of Inventory and Investment Properties .....	\$ 1,791	\$ 2,091	\$ 5,032	\$ 28,465
Pre-Tax Income .....	\$ 51,818	\$ 50,617	\$ 41,292	\$ (12,124)
Net Income .....	\$ 33,163	\$ 30,075	\$ 25,403	\$ (6,970)
Net Income per common share				
Diluted .....	\$ 1.50	\$ 1.39	\$ 1.16	\$ (0.31)
Weighted Average Shares Outstanding <sup>(2)</sup> .....	22,043	21,612	22,016	22,506
<b>Balance Sheet Data:</b>				
Cash .....	\$ 43,253	\$ 19,365	\$ 14,792	\$ 10,550
Inventory .....	\$ 614,983	\$527,230	\$375,733	\$410,393
Total Assets .....	\$ 873,541	\$712,861	\$589,102	\$637,082
Total Recourse Debt .....	\$ 396,430	\$320,125	\$213,449	\$285,000
Total Non-Recourse Debt .....	\$ 21,720	\$ 10,069	\$ 15,616	\$ 24,455
Stockholders' Equity .....	\$ 263,359	\$236,426	\$201,392	\$178,762
<b>Supplemental Financial Data:</b>				
EBITDA .....	\$ 98,172	\$ 91,277	\$ 90,594	\$ 59,713
Cash Flow From Operating Activities .....	\$ (60,645)	\$ 35,479	\$ 65,054	\$ (30,708)
Interest Incurred .....	\$ 38,878	\$ 24,594	\$ 28,947	\$ 34,777
EBITDA/Interest Incurred .....	2.5X	3.7X	3.1X	1.7X
<b>Financial Statistics:</b>				
Average Recourse Debt/Average Equity .....	1.54:1	1.17:1	1.43:1	1.66:1
Homebuilding Inventory Turnover <sup>(3)</sup> .....	1.9X	2.2X	2.2X	1.8X
Homebuilding Gross Margin .....	20.5%	20.9%	17.3%	15.6%
Return on Average Equity .....	13.5%	14.0%	13.4%	(3.8)%
<b>Operating Statistics:</b>				
Net Sales Contracts – Homes .....	4,542	3,535	3,877	4,073
Net Sales Contracts - Dollars .....	\$1,102,102	\$796,453	\$806,247	\$762,750
Deliveries – Homes .....	4,367	3,768	4,138	3,717
Deliveries – Dollars .....	\$1,105,466	\$908,553	\$895,644	\$731,807
Backlog – Homes .....	2,096	1,921	1,681	1,872
Backlog – Dollars .....	\$ 538,546	\$460,660	\$381,816	\$374,314

<sup>(1)</sup> The summary consolidated income data for the 12 month period ended October 31, 1994 is unaudited, but in management's opinion includes all accruals and other adjustments necessary for a fair representation.

<sup>(2)</sup> Prior to the fiscal year ended October 31, 1996, represents basic shares outstanding.

<sup>(3)</sup> Derived by dividing total home and land sales by average homebuilding inventory.

Years Ended October 31,			Years Ended February 28,		
1996	1995	1994 <sup>(1)</sup>	1994	1993	1992
\$796,248	\$777,745	\$704,443	\$587,010	\$429,315	\$318,527
\$ 1,608	\$ 2,780	\$ 6,357	0	\$ 3,100	\$ 0
\$ 25,006	\$ 21,654	\$ 16,531	\$ 29,151	\$ 14,525	\$ 1,894
\$ 17,287	\$ 14,128	\$ 11,477	\$ 18,645	\$ 9,790	\$ 2,478
\$ 0.75	\$ 0.61	\$ 0.50	\$ 0.82	\$ 0.43	\$ 0.11
23,120	23,032	22,906	22,821	22,775	21,988
\$ 20,731	\$ 15,453	\$ 17,437	\$ 28,094	\$ 17,065	\$ 15,889
\$376,307	\$404,413	\$386,540	\$278,738	\$243,391	\$194,306
\$614,111	\$645,378	\$612,925	\$539,602	\$465,029	\$399,455
\$230,000	\$280,650	\$299,200	\$200,000	\$167,157	\$134,873
\$ 29,069	\$ 29,049	\$ 29,884	\$ 28,941	\$ 35,008	\$ 28,569
\$193,622	\$176,335	\$162,130	\$171,001	\$151,937	\$141,989
\$ 64,017	\$ 59,273	\$ 51,906	\$ 54,716	\$ 42,818	\$ 27,239
\$ 45,797	\$ (3,358)	\$ (50,109)	\$ (13,293)	\$ (29,934)	\$ 37,816
\$ 35,551	\$ 37,828	\$ 28,353	\$ 25,968	\$ 22,155	\$ 20,463
1.8X	1.6X	1.8X	2.1X	1.9X	1.3X
1.71:1	2.02:1	1.62:1	1.34:1	1.21:1	1.32:1
1.8X	1.7X	2.0X	1.9X	1.7X	1.4X
16.4%	21.1%	20.7%	22.0%	22.8%	21.1%
9.5%	8.5%	6.9%	11.8%	6.8%	1.9%
4,175	3,910	3,546	4,305	3,331	2,832
\$738,331	\$660,033	\$546,185	\$606,601	\$436,848	\$366,089
4,134	4,244	4,352	3,828	2,999	2,383
\$764,682	\$740,481	\$670,870	\$557,489	\$397,306	\$291,755
1,516	1,476	1,810	1,926	1,449	1,114
\$292,376	\$275,701	\$310,455	\$278,127	\$199,751	\$145,261



## *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### *Capital Resources and Liquidity*

Our cash uses during the twelve months ended October 31, 2000 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, and the repurchase of common stock. We provided for our cash requirements from housing and land sales, the issuance of \$150,000,000 Senior Notes, the revolving credit facility, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

Our net income historically does not approximate cash flow from operating activities. The difference between net income and cash flow from operating activities is primarily caused by changes in inventory levels, mortgage loans and liabilities, and depreciation and impairment losses. When we are expanding our operations, which was the case in fiscal 2000 and 1999, inventory levels increase causing cash flow from operating activities to decrease. Liabilities also increase as inventory levels increase. The increase in liabilities partially offsets the negative effect on cash flow from operations caused by the increase in inventory levels. As our mortgage warehouse loan liability increases, cash flow from operations decreases. Conversely, as such loans decrease, cash flow from operations increases. Depreciation and impairment losses always increase cash flow from operating activities since they are non-cash charges to operations. We expect to be in an expansion mode in fiscal 2001. As a result, we expect cash flow from operations to be less than net income in fiscal 2001.

In March 2000 the Board of Directors authorized a revision to our stock repurchase program to purchase up to 4 million shares of Class A Common Stock. This authorization expired on December 31, 2000. As of October 31, 2000, 3,391,047 shares were repurchased under this program of which 1,026,647 were repurchased during the year ended October 31, 2000.

Our homebuilding bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of up to \$375,000,000 through July 2003. Interest is payable monthly and at various rates of either the prime rate plus .25% or Libor plus 1.70%. We believe that we will be able either to extend the Agreement beyond July 2003 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. As of October 31, 2000, borrowings under the Agreement were zero.

The subordinated indebtedness issued by us and outstanding as of October 31, 2000 was \$100,000,000 9 3/4% Subordinated Notes due June 2005. On October 2, 2000, we issued \$150,000,000 10 1/2% Senior Notes due in October 2007. The proceeds were used to repay outstanding debt under our "Revolving Credit Facility". On May 4, 1999, we issued \$150,000,000 9 1/8% Senior Notes due in April 2009.

Our mortgage banking subsidiary borrows under a \$70,000,000 bank warehousing arrangement which expires in July 2001. Other finance subsidiaries formerly borrowed from a multi-builder owned financial corporation and a builder owned financial corporation to finance mortgage backed securities but in fiscal 1988 decided to cease further borrowing from multi-builder and builder owned financial corporations. These non-recourse borrowings have been generally secured by mortgage loans originated by one of our subsidiaries. As of October 31, 2000, the aggregate outstanding principal amount of such borrowings was \$56,486,000.

Total inventory increased \$87,753,000 from October 31, 1999 to October 31, 2000. This increase was due to significant anticipated openings of a number of communities in the Northeast Region and California and our expansion in Maryland. These increases were slightly offset by decreased inventory levels in Florida, due to the closing of our Florida Operations. Substantially, all homes under construction and included in inventory at October 31, 2000 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our revolving credit facility, senior notes and subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of a small option fee and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced.

The following table summarizes housing lots included in our total residential real estate:

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
<b>October 31, 2000:</b>			
Northeast Region .....	15,957	1,149	14,808
North Carolina.....	2,731	15	2,516
Florida.....	1,070	45	1,025
Metro D. C.....	5,583	215	5,368
California .....	2,591	151	2,440
Texas .....	2,380	282	2,098
Poland .....	1,490	39	1,451
	<b>31,802</b>	<b>2,096</b>	<b>29,706</b>
Owned .....	10,012	1,963	8,049
Optioned.....	21,790	133	21,657
Total .....	<b>31,802</b>	<b>2,096</b>	<b>29,706</b>
<b>October 31, 1999:</b>			
Northeast Region .....	13,370	1,125	12,245
North Carolina.....	3,253	207	3,046
Florida.....	1,185	37	1,148
Metro D. C.....	3,230	149	3,081
California .....	2,474	129	2,345
Texas .....	2,595	261	2,334
Poland .....	701	13	688
	<b>26,808</b>	<b>1,921</b>	<b>24,887</b>
Owned .....	9,730	1,825	7,905
Optioned.....	17,078	96	16,982
Total .....	<b>26,808</b>	<b>1,921</b>	<b>24,887</b>

The following table summarizes our started or completed unsold homes in active, substantially completed and suspended communities:

	October 31, 2000			October 31, 1999		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region .....	133	48	181	114	31	145
North Carolina.....	102	31	133	129	—	129
Florida.....	—	—	—	5	—	5
Metro D.C.....	6	7	13	13	9	22
California .....	136	32	168	53	10	63
Texas .....	238	8	246	225	28	253
Poland .....	58	—	58	14	—	14
Total.....	<b>673</b>	<b>126</b>	<b>799</b>	<b>553</b>	<b>78</b>	<b>631</b>

Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$61,549,000 and \$32,844,000 at October 31, 2000 and October 31, 1999, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale are being held as an investment. We may incur risk with respect to mortgages 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. Collateral Mortgage Financing - collateral for bonds payable consists of collateralized mortgages receivable which are pledged against non-recourse collateralized mortgage obligations.

