

Building
Better



As one of America's leading homebuilders, our Company designs, builds and sells a wide variety of home designs, from entry-level condominiums to luxury single family homes in planned communities in New Jersey, New York, Pennsylvania, North Carolina, Virginia, Florida, California and Poland. We are proud of our reputation for building homes of superior quality and value. We also provide mortgage financing and title services. According to *Builder* magazine, we are the fourteenth largest builder of for-sale housing in the nation.

Pictured on the front cover is our Jacobs Ferry community located in West New York, New Jersey. This townhome community is located on the Hudson River commanding a spectacular view of New York City.

Common Stock

American Stock Exchange Symbol: HOV	Fiscal 1998		Fiscal 1997	
	High	Low	High	Low
First Quarter	\$ 9.25	\$6.50	\$7.63	\$5.63
Second Quarter	\$11.50	\$8.56	\$7.00	\$6.25
Third Quarter	\$11.19	\$8.50	\$7.13	\$5.69
Fourth Quarter	\$ 9.88	\$6.00	\$8.13	\$6.75