### **Results of Operations**

Our operations consist primarily of residential housing development and sales in our Northeast Region (comprised primarily of New Jersey, southern New York state, and eastern Pennsylvania), in southeastern Florida, North Carolina, Metro D. C. (northern Virginia and Maryland), southern California, Texas and Poland. In addition, we provide financial services to our homebuilding customers.

#### **Total Revenues**

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Homebuilding:			
Sale of homes .....	\$196,913	\$12,909	\$163,837
Land sales and other revenues .....	(4,392)	1,998	(11,572)
Financial services.....	(1,384)	1,141	8,363
Collateralized mortgage financing .....	(50)	(164)	(171)
Other Operations .....	(6,893)	6,893	
Total change .....	\$191,087	\$ 8,991	\$167,350
Percent change .....	20.2%	1.0%	21.7%

#### **Homebuilding**

Compared to the same prior period, housing revenues increased \$196.9 million or 21.7% for the year ended October 31, 2000, increased \$12.9 million or 1.4% for the year ended October 31, 1999, and increased \$163.8 million or 22.4% for the year ended October 31, 1998. Housing revenues are recorded at the time each home is delivered and title and possession have been transferred to the buyer.

Information on homes delivered by market area is set forth below:

(Dollars in Thousands)	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Northeast Region <sup>(1)</sup> :			
Housing Revenues.....	\$ 561,422	\$560,586	\$595,873
Homes Delivered.....	1,939	2,063	2,530
North Carolina:			
Housing Revenues.....	\$ 126,596	\$145,153	\$127,592
Homes Delivered.....	653	756	687
Florida:			
Housing Revenues.....	\$ 19,114	\$ 36,566	\$ 44,168
Homes Delivered.....	74	159	241
Metro D.C.:			
Housing Revenues.....	\$ 66,137	\$ 45,493	\$ 38,904
Homes Delivered.....	263	198	152
California:			
Housing Revenues.....	\$ 143,729	\$105,941	\$ 82,546
Homes Delivered.....	480	514	457
Texas:			
Housing Revenues.....	\$ 186,294	\$ 13,184	—
Homes Delivered.....	914	66	—
Poland:			
Housing Revenues.....	\$ 2,174	\$ 1,630	\$ 6,561
Homes Delivered.....	44	12	71
Totals:			
Housing Revenues.....	\$1,105,466	\$908,553	\$895,644
Homes Delivered.....	4,367	3,768	4,138

<sup>(1)</sup> Fiscal years ended 2000 and 1999 include \$63,940,000 and \$31,961,000 housing revenues and 178 and 88 homes, respectively, from a New Jersey homebuilder acquired on August 7, 1999.

The increase in housing revenues was primarily due to a full year of operations in our Texas division, an increase of three communities in the Metro D. C. market, and an increase in the average sales price in California. The increased average sales price in California was due to a change in product mix to larger, more expensive homes. These increases were partially offset by decreased deliveries in the Northeast Region, North Carolina, and Florida. The decrease in deliveries in the Northeast Region was due to fewer selling communities open for sale, resulting in fewer deliveries during the year ended October 31, 2000. Although deliveries decreased in the Northeast Region, housing revenues slightly increased due to a 6.6% increase in average sales prices. The decrease in deliveries in North Carolina was attributed to a highly competitive market. In Florida, the deliveries decreased due to our decision to discontinue operations and have only one active community delivering homes. In fiscal 2001 we expect a significant increase in home deliveries and housing revenues due to the August 28, 2000 agreement to merge with Washington Homes, Inc., headquartered in Landover, Maryland.

Unaudited quarterly housing revenues and net sales contracts using base sales prices by market area for the years ending October 31, 2000, 1999, and 1998 are set forth below:

(In Thousands)	Quarter Ended			
	October 31, 2000	July 31, 2000	April 30, 2000	January 31, 2000
<b>Housing Revenues:</b>				
Northeast Region .....	\$188,770	\$131,668	\$113,732	\$127,252
North Carolina.....	35,016	33,319	30,891	27,370
Florida.....	6,218	3,310	5,087	4,499
Metro D.C.....	18,932	13,901	17,459	15,845
California .....	39,725	48,055	30,313	25,636
Texas .....	52,188	47,318	37,573	49,215
Poland .....	1,440	433	—	301
Total.....	\$342,289	\$278,004	\$235,055	\$250,118
<b>Sales Contracts (Net of Cancellations):</b>				
Northeast Region .....	\$121,179	\$115,649	\$174,126	\$109,040
North Carolina.....	29,317	32,338	33,980	26,892
Florida.....	3,759	3,974	10,557	3,134
Metro D. C.....	20,354	23,459	25,144	13,449
California .....	43,551	41,350	52,114	23,839
Texas .....	51,251	54,708	46,671	39,830
Poland .....	812	438	128	1,059
Total.....	\$270,223	\$271,916	\$342,720	\$217,243

(In Thousands)	Quarter Ended			
	October 31, 1999	July 31, 1999	April 30, 1999	January 31, 1999
<b>Housing Revenues:</b>				
Northeast Region <sup>(1)</sup> .....	\$164,899	\$142,503	\$126,501	\$126,683
North Carolina.....	47,251	38,269	30,553	29,080
Florida.....	9,012	9,690	9,531	8,333
Metro D.C.....	15,541	11,400	6,005	12,547
California .....	37,290	24,792	26,548	17,311
Texas .....	13,184	—	—	—
Poland .....	282	417	—	931
Total.....	\$287,459	\$227,071	\$199,138	\$194,885
<b>Sales Contracts (Net of Cancellations):</b>				
Northeast Region <sup>(1)</sup> .....	\$135,514	\$111,083	\$114,924	\$ 90,163
North Carolina.....	25,757	33,078	50,673	31,111
Florida.....	2,532	4,471	9,050	11,530
Metro D.C.....	12,246	14,338	16,201	11,077
California .....	36,197	37,788	24,135	17,817
Texas .....	5,416	—	—	—
Poland .....	698	172	—	482
Total.....	\$218,360	\$200,930	\$214,983	\$162,180

<sup>(1)</sup> Includes \$31,961,000 housing revenues and \$12,922,000 sales contracts in the quarter ended October 31, 1999 from a New Jersey homebuilder acquired on August 7, 1999.



(In Thousands)	Quarter Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998
<b>Housing Revenues:</b>				
Northeast Region .....	\$157,882	\$162,847	\$136,133	\$139,011
North Carolina.....	38,997	34,655	28,264	25,676
Florida.....	11,291	8,111	15,254	9,512
Metro D.C.....	16,687	11,256	4,843	6,118
California .....	22,980	18,832	17,613	23,121
Poland .....	2,283	2,199	1,460	619
Total.....	\$250,120	\$237,900	\$203,567	\$204,057
<b>Sales Contracts (Net of Cancellations):</b>				
Northeast Region .....	\$114,144	\$124,144	\$188,082	\$ 98,814
North Carolina.....	37,085	33,302	35,990	23,903
Florida.....	5,385	9,503	8,631	7,802
Metro D.C.....	11,834	15,265	9,583	3,866
California .....	21,325	25,402	9,535	18,769
Poland .....	1,758	516	332	1,277
Total.....	\$191,531	\$208,132	\$252,153	\$154,431

Our contract backlog using base sales prices by market area is set forth below:

(Dollars in Thousands)	October 31, 2000	October 31, 1999	October 31, 1998
<b>Northeast Region<sup>(1)</sup>:</b>			
Total Contract Backlog .....	\$311,539	\$286,149	\$270,753
Number of Homes .....	1,149	1,125	1,132
<b>North Carolina:</b>			
Total Contract Backlog .....	\$ 40,635	\$ 44,534	\$ 48,713
Number of Homes .....	215	207	235
<b>Florida:</b>			
Total Contract Backlog .....	\$ 12,625	\$ 8,705	\$ 14,800
Number of Home.....	45	37	73
<b>Metro D.C.:</b>			
Total Contract Backlog .....	\$ 52,339	\$ 34,484	\$ 26,083
Number of Homes .....	215	149	115
<b>California:</b>			
Total Contract Backlog .....	\$ 58,089	\$ 34,313	\$ 20,721
Number of Homes .....	151	129	119
<b>Texas:</b>			
Total Contract Backlog .....	\$ 61,703	\$ 51,610	—
Number of Homes .....	282	261	—
<b>Poland:</b>			
Total Contract Backlog .....	\$ 1,616	\$ 865	\$ 746
Number of Homes .....	39	13	7
<b>Totals:</b>			
Total Contract Backlog .....	\$538,546	\$460,660	\$381,816
Number of Homes .....	2,096	1,921	1,681

<sup>(1)</sup>Fiscal years 2000 and 1999 include \$42,708,000 and \$38,832,000 total contract backlog and 116 and 123 number of homes, respectively, from a New Jersey homebuilder acquired on August 7, 1999.

We have written down or written off certain inventories totaling \$1.8, \$2.1, and \$4.0 million during the years ended October 31, 2000, 1999, and 1998, respectively, to their estimated fair value. See “Notes to Consolidated Financial Statements - Note 11” for additional explanation. These writedowns and write-offs were incurred primarily because of lower property values, a change in the marketing strategy to liquidate a particular property, or the decision not to exercise an option.

During the year ended October 31, 2000 we wrote off land options including approval and engineering costs amounting to \$1.8 million. We did not exercise those options because the communities’ proforma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, North Carolina, and California.

During the year ended October 31, 1999 we wrote off one residential land option including approval and engineering costs amounting to \$0.3 million. We did not exercise this option because the community’s proforma profitability did not produce an adequate return on investment commensurate with the risk. In addition, we wrote down one land parcel in Florida, one residential community in New York and two residential communities in North Carolina. The Florida land parcel was written down based on recent purchase offers. The communities were written down based on our decision to discontinue selling homes and offer the remaining lots for sale. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$1.8 million impairment loss in accordance with FAS 121.

During the year ended October 31, 1998, we wrote down one Florida residential community and one New Jersey parcel of land for sale. In the Florida residential community, higher discounts were being offered to speed up sales. At the New Jersey land site, lots were being contracted at prices lower than anticipated. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$1.9 million impairment loss in accordance with FAS 121. We also wrote off three New Jersey residential land options including approval, engineering and capitalized interest costs amounting to \$2.1 million. We did not exercise these options because of changes in local market conditions and difficulties in obtaining government approvals.

Cost of sales includes expenses for housing and land and lot sales. A breakout of such expenses for housing sales and housing gross margin is set forth below:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Sale of homes .....	\$1,105,466	\$908,553	\$895,644
Cost of sales.....	878,740	718,259	740,871
Housing gross margin .....	\$ 226,726	\$190,294	\$154,773
Gross margin percentage.....	20.5%	20.9%	17.3%

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

	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Sale of homes .....	100.0%	100.0%	100.0%
Cost of sales:			
Housing, land and development costs .....	71.3	71.0	74.8
Commissions .....	2.2	2.0	1.9
Financing concessions .....	0.9	0.8	0.7
Overheads .....	5.1	5.3	5.3
Total cost of sales .....	79.5	79.1	82.7
Gross margin percentage .....	20.5%	20.9%	17.3%

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. During the year ended October 31, 2000, our gross margin percentage decreased 0.4% from the previous year. This decrease was primarily attributed to a full year of operations from our Texas division where they report lower margins. Excluding Texas, our consolidated gross margin percentage increased 0.3% to 21.3% from 21.0%. During the year ended October 31, 1999, our gross margin percentage increased 3.6% from the previous year. This can be attributed to higher gross margins being achieved in each of our markets. In 1999, the gross margin was negatively affected by a lower percentage of housing revenues from the Northeast Region amounting to 61.7% in fiscal 1999 compared to 66.5% in fiscal 1998. This is primarily the result of a higher percentage of deliveries coming from outside the Northeast Region where margins are historically lower.

Selling and general administrative expenses as a percentage of homebuilding revenues increased to 9.4% for the year ended October 31, 2000 and increased to 8.8% for the year ended October 31, 1999 from 7.4% for the year ended October 31, 1998. The dollar amount of selling and general expenses has increased the last two years to \$104.8 million for the year ended October 31, 2000 from \$81.4 million for the year ended October 31, 1999 which increased from \$67.5 million for the previous year. The percentage and dollar increases in 2000 are primarily attributable to a full year of operations from our Texas division and increases in the number of active selling communities in California. The overall percentage and dollar increases in such expenses in 1999 were attributable to increases in all our markets but primarily due to fewer deliveries in our Northeast Region and due to Northeast Region and California administration cost increases.

### Land Sales and Other Revenues

Land sales and other revenues consist primarily of land and lot sales, interest income, contract deposit forfeitures, cash discounts, national contract rebates, and corporate owned life insurance benefits.

A breakout of land and lot sales is set forth below:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Land and lot sales .....	\$6,549	\$12,077	\$8,636
Cost of sales .....	3,971	11,766	8,070
Land and lot sales gross margin .....	\$2,578	\$ 311	\$ 566

Land and lot sales are incidental to our residential housing operations and are expected to continue in the future but may significantly fluctuate up or down.

Year ended October 2000 gross margin includes a legal settlement in California amounting to \$1,924,000.

### Financial Services

Financial services consists primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. During the year ended 2000, financial services resulted in \$0.5 million loss before income taxes. During the year ended October 31, 1999 and 1998 financial services provided a \$1.0 and \$2.1 million pretax profit, respectively. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 54%, 57%, and 58% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2000, 1999, and 1998, respectively. In addition in fiscal 2000 in our Texas division approximately 40% of our homebuying customers obtained mortgages from our mortgage joint venture. Our mortgage banking goals are to improve profitability by increasing the capture rate of our homebuyers to 70%. Most servicing rights on new mortgages originated by us will be sold as the loans are closed.

### Collateralized Mortgage Financing

In the years prior to February 29, 1988 we pledged mortgage loans originated by our mortgage banking subsidiaries against collateralized mortgage obligations ("CMOs"). Subsequently, we discontinued our CMO program. As a result, CMO operations are diminishing as pledged loans are decreasing through principal amortization and loan payoffs, and related bonds are reduced. In recent years, as a result of bonds becoming callable, we have also sold a portion of our CMO pledged mortgages.

### Corporate General and Administrative

Corporate general and administrative expenses includes the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses were 2.9%, 3.0%, and 2.2% for the years ended October 31, 2000, 1999, and 1998, respectively. The decrease in corporate general and administrative expenses in fiscal year 2000 was due to increase housing revenues and the adoption of SOP 98-1, "Accounting For the Cost of Computer Software Development For or Obtained for Internal Use." See "Notes to Consolidated Financial Statement – Note 2" for additional explanation. In 1999, the increase was primarily attributed to increased expenditures for long term improvement initiatives. Our long term improvement initiatives include total quality, process redesign (net of capitalized expenses), and training. Such initiatives resulted in additional expenses for the years ended October 31, 2000, 1999, and 1998 which were not capitalized amounting to \$6.9 million, \$7.5 million, and \$3.8 million, respectively.

### Interest

Interest expense includes housing, and land and lot interest. Interest expense is broken down as follows:

<i>(In Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Sale of homes .....	\$34,541	\$29,261	\$33,771
Land and lot sales .....	415	1,082	652
Total.....	\$34,956	\$30,343	\$34,423

Housing interest as a percentage of sale of home revenues amounted to 3.1%, 3.2%, and 3.8% for the years ended October 31, 2000, 1999, and 1998, respectively.

### Other Operations

Other operations consist primarily of miscellaneous senior residential rental operations, amortization of senior and subordinated note issuance expenses, earnout payments from homebuilding company acquisitions and corporate owned life insurance loan interest.

### Total Taxes

Total taxes as a percentage of income before income taxes amounted to 36.0%, 38.9%, and 36.7% for the years ended October 31, 2000, 1999, and 1998, respectively. 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 for some reason 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 to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income. (See "Notes to Consolidated Financial Statements - Note 10" for an additional explanation of taxes.)



### **Extraordinary Loss**

On June 7, 1999, we redeemed \$45,449,000 of our outstanding 11 1/4% Subordinated Notes due 2002 at an average price of 101.875% of par which resulted in an extraordinary loss of \$868,000 net of income taxes of \$468,000. In October 1998, we redeemed \$44,551,000 of our outstanding 11 1/4% Subordinated Notes due 2002 at an average price of 101.6% of par, which resulted in an extraordinary loss of \$748,000 net of income taxes of \$403,000.

### **Inflation**

Inflation has a long-term effect on us because increasing costs of land, materials and labor result in increasing sales 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 inflationary risk faced by the housing industry generally is that rising housing costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers. In recent years, in the price ranges in which we sell homes, we have not found this risk to be a significant problem.

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with 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 four to twelve months. Construction costs for residential buildings represent approximately 57% of our homebuilding cost of sales.

### **Merger with Washington Homes, Inc.**

As previously announced we entered into a merger agreement with Washington Homes, Inc. on August 28, 2000. On January 23, 2001, the shareholders ratified the merger and the merger closed the same day. We believe our line of credit is adequate to provide working capital for our Washington Homes operations. The addition of Washington Homes operations for slightly more than three full quarters of fiscal 2001 is expected to add approximately \$.05 to \$.10 per share to our net earnings. We expect total revenues and deliveries to increase more than 40% in fiscal 2001 from fiscal 2000 levels, largely as a result of the merger with Washington Homes.

### **Safe Harbor Statement**

Certain statements contained in this annual report that are not historical facts should be considered as "Forward-Looking Statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to:

- Changes in general economic and market conditions
- Changes in interest rates and the availability of mortgage financing
- Changes in costs and availability of material, supplies and labor
- General competitive conditions
- The availability of capital
- The ability to successfully effect acquisitions

These risks, uncertainties, and other factors are described in detail in Item 1 and 2 Business and Properties in the Form 10-K for the year ended October 31, 2000.

**Quantitative and Qualitative Disclosures About Market Risk.**

The 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 are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from FNMA, FHLMC, GNMA securities and private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 2000 and 1999, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV"). There have been no significant changes in our market risk from October 31, 1999 to October 31, 2000.

<i>(Dollars in Thousands)</i>	As of October 31, 2000 for the Year Ended October 31,						Total	FMV @ 10/31/00
	2001	2002	2003	2004	2005	Thereafter		
Long Term Debt <sup>(1)</sup> :								
Fixed Rate .....	\$11,797	\$ 138	\$ 2,594	\$ 74	\$ 81	\$400,534	\$415,218	\$379,629
Average interest rate .....	4.63%	7.63%	7.04%	8.38%	8.38%	9.79%	9.63%	—

<i>(Dollars in Thousands)</i>	As of October 31, 1999 for the Year Ended October 31,					Total	FMV @ 10/31/99	
	2000	2001	2002	2003	2004			
Long Term Debt <sup>(1)</sup> :								
Fixed Rate .....	\$4,999	\$ 132	\$ 138	\$2,585	\$ 74	\$250,613	\$258,541	\$246,164
Average interest rate .....	8.80%	7.60%	7.63%	7.04%	8.38%	9.37%	9.34%	—
Variable Rate .....	\$ 600	\$ 927	—	—	—	—	\$ 1,527	\$ 1,527
Average interest rate .....	6.00%	8.75%	—	—	—	—	7.67%	—

<sup>(1)</sup> Does not include bonds collateralized by mortgages receivable.

**Consolidated Balance Sheets**

<i>(In Thousands)</i>	October 31, 2000	October 31, 1999
<b>ASSETS</b>		
Homebuilding:		
Cash and cash equivalents (Note 5) .....	\$ 40,131	\$ 17,163
Inventories – At the lower of cost or fair value (Notes 7 and 11):		
Sold and unsold homes and lots under development .....	525,116	475,196
Land and land options held for future development or sale.....	89,867	52,034
Total Inventories.....	614,983	527,230
Receivables, deposits, and notes (Note 12) .....	36,190	30,675
Property, plant, and equipment – net (Note 4).....	35,594	26,500
Senior residential rental properties – net (Notes 4 and 7) .....	10,276	10,650
Prepaid expenses and other assets (Note 15) .....	64,897	56,753
Total Homebuilding .....	802,071	668,971
Financial Services:		
Cash .....	3,122	2,202
Mortgage loans held for sale (Notes 6 and 7) .....	61,860	33,158
Other assets.....	2,145	1,563
Total Financial Services .....	67,127	36,923
Collateralized Mortgage Financing:		
Collateral for bonds payable (Note 6) .....	4,145	5,006
Other assets .....	198	238
Total Collateralized Mortgage Financing.....	4,343	5,244
Income Taxes Receivable – Including deferred tax benefits (Note 10).....		1,723
Total Assets .....	\$873,541	\$712,861

See notes to consolidated financial statements.

<i>(In Thousands)</i>	October 31, 2000	October 31, 1999
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Homebuilding:		
Nonrecourse land mortgages (Note 7) .....	\$ 18,166	\$ 6,407
Accounts payable and other liabilities.....	82,205	73,989
Customers' deposits (Note 5).....	31,475	25,647
Nonrecourse mortgages secured by operating properties (Note 7).....	3,554	3,662
Total Homebuilding .....	<u>135,400</u>	<u>109,705</u>
Financial Services:		
Accounts payable and other liabilities.....	2,078	1,218
Mortgage warehouse line of credit (Notes 6 and 7).....	56,486	30,034
Total Financial Services .....	<u>58,564</u>	<u>31,252</u>
Collateralized Mortgage Financing:		
Bonds collateralized by mortgages receivable (Note 6) .....	3,007	3,699
Total Collateralized Mortgage Financing.....	<u>3,007</u>	<u>3,699</u>
Notes Payable:		
Revolving credit agreement (Note 7) .....		70,125
Senior notes (Note 8) .....	296,430	150,000
Subordinated notes (Note 8) .....	100,000	100,000
Accrued interest .....	12,709	11,654
Total Notes Payable.....	<u>409,139</u>	<u>331,779</u>
Income Taxes Payable (Note 10).....	4,072	
Total Liabilities .....	<u>610,182</u>	<u>476,435</u>
Commitments and Contingent Liabilities (Notes 5, 9, 14 and 15)		
Stockholders' Equity (Notes 13 and 15):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares;		
issued 17,309,369 shares in 2000 and 17,218,442 shares in 1999		
(including 3,736,921 shares in 2000 and 2,710,274 shares in 1999		
held in Treasury).....	173	172
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale)		
-authorized 13,000,000 shares; issued 7,978,903 shares in 2000 and 7,997,083		
shares in 1999 (both years include 345,874 shares held in Treasury) .....	79	79
Paid in Capital .....	46,086	45,856
Retained Earnings (Note 8).....	246,420	213,257
Treasury Stock - at cost .....	(29,399)	(22,938)
Total Stockholders' Equity.....	<u>263,359</u>	<u>236,426</u>
Total Liabilities and Stockholders' Equity.....	<u>\$873,541</u>	<u>\$712,861</u>

See notes to consolidated financial statements.

**Consolidated Statements of Income**

	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
<i>(In Thousands Except Per Share Data)</i>			
Revenues:			
Homebuilding:			
Sale of homes .....	\$1,105,466	\$908,553	\$895,644
Land sales and other revenues (Notes 12 and 14) .....	13,017	17,409	15,411
Total Homebuilding .....	1,118,483	925,962	911,055
Financial Services .....	18,855	20,239	19,098
Collateralized Mortgage Financing.....	469	519	683
Other Operations .....			6,893
Total Revenues .....	1,137,807	946,720	937,729
Expenses:			
Homebuilding:			
Cost of sales .....	882,711	730,025	748,941
Selling, general and administrative .....	104,771	81,396	67,519
Inventory impairment loss (Note 11).....	1,791	2,091	3,994
Total Homebuilding .....	989,273	813,512	820,454
Financial Services .....	19,334	19,195	17,010
Collateralized Mortgage Financing.....	416	504	672
Corporate General and Administrative (Note 3) .....	33,309	28,652	21,048
Interest (Notes 7 and 8).....	4,956	30,343	34,423
Other operations .....	8,701	3,897	2,830
Total Expenses .....	1,085,989	896,103	896,437
Income Before Income Taxes and Extraordinary Loss .....	51,818	50,617	41,292
State and Federal Income Taxes:			
State (Note 10) .....	2,495	5,093	3,572
Federal (Note 10) .....	16,160	14,581	11,569
Total Taxes.....	18,655	19,674	15,141
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes (Note 8) .....		(868)	(748)
Net Income.....	<b>\$ 33,163</b>	<b>\$ 30,075</b>	<b>\$ 25,403</b>
Per Share Data:			
Basic:			
Income Per Common Share Before Extraordinary Loss.....	\$ 1.51	\$ 1.45	\$ 1.20
Extraordinary Loss.....		(.04)	(.03)
Income .....	\$ 1.51	\$ 1.41	\$ 1.17
Weighted Average Number of Common Shares Outstanding .....	21,933	21,404	21,781
Assuming Dilution:			
Income Per Common Share Before Extraordinary Loss.....	\$ 1.50	\$ 1.43	\$ 1.19
Extraordinary Loss.....		(.04)	(.03)
Income .....	\$ 1.50	\$ 1.39	\$ 1.16
Weighted Average Number of Common Shares Outstanding .....	22,043	21,612	22,016

See notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

(Dollars in Thousands)	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount				
Balance,								
October 31, 1997.....	14,097,841	\$ 156	7,754,812	\$ 81	\$33,935	\$157,779	\$(13,189)	\$178,762
Sale of common stock under employee stock option plan .....								
	114,667					626		626
Conversion of Class B to Class A common stock .....								
	60,515	1	(60,515)	(1)				
Treasury stock purchases.....								
	(407,100)						(3,399)	(3,399)
Net Income.....						25,403		25,403
Balance,								
October 31, 1998.....	13,865,923	157	7,694,297	80	34,561	183,182	(16,588)	201,392
Sale of common stock under employee stock option plan .....								
	10,000	1			58			59
Acquisitions.....								
	1,362,057	13			11,237			11,250
Conversion of Class B to Class A common stock .....								
	43,088	1	(43,088)	(1)				
Treasury stock purchases...								
	(772,900)					(6,350)		(6,350)
Net Income.....						30,075		30,075
Balance,								
October 31, 1999.....	14,508,168	172	7,651,209	79	45,856	213,257	(22,938)	236,426
Acquisitions.....								
	47,619	1			270)			(269)
Stock option plan .....								
					346			346
Stock bonus plan .....								
	25,128				154			154
Conversion of Class B to Class A common stock .....								
	18,180		(18,180)					
Treasury stock purchases.....								
	(1,026,647)						(6,461)	(6,461)
Net Income.....						33,163		33,163
Balance,								
October 31, 2000.....	13,572,448	\$ 173	7,633,029	\$ 79	\$46,086	\$246,420	\$(29,399)	\$ 263,359

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

<i>(In Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
<b>Cash Flows From Operating Activities:</b>			
Net Income.....	\$33,163	\$30,075	\$25,403
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation.....	6,423	6,314	4,293
Amortization of Goodwill.....	2,513	261	134
(Gain) loss on sale and retirement of property and assets.....	(728)	283	(6,189)
Extraordinary loss from extinguishment of Debt net of income taxes.....		868	748
Deferred income taxes.....	2,551	3,056	1,987
Impairment losses.....	1,791	2,091	5,032
Decrease (increase) in assets:			
Mortgage notes receivable.....	(27,703)	46,012	(17,343)
Receivables, prepaids and other assets.....	(13,256)	(9,736)	6,276
Inventories.....	(89,544)	(53,592)	30,666
Increase (decrease) in liabilities:			
State and Federal income taxes.....	3,244	3,020	3,651
Customers' deposits.....	6,240	(1,269)	1,490
Interest and other accrued liabilities.....	8,222	9,203	2,235
Post development completion costs.....	(2,555)	3,293	4,438
Accounts payable.....	8,994	(4,400)	2,233
Net cash (used in) provided by operating activities.....	(60,645)	35,479	65,054
<b>Cash Flows From Investing Activities:</b>			
Net proceeds from sale of property and assets.....	1,517	18,251	26,592
Purchase of property, equipment, and other fixed assets.....	(15,607)	(13,381)	(3,135)
Acquisition of homebuilding companies.....	(3,845)	(12,249)	
Investment in and advances to unconsolidated affiliates.....		249	243
Net cash (used in) provided by investing activities.....	(17,935)	(7,130)	23,700
<b>Cash Flows From Financing Activities:</b>			
Proceeds from mortgages and notes.....	1,433,150	850,320	632,531
Proceeds from senior debt.....	146,430	150,000	
Principal payments on mortgages and notes.....	(1,470,805)	(972,265)	(668,987)
Principal payments on subordinated debt.....		(46,302)	(45,284)
Purchase of treasury stock.....	(6,461)	(6,350)	(3,399)
Proceeds from sale of stock and employee stock plan.....	154	59	626
Net cash provided by (used in) financing activities.....	102,468	(24,538)	(84,513)
Net Increase In Cash.....	23,888	3,811	4,241
Cash and Cash Equivalents Balance, Beginning Of Year.....	19,365	15,554	11,313
Cash and Cash Equivalents Balance, End Of Year.....	\$43,253	\$19,365	\$15,554
<b>Supplemental Disclosures Of Cash Flow:</b>			
Cash paid during the year for:			
Interest (net of amount capitalized).....	\$33,814	\$23,731	\$35,315
Income Taxes.....	\$12,858	\$16,395	\$12,303
<b>Non-cash Investing and Finance Activities:</b>			
Debt assumed on sale of property and assets.....			\$13,530
Stock issued for acquisitions/extension of options granted.....	\$ 721	\$11,250	

See notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

For the Years Ended October 31, 2000, 1999, and 1998

### 1. Basis of Presentation and Segment Information

*Basis of Presentation* – The accompanying consolidated financial statements include our accounts and all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions.

*Segment Information* – Statement of Financial Accounting Standards No. 131 (“FAS 131”) “Disclosures About Segments of an Enterprise and Related Information” established new standards for segment reporting based on the way management organizes segments within a company for making operating decisions and assessing performance. Our financial reporting segments consist of homebuilding, financial services, collateralized mortgage financing, and corporate. Our homebuilding operations comprise the most substantial part of our business, with approximately 98% of consolidated revenues in years ended October 31, 2000 and 1999 and approximately 97% in the year ended October 31, 1998 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in more than 120 new home communities in New Jersey, Pennsylvania, New York, North Carolina, Virginia, California, Texas, Maryland, Florida, and Poland. We offer a wide variety of homes that are designed to appeal to first time buyers, first and second time move up buyers, luxury buyers, active adult buyers and empty nesters. Our financial services operations provide mortgage banking and title services primarily to the homebuilding operations’ customers. We do not retain or service the mortgages that we originate but rather, sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety. Assets, liabilities, revenues and expenses of our reportable segments are separately included in the consolidated balance sheets and consolidated statements of income.

### 2. Significant Accounting Policies

*Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles 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.

*Business Combinations* – When we make an acquisition of another company, we use the purchase method of accounting in accordance with Accounting Principal Board Opinion 16 (“APB 16”) “Business Combinations”. Under APB 16 we record as our cost the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible and identified intangible assets less liabilities is recorded as goodwill. The reported income of an acquired company includes the operations of the acquired company after acquisition, based on the acquisition costs.

*Income Recognition* - Income from home sales is recorded when title is conveyed to the buyer, subject to the buyer’s financial commitment being sufficient to provide economic substance to the transaction.

*Cash and Cash Equivalents* - Cash and cash equivalents include cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury bills and government money market funds with original maturities of 90 days or less when purchased.

*Fair Value of Financial Instruments* - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Our financial instruments consist of cash equivalents, mortgages and notes receivable, mortgages and notes payable, and the senior and subordinated notes payable. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

*Inventories* - For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on expected revenue, cost to complete including interest, and selling costs. Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined in Statement of Financial Accounting Standard No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121") as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. 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 amortized equally based upon the number of homes to be constructed in the community.

Interest costs related to properties under development are capitalized during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold (see Note 7).

The cost of land options is capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option.

*Intangible Assets* - Any intangible assets acquired by us are amortized on a straight line basis over its useful life. Goodwill resulting from company acquisitions during the year ended October 31, 1999 is being amortized over 5 to 10 years and reported in the consolidated statements of income as "Other Operations". During the years ended October 31, 2000, 1999, and 1998, goodwill amortization amounted to \$2,513,000, \$261,000, and \$134,000, respectively. The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the company acquired over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows. In addition, we assess long-lived assets for impairment under FAS 121. Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable. Total accumulated amortization at October 31, 2000 and 1999 was \$3,815,000 and \$1,302,000, respectively.

*Deferred Bond Issuance Costs* - Costs associated with the issuance of our Senior and Subordinated Notes are capitalized and amortized over the associated term of each note issuance into other operations on the consolidated statements of income.

*Debt Issued At a Discount* - Debt issued at a discount to the face amount is accreted back up to its face amount utilizing the effective interest method over the term of the note and recorded as a component of Interest on the consolidated statements of income.

*Post Development Completion 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.

*Advertising Costs* - Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2000, 1999, and 1998, advertising costs expensed amounted to \$14,418,000, \$11,995,000, and \$10,531,000, respectively.

*Deferred Income Tax* - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes.

*Common Stock* – Each share of Class A Common Stock entitles its holder to one vote per share and each share of Class B Common Stock 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.

On March 16, 2000, our Board of Directors approved an increase in the stock repurchase plan to purchase up to 4 million shares. The 4 million shares equals 17.0% of our total and outstanding shares as of December 16, 1996 when the initial repurchase plan was approved by the Board. As of October 31, 2000, 3,391,047 shares have been repurchased under this program.

*Depreciation* – The straight-line method is used for both financial and tax reporting purposes for all assets.

*Prepaid Expenses* – Prepaid expenses which relate to specific housing communities (model setup, architectural fees, homeowner warranty, etc.) are amortized to costs of sales as the applicable inventories are sold. All other prepaid expenses are amortized over a specific time period or as used and charged to overhead expense.

*Stock Options* – Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” establishes a fair value-based method of accounting for stock-based compensation plans, including stock options. Registrants may elect to continue accounting for stock option plans under Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees,” but are required to provide proforma net income and earnings per share information “as if” the new fair value approach had been adopted. We intend to continue accounting for our stock option plan under APB 25. Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant (see Note 13).

*Per Share Calculations* – Statement of Financial Accounting Standards No. 128 (“FAS 128”) “Earnings Per Share” requires the presentation of basic earnings per share and diluted earnings per share, and is effective for annual periods ending after December 15, 1997. We adopted FAS 128 in the year ended October 31, 1998. Basic earnings per common share is computed using the weighted average number of shares outstanding and is the same calculation as reported in prior years. Basic weighted average shares outstanding at October 31, 2000, 1999, and 1998 amounted to 21,933,022 shares, 21,404,473 shares, and 21,781,105 shares, respectively. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 110,000, 208,000, and 235,000 for the years ended October 31, 2000, 1999, and 1998, respectively.

*Computer Software Development* – On November 1, 1999 we adopted SOP-98-1, Accounting For the Costs of Computer Software Developed For or Obtained For Internal Use. The SOP-98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. Prior to the adoption of SOP-98-1, we expensed such internal use software related costs as incurred. The effect of adopting SOP-98-1 was to increase net income for the year ended October 31, 2000 by \$2,570,000 or \$0.12 per share.

*Accounting Pronouncement Not Yet Adopted* – The FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133. The Statement deferred for one year the effective date of FASB Statement No. 133, Accounting for Derivatives Instruments and Hedging Activities. We adopted FAS 133 and 137 on November 1, 2000. We do not currently utilize derivatives, and do not anticipate that the adoption of the new statement will have a significant effect on earnings or the financial position of our Company.

*Reclassifications* – Certain amounts in the 1999 and 1998 consolidated financial statements have been reclassified to conform to the 2000 presentation.

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**3. Corporate Initiatives**

We have embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administrative is \$6,902,000, \$7,502,000, and \$3,756,000 for the years ended October 31, 2000, 1999, and 1998, respectively, related to such initiatives. These amounts are in addition to software development costs capitalized in those years.

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**4. Property**

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business. Homebuilding accumulated depreciation related to these assets at October 31, 2000 and October 31, 1999 amounted to \$22,164,000 and \$19,550,000, respectively. In addition we have two senior citizen residential rental communities. Accumulated depreciation on rental property at October 31, 2000 and October 31, 1999 amounted to \$2,294,000 and \$2,211,000, respectively.

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**5. Escrow Cash**

We hold escrow cash amounting to \$3,424,000 and \$5,578,000 at October 31, 2000 and October 31, 1999, respectively, which primarily represents customers' deposits which are restricted from use by us. We are able to release escrow cash by pledging letters of credit and surety bonds. Escrow cash accounts are substantially invested in short-term certificates of deposit, time deposits, or money market accounts.

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**6. Mortgages and  
Notes Receivable**

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market, servicing released, or prior to February 28, 1987 pledged against, collateralized mortgage obligations ("CMOs"). At October 31, 2000 and 1999, respectively, \$61,549,000 and \$32,844,000 of such mortgages were pledged against our mortgage warehouse line (see Note 7). We may incur risk with respect to mortgages that are delinquent and not pledged against CMOs, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 2000.

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**7. Mortgages and  
Notes Payable**

Substantially all of the nonrecourse land mortgages are short-term borrowings. Nonrecourse mortgages secured by operating properties are installment obligations having annual principal maturities in the following years ending October 31, of approximately \$132,000 in 2001, \$138,000 in 2002, \$2,595,000 in 2003, \$75,000 in 2004, \$81,000 in 2005 and \$533,000 after 2005. The interest rates on these obligations range from 7.000% to 8.375%.

We have an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$375,000,000 through July 2003. Interest is payable monthly and at various rates of either prime plus .25% or LIBOR plus 1.70%. In addition, we pay a fee equal to .325% per annum on the weighted average unused portion of the line.

## Interest costs incurred, expensed and capitalized were:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Interest capitalized at beginning of year .....	\$21,966	\$25,545	\$35,950
Plus acquired entity interest .....		3,397	
Plus interest incurred <sup>(1)(3)</sup> .....	38,878	24,594	28,947
Less interest expensed <sup>(3)</sup> .....	34,956	30,343	34,423
Less impairment write-off .....	194		460
Less sale of assets .....		1,227	4,469
Interest capitalized at end of year <sup>(2)(3)</sup> .....	\$25,694	\$21,966	\$25,545

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

<sup>(2)</sup> Data does not include a reduction for depreciation.

<sup>(3)</sup> Represents acquisition interest for construction, land and development costs which is charged to interest expense when homes are delivered or when land is not under active development, and interest incurred and expensed on operating properties and senior residential rental properties.

## Average interest rates and average balances outstanding for short-term debt are as follows:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Average outstanding borrowings .....	\$128,788	\$ 55,495	\$ 98,090
Average interest rate during period .....	10.0%	9.2%	8.4%
Average interest rate at end of period <sup>(1)</sup> .....	8.4%	7.2%	6.9%
Maximum outstanding at any month end .....	\$170,800	\$117,085	\$125,325

<sup>(1)</sup> Average interest rate at the end of the period excludes any charges on unused loan balances.

In addition, we have a secured mortgage loan warehouse agreement with a group of banks which provides up to \$70,000,000 through July 26, 2001. Interest is payable monthly and at various rates. The interest rate at October 31, 2000 was 8.0%.

## 8. Senior and Subordinated Notes

On April 29, 1992, we issued \$100,000,000 principal amount of 11 1/4% Subordinated Notes due April 15, 2002. In October 1998, we redeemed \$44,551,000 principal amount at an average price of 101.6% of par. The funds were provided by the revolving credit agreement and resulted in an extraordinary loss of \$748,000 net of an income tax benefit of \$403,000. In June 1999, we redeemed the remaining \$45,449,000 principal amount at an average price of 101.875% of par. The funds for this redemption were provided by the issuance of Senior Notes and resulted in an extraordinary loss of \$868,000 net of an income tax benefit of \$468,000.

On June 7, 1993, we issued \$100,000,000 principal amount of 9 3/4% Subordinated Notes due June 1, 2005. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option, initially at 104.875% of their principal amount on or after June 1, 1999 and reducing to 100% of their principal amount on or after June 1, 2002.

On May 4, 1999, we issued \$150,000,000 principal amount of 9 1/8% Senior Notes due May 1, 2009. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option, initially at 104.563% of their principal amount on or after May 1, 2004 and reducing to 100% of their principal amount on or after May 1, 2007.

On October 2, 2000, we issued \$150,000,000 principal amount of 10 1/2% Senior Notes due October 1, 2007. The 10 1/2% Senior Notes were issued at a discount to yield 11% and have been reflected net of the unamortized discount in the accompanying consolidated balance sheet. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price.

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain restrictions on the payment of cash dividends. At October 31, 2000, \$45,765,000 of retained earnings were free of such restrictions.

The fair value of both the Senior Notes and Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The fair value of the Senior Notes and Subordinated Notes is estimated at \$271,500,000 and \$94,000,000, respectively, as of October 31, 2000.

### 9. Retirement Plan

In December 1982, we established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$2,948,000, \$2,760,000, and \$1,523,000 for the years ended October 31, 2000, 1999, and 1998, respectively.

### 10. Income Taxes

Income Taxes payable (receivable) including deferred benefits, consists of the following:

(In Thousands)	Year Ended	
	October 31, 2000	October 31, 1999
State income taxes:		
Current.....	\$1,552	\$ 437
Deferred.....	163	(758)
Federal income taxes:		
Current.....	5,519	4,311
Deferred.....	(3,162)	(5,713)
Total.....	\$4,072	\$(1,723)

The provision for income taxes is composed of the following charges (benefits):

(In Thousands)	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Current income tax expense:			
Federal <sup>(1)</sup> .....	\$13,609	\$13,253	\$ 9,177
State <sup>(2)</sup> .....	1,574	4,954	3,484
	15,183	18,207	12,661
Deferred income tax expense:			
Federal.....	2,551	860	1,989
State.....	921	139	88
	3,472	999	2,077
Total.....	\$18,655	\$19,206	\$14,738

<sup>(1)</sup> The current federal income tax expense includes a tax benefit of \$468,000 and \$403,000 in the years ended October 31, 1999 and 1998, respectively, relating to the loss on the redemption of Subordinated Notes that was reported as an extraordinary item in the "Statements of Income."

<sup>(2)</sup> The current state income tax expense is net of the use of state loss carryforwards amounting to \$21,330,000, \$5,860,000, and \$8,495,000 for the years ended October 31, 2000, 1999, and 1998.

The deferred tax liabilities or assets have been recognized in the consolidated balance sheets due to temporary differences as follows:

<i>(In Thousands)</i>	Year Ended	
	October 31, 2000	October 31, 1999
<b>Deferred tax assets:</b>		
Deferred income .....	\$ —	\$ 40
Maintenance guarantee reserves.....	740	711
Inventory impairment loss .....	1,785	2,545
Uniform capitalization of overhead .....	6,008	3,365
Post development completion costs.....	3,194	4,238
State net operating loss carryforwards.....	30,916	29,440
Other .....	2,970	1,378
Total .....	45,613	41,717
Valuation allowance <sup>(3)</sup> .....	(30,916)	(29,440)
Deferred tax assets.....	14,697	12,277
<b>Deferred tax liabilities:</b>		
Deferred interest .....	31	31
Installment sales.....	96	137
Accelerated depreciation .....	3,965	2,916
Acquisition goodwill.....	2,279	2,722
Software development expenses.....	5,327	—
Total .....	11,698	5,806
Net deferred tax assets.....	\$2,999	\$6,471

<sup>(3)</sup> The net change in the valuation allowance of \$1,476,000 results from an increase in the separate company state net operating losses that may not be fully utilized.

The effective tax rates varied from the expected rate. The sources of these differences were as follows:

	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Computed “expected” tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	3.1	6.5	6.0
Company owned life insurance .....	—	(.1)	(1.6)
Low income housing tax credit .....	(2.6)	(2.8)	(3.4)
Other.....	.5	.4	.7
Effective tax rate .....	36.0%	39.0%	36.7%

We have state net operating loss carryforwards for financial reporting and tax purposes of \$406,000,000 due to expire between the years October 31, 2001 and October 31, 2015.

#### **11. Reduction of Inventory to Fair Value**

In accordance with “Financial Accounting Standards No. 121 (“FAS 121”) “Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of”, we record impairment losses on inventories related to communities under 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. During the year ended October 31, 1998, inventory with a carrying amount of \$3,077,000 was written down by \$353,000 to its fair value. This was based on our evaluation of the expected revenue,



cost to complete including interest and selling cost. The writedown during the year ended October 31, 1998 was attributed to one community in Florida where homes are being discounted to accelerate sales.

Also in accordance with FAS 121, we record impairment losses on inventories and long-lived assets held for sale when the related carrying amount exceeds the fair value less the selling cost. As of October 31, 1999 and 1998, inventory with a carrying amount of \$4,539,000 and \$4,629,000, respectively, was written down by \$1,801,000 and \$2,588,000, respectively, to its fair value. No inventory was written down during the year ended October 31, 2000. The writedowns during the year ended October 31, 1999 were attributed to one land parcel in Florida and two residential communities in North Carolina. The Florida land parcel was written down based on purchase offers. The communities were written down based on our decision to discontinue selling homes and offer the remaining lots for sale. The writedowns during the year ended October 31, 1998 were attributed to one parcel of land being sold as lots and a commercial retail center parcel of land which incurred higher land development costs, both in New Jersey. During the year ended October 31, 1998, when these commercial facilities were liquidated, we recovered the carrying value. During the years ended October 31, 1999 and 1998, we recovered the carrying value or recognized nominal losses on the land held for sale which was subsequently liquidated.

The total aggregate impairment losses, which are presented in the consolidated statements of income, in inventory held for future development or sale were zero, \$1,801,000, and \$2,941,000 for the years ended October 31, 2000, 1999, and 1998, respectively. No aggregate impairment loss was recorded for the year ended October 31, 2000.

On the statement of income the line entitled "Homebuilding – Inventory impairment loss" also includes write-offs of options including approval, engineering, and capitalized interest costs. During the years ended October 31, 2000, 1999, and 1998 write-offs amounted to \$1,791,000, \$290,000 and \$2,106,000, respectively. During the year ended October 31, 2000 we did not exercise options in various locations because the communities proforma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, North Carolina, and California. During 1999, we did not exercise an option because the community's proforma did not produce an adequate return on investment commensurate with the risk. During 1998, we did not exercise three residential options because of changes in local market conditions and difficulties in obtaining government approvals.

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## ***12. Transactions with Related Parties***

Our Board of Directors has adopted a general policy providing that it will not make loans to our officers or directors or their relatives at an interest rate less than the interest rate at the date of the loan on six month U.S. Treasury Bills, that the aggregate of such loans will not exceed \$3,000,000 at any one time, and that such loans will be made only with the approval of the members of our Board of Directors who have no interest in the transaction. At October 31, 2000 and 1999 included in receivables, deposits and notes are related party receivables from officers and directors amounted to \$3,127,000 and \$2,718,000, respectively. Due to an oversight the loan balances exceeded \$3,000,000 at October 31, 2000. On November 9, 2000 a \$250,000 payment was received which reduced the loans to within authorized limits. Interest income from these loans for October 31, 2000, 1999, and 1998 amounted to \$167,000, \$108,000, and \$97,000, respectively.

We provide property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited

partners. During the years ended October 31, 2000, 1999, and 1998 we received \$85,000, \$80,000, and \$67,000, respectively, in fees for such management services. At October 31, 2000 and 1999, no amounts were due us by these partnerships.

**13. Stock Plans**

We have a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. We extended the life of options that expired on May 4, 2000 five years which resulted in additional compensation expense of \$346,000 net of taxes. All options expire ten years after the date of the grant. In addition, during the years ended October 31, 2000 and 1999 each of the three outside directors of the Company were granted options to purchase 10,000 shares at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	Weighted Average Fair Value <sup>1</sup> And October 31, 2000 Exercise Price		Weighted Average Fair Value <sup>1</sup> And October 31, 1999 Exercise Price		Weighted Average Fair Value <sup>1</sup> And October 31, 1998 Exercise Price	
Options outstanding at beginning of period.....	1,656,000	\$8.02	1,415,000	\$8.13	1,336,500	\$7.83
Granted.....	429,500	\$6.06	251,000	\$7.87	291,500	\$9.09
Exercised.....			10,000	\$5.81	114,667	\$5.45
Forfeited .....	120,000	\$8.60			98,333	\$9.98
Options outstanding at end of period .....	1,965,500	\$9.44	1,656,000	\$8.29	1,415,000	\$8.13
Options exercisable at end of period .....	1,276,708		1,106,666		1,013,166	
Price range of options outstanding.....	\$5.13- \$11.50		\$5.13- \$11.50		\$5.13- \$11.50	
Weighted-average remaining contractual life ....	7.0 yrs.		5.0 yrs.		5.4 yrs.	

<sup>1)</sup> Fair value of options at grant date approximate exercise price.

Pro forma information regarding net income and earnings per share is required under the fair value method of Financial Accounting Standards No. 123 (“FAS 123”) “Accounting for Stock-Based Compensation” and is to be calculated as if we had accounted for our stock options under the fair value method of FAS 123. The fair value for these options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999, and 1998: risk-free interest rate of 5.9%, 6.4%, and 4.5%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.40, 0.41, and 0.46, respectively; and a weighted-average expected life of the option of 7.0, 7.7, and 7.5 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock

price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and are not likely to be representative of the effects on reported net income for future years, if applicable.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information follows (in thousands except for earnings per share information):

	Year Ended		
	October 31, 2000	October 31, 1999	October 31, 1998
Pro forma net income.....	\$32,322	\$29,851	\$25,107
Pro forma basic earnings per share .....	\$1.47	\$1.39	\$1.15
Pro forma diluted earnings per share .....	\$1.47	\$1.38	\$1.14

During the year ended October 31, 1999, we modified our bonus plan for certain associates. A portion of their bonus will be paid by issuing a deferred right to receive our Class A Common Stock. The number of shares will be calculated by dividing the portion of the bonus subject to the deferred right award by our stock price on the date the bonus is earned. 25% of the deferred right award will vest, and shares will be issued, one year after the year end and then 25% a year for the next three years. During the year ended October 31, 2000, 25,000 shares were issued and 26,000 shares were forfeited under this plan. For the years ended October 31, 2000 and 1999, approximately 281,000 and 200,000 deferred rights were awarded in lieu of \$1,923,000 and \$1,534,000 of bonus payments, respectively.

#### 14. Commitments and Contingent Liabilities

We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. We were involved in an action resulting from the non-performance by a land owner (the "Defendant") to sell real property to us. In 1999, we entered into a Settlement Agreement and Mutual Release ("SAMR") relating to this action. Pursuant to the terms of the SAMR, the Defendant stipulated to a judgement in our favor in the amount of \$3,535,349. In 2000 the judgement was upheld in bankruptcy proceedings. As a result of the bankruptcy proceeding and evaluation of the collateral underlying our claim, we recorded a net gain on settlement of \$1.8 million which is included in land sales and other revenues in the consolidated statements of income at October 31, 2000.

As of October 31, 2000 and 1999, respectively, we are obligated under various performance letters of credit amounting to \$4,284,000 and \$4,091,000. (See Note 5)

#### 15. Acquisitions

On August 7, 1999 we acquired the Matzel and Mumford Organization, Inc. ("M & M"), a New Jersey homebuilder and its related entities. On October 1, 1999 we acquired the Goodman Family of Builders, L.P. ("Goodman"), a Texas homebuilder and its related entities. The combined purchase price for both acquisitions was approximately \$24,400,000 in cash and 1,845,359 shares of our Class A Common Stock at a weighted average share price of \$7.18, of which 483,302 shares were held in escrow (and thus not reported as issued and outstanding) for pre-acquisition contingencies. As of October 31, 2000, 47,619 of those shares held in escrow were released. At the dates of the acquisition we loaned the acquired entities approximately \$85,000,000 to pay off their third party debt. In addition, both the M & M and Goodman acquisitions provide for other payments to be made generally dependent upon the achievement of certain future operating and return objectives.

Both acquisitions were accounted for as a purchase with the results of operations of the acquired entities included in our consolidated financial statements as of the dates of acquisitions. The purchase prices were allocated based on estimated fair values at the dates of the acquisitions. An intangible asset equal to the excess purchase prices over the fair values of net assets acquired of \$19,998,000 has been recorded in prepaid expenses and other assets on the consolidated balance sheet; this amount is being amortized on a straight-line basis over a period of ten years.

On August 28, 2000, we entered into an agreement and plan of merger with Washington Homes, Inc. for a total purchase price of approximately \$84.0 million. Under the terms of the agreement, Washington Homes shareholders receive the equivalent of 1.39 shares of Hovnanian Class A common stock or \$10.08 in cash for each share of Washington Homes common stock, subject to certain adjustments and proration as set out in the merger agreement. If the total amount of cash elected by Washington Homes stockholders exceeds 49.9%, or if the total amount of stock elected by Washington Homes stockholders exceeds 60% of the aggregate dollar value of the merger consideration, we will adjust the forms of consideration to be received as set out in the merger agreement.

On January 23, 2001 the shareholders of our Company and of Washington Homes elected to ratify the merger, and the merger closed the same day.

16. *Unaudited  
Summarized  
Consolidated  
Quarterly  
Information*

Summarized quarterly financial information for the years ended October 31, 2000 and 1999 is as follows:

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2000	July 31, 2000	April 30, 2000	January 31, 2000
Revenues.....	\$353,788	\$284,982	\$241,888	\$257,149
Expenses.....	\$324,456	\$272,724	\$236,436	\$252,373
Income before income taxes.....	\$ 29,332	\$ 12,258	\$ 5,452	\$ 4,776
State and Federal income tax.....	\$ 11,170	\$ 4,167	\$ 1,994	\$ 1,324
Net Income.....	\$ 18,162	\$ 8,091	\$ 3,458	\$ 3,452
Per Share Data:				
Basic:				
Net Income.....	\$ 0.85	\$ 0.37	\$ 0.16	\$ 0.15
Weighted average number of common shares outstanding.....	21,463	21,904	22,054	22,327
Assuming Dilution:				
Net Income.....	\$ 0.84	\$ 0.37	\$ 0.16	\$ 0.15
Weighted average number of common shares outstanding.....	21,704	21,949	22,111	22,413

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 1999	July 31, 1999	April 30, 1999	January 31, 1999
Revenues.....	\$298,429	\$236,286	\$208,885	\$203,120
Expenses.....	\$284,529	\$222,216	\$196,416	\$192,942
Income before income taxes and extraordinary loss.....	\$ 13,900	\$ 14,070	\$ 12,469	\$ 10,178
State and Federal income tax.....	\$ 5,015	\$ 5,592	\$ 5,017	\$ 4,050
Extraordinary loss from extinguishment of debt, net of income taxes.....		\$ (868)		
Net Income.....	\$ 8,885	\$ 7,610	\$ 7,452	\$ 6,128
Per Share Data:				
Basic:				
Income per common share before extraordinary loss.....	\$ 0.41	\$ 0.40	\$ 0.35	\$ 0.28
Extraordinary loss.....		\$ (.04)		
Net Income.....	\$ 0.41	\$ 0.36	\$ 0.35	\$ 0.28
Weighted average number of common shares outstanding.....	21,726	20,979	21,266	21,512
Assuming Dilution:				
Income per common share before extraordinary loss.....	\$ 0.41	\$ 0.40	\$ 0.35	\$ 0.28
Extraordinary loss.....		\$ (.04)		
Net Income.....	\$ 0.41	\$ 0.36	\$ 0.35	\$ 0.28
Weighted average number of common shares outstanding.....	1,902	21,206	21,488	21,725

**17. Financial Information  
of Subsidiary Issuer  
and Subsidiary  
Guarantors**

Hovnanian Enterprises, Inc., the parent company (the “Parent”) is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc., (the “Subsidiary Issuer”) was the issuer of certain Senior Notes on May 4, 1999 and October 2, 2000.

The Subsidiary Issuer acts as a finance and management entity that as of October 31, 2000 had issued and outstanding \$100,000,000 subordinated notes, \$300,000,000 senior notes and a revolving credit agreement with an outstanding balance of zero. The subordinated notes, senior notes and the revolving credit agreement are fully and unconditionally guaranteed by the Parent.

Each of the wholly owned subsidiaries of the Parent (collectively the “Guarantor Subsidiaries”), with the exception of four subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary holding and licensing the “K. Hovnanian” trade name and a subsidiary engaged in homebuilding activity in Poland (collectively the “Non-guarantor Subsidiaries”), have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the senior notes and revolving credit agreement of the Subsidiary Issuer.

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries we have included the accompanying consolidated condensed financial statements. Management does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented.

The following consolidating condensed financial information presents the results of operations, financial position and cash flows of (i) the Parent (ii) the Subsidiary Issuer (iii) the Guarantor Subsidiaries of the Parent (iv) the Non-guarantor Subsidiaries of the Parent and (v) the eliminations to arrive at the information for Hovnanian Enterprises, Inc. on a consolidated basis.

**Consolidating Condensed Balance Sheet**

October 31, 2000

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Homebuilding.....	\$ (63)	\$ 76,648	\$717,484	\$ 8,002	\$	\$802,071
Financial Services and CMO.....		994	70,476		71,470	
Income Taxes (Payables)Receivables.....	(4,585)	(5,873)	12,567	(2,109)		
Investments in and amounts due to and from consolidated subsidiaries.....	268,007	353,115	(473,872)	577	(147,827)	
<b>Total Assets.....</b>	<b>\$263,359</b>	<b>\$423,890</b>	<b>\$257,173</b>	<b>\$76,946</b>	<b>\$(147,827)</b>	<b>\$873,541</b>
<b>Liabilities</b>						
Homebuilding.....	\$	\$ 11,533	\$122,807	\$ 1,060	\$	\$135,400
Financial Services and CMO.....			457	61,114		61,571
Notes Payable.....		409,041	98			409,139
Income Taxes Payable.....			4,072			4,072
Stockholders' Equity.....	263,359	3,316	129,739	14,772	(147,827)	263,359
<b>Total Liabilities and Stockholders' Equity....</b>	<b>\$263,359</b>	<b>\$423,890</b>	<b>\$257,173</b>	<b>\$76,946</b>	<b>\$(147,827)</b>	<b>\$873,541</b>



**Consolidating Condensed Balance Sheet**

October 31, 1999

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Homebuilding .....	\$ 53	\$ 34,735	\$630,074	\$ 4,109	\$	\$668,971
Financial Services and CMO.....			(4,807)	46,974		42,167
Income Taxes (Payables)Receivables .....	(4,303)	(374)	8,562	(2,162)		1,723
Investments in and amounts due to and from consolidated subsidiaries.....	240,676	304,811	(305,942)	2,252	(241,797)	
<b>Total Assets.....</b>	<b>\$236,426</b>	<b>\$339,172</b>	<b>\$327,887</b>	<b>\$ 51,173</b>	<b>\$(241,797)</b>	<b>\$712,861</b>
<b>Liabilities</b>						
Homebuilding .....	\$	\$ 7,060	\$102,282	\$ 363	\$	\$109,705
Financial Services and CMO.....			495	34,456		34,951
Notes Payable .....		331,491	288			331,779
Stockholders' Equity .....	236,426	621	224,822	16,354	(241,797)	236,426
<b>Total Liabilities and Stockholders' Equity....</b>	<b>\$236,426</b>	<b>\$339,172</b>	<b>\$327,887</b>	<b>\$51,173</b>	<b>\$(241,797)</b>	<b>\$712,861</b>

## Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2000

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 391	\$1,114,421	\$21,397	\$ (17,726)	\$1,118,483
Financial Services and CMO .....			6,028	13,296		19,324
Intercompany Charges.....		82,0513	4,505		(116,556)	
Equity In Pretax Income of Consolidated Subsidiaries.....	51,818				(51,818)	
<b>Total Revenues .....</b>	<b>\$51,818</b>	<b>\$82,442</b>	<b>\$1,154,954</b>	<b>\$34,693</b>	<b>\$(186,100)</b>	<b>\$1,137,807</b>
<b>Expenses:</b>						
Homebuilding.....		66,232	1,096,455	2,831	(99,279)	1,066,239
Financial Services and CMO .....			4,591	15,426	(267)	19,750
<b>Total Expenses.....</b>		<b>66,232</b>	<b>1,101,046</b>	<b>18,257</b>	<b>(99,546)</b>	<b>1,085,989</b>
Income (Loss) Before Income Taxes.....	51,818	16,210	53,908	16,436	(86,554)	51,818
State and Federal Income Taxes.....	18,655	6,616	18,438	5,757	(30,811)	18,655
<b>Net Income (Loss) .....</b>	<b>\$33,163</b>	<b>\$ 9,594</b>	<b>\$ 35,470</b>	<b>\$10,679</b>	<b>\$ (55,743)</b>	<b>\$ 33,163</b>

**Consolidating Condensed Statement of Income**

Twelve Months Ended October 31, 1999

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$ (159)	\$1,120	\$922,639	\$22,767	\$(20,405)	\$925,962
Financial Services and CMO .....			3,561	17,197		20,758
Intercompany Charges.....		91,695	72		(91,767)	
Equity In Pretax Income of Consolidated Subsidiaries.....	50,776				(50,776)	
<b>Total Revenues .....</b>	<b>50,617</b>	<b>92,815</b>	<b>926,272</b>	<b>39,964</b>	<b>(162,948)</b>	<b>946,720</b>
<b>Expenses:</b>						
Homebuilding.....		90,111	866,042	2,248	(81,997)	876,404
Financial Services and CMO .....			2,757	17,370	(428)	19,699
<b>Total Expenses.....</b>		<b>90,111</b>	<b>868,799</b>	<b>19,618</b>	<b>(82,425)</b>	<b>896,103</b>
Income (Loss) Before Income Taxes.....	50,617	2,704	57,473	20,346	(80,523)	50,617
State and Federal Income Taxes.....	19,674	917	21,453	7,771	(30,141)	19,674
Extraordinary Loss .....	(868)	(868)			868	(868)
<b>Net Income (Loss) .....</b>	<b>\$30,075</b>	<b>\$ 919</b>	<b>\$ 36,020</b>	<b>\$12,575</b>	<b>\$(49,514)</b>	<b>\$ 30,075</b>

**Consolidating Condensed Statement of Income**

Twelve Months Ended October 31, 1998

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$1,441	\$909,845	\$26,210	\$(19,548)	\$917,948
Financial Services and CMO.....			3,817	15,964		19,781
Intercompany Charges .....		84,166	3,844		(88,010)	
Equity In Pretax Income of Consolidated Subsidiaries .....	41,292				(41,292)	
<b>Total Revenues .....</b>	<b>41,292</b>	<b>85,607</b>	<b>917,506</b>	<b>42,174</b>	<b>(148,850)</b>	<b>937,729</b>
<b>Expenses:</b>						
Homebuilding.....		84,040	869,364	6,748	(81,397)	878,755
Financial Services and CMO.....			3,049	14,837	(204)	17,682
<b>Total Expenses.....</b>		<b>84,040</b>	<b>872,413</b>	<b>21,585</b>	<b>(81,601)</b>	<b>896,437</b>
Income (Loss) Before Income Taxes .....	41,292	1,567	45,093	20,589	(67,249)	41,292
State and Federal Income Taxes .....	15,141	(64)	16,315	7,975	(24,226)	15,141
Extraordinary Loss .....	(748)	(748)			748	(748)
<b>Net Income (Loss).....</b>	<b>\$25,403</b>	<b>\$ 883</b>	<b>\$ 28,778</b>	<b>\$12,614</b>	<b>\$(42,275)</b>	<b>\$ 25,403</b>

**Consolidating Condensed Statement of Cash Flows**

Twelve Months Ended October 31, 2000

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash Flows From Operating Activities:</b>						
Net Income .....	\$33,163	\$ 9,594	\$35,470	\$10,679	\$(55,743)	\$33,163
Adjustments to reconcile net income to net cash provided by (used in) operating activities .....	751	80,742	(196,014)	(35,030)	55,743	(93,808)
Net Cash Provided By (Used In) Operating Activities .....	33,914	90,336	(160,544)	(24,351)		(60,645)
Net Cash Provided By (Used In) Investing Activities .....	(231)	(13,262)	(4,433)	(9)		(17,935)
Net Cash Provided By (Used In) Financing Activities .....	(6,461)	76,305	6,864	25,760		102,468
Intercompany Investing and Financing Activities – Net .....	(27,331)	(130,355)	156,011	1,675		
Net Increase (Decrease) .....	(109)	23,024	(2,102)	3,075		23,888
In Cash and Cash Equivalents Balance, Beginning of Period .....	46	(5,395)	24,608	106		19,365
Cash and Cash Equivalents Balance, End of Period .....	\$ (63)	\$17,629	\$22,506	\$ 3,181		\$43,253

**Consolidating Condensed Statement of Cash Flows**

Twelve Months Ended October 31, 1999

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash Flows From Operating Activities:</b>						
Net Income .....	\$30,075	\$ 919	\$36,020	\$12,575	\$(49,514)	\$30,075
Adjustments to reconcile net income to net cash provided by (used in) operating activities.....	15,774	311	(123,977)	63,782	49,514	5,404
<b>Net Cash Provided By (Used In)</b>						
Operating Activities .....	45,849	1,230	(87,957)	76,357		35,479
<b>Net Cash Provided By (Used In)</b>						
Investing Activities.....		(9,478)	1,868	480		(7,130)
<b>Net Cash Provided By (Used In)</b>						
Financing Activities.....	(6,291)	106,676	(40,326)	(84,597)		(24,538)
<b>Intercompany Investing and Financing Activities – Net .....</b>	<b>(39,526)</b>	<b>(94,163)</b>	<b>128,000</b>	<b>5,689</b>		
<b>Net Increase (Decrease).....</b>	<b>32</b>	<b>4,265</b>	<b>1,585</b>	<b>(2,071)</b>		<b>3,811</b>
<b>In Cash and Cash Equivalents Balance, Beginning of Period .....</b>	<b>14</b>	<b>(9,660)</b>	<b>23,023</b>	<b>2,177</b>		<b>15,554</b>
<b>Cash and Cash Equivalents Balance, End of Period.....</b>	<b>\$ 46</b>	<b>\$(5,395)</b>	<b>\$24,608</b>	<b>\$ 106</b>		<b>\$19,365</b>

**Consolidating Condensed Statement of Cash Flows**

Twelve Months Ended October 31, 1998

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash Flows From Operating Activities:</b>						
Net Income .....	\$25,403	\$ 883	\$28,778	\$12,614	\$(42,275)	\$25,403
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities .....	(22,675)	1,708	33,340	(14,997)	42,275	39,651
Net Cash Provided By (Used In) Operating Activities .....	2,728	2,591	62,118	(2,383)		65,054
Net Cash Provided By (Used In) Investing Activities .....		(1,789)	26,090	(601)		23,700
Net Cash Provided By (Used In) Financing Activities .....	(2,773)	(71,551)	(26,687)	16,498		(84,513)
Intercompany Investing and Financing Activities – Net .....	49	66,574	(52,355)	(14,268)		
Net Increase (Decrease) .....	4	(4,175)	9,166	(754)		4,241
In Cash and Cash Equivalents Balance, Beginning of Period .....	10	(5,485)	13,857	2,931		11,313
Cash and Cash Equivalents Balance, End of Period .....	\$ 14	\$(9,660)	\$23,023	\$ 2,177		\$15,554



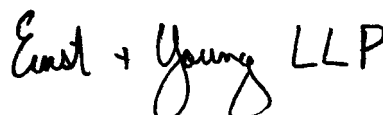
## *Independent Auditors' Report*

To The Stockholders and  
Board of Directors of  
Hovnanian Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 2000 and 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2000 in conformity with accounting principles generally accepted in the United States.



Ernst & Young LLP

New York, New York  
December 13, 2000, except for Note 15, paragraph 4,  
as to which the date is January 23, 2001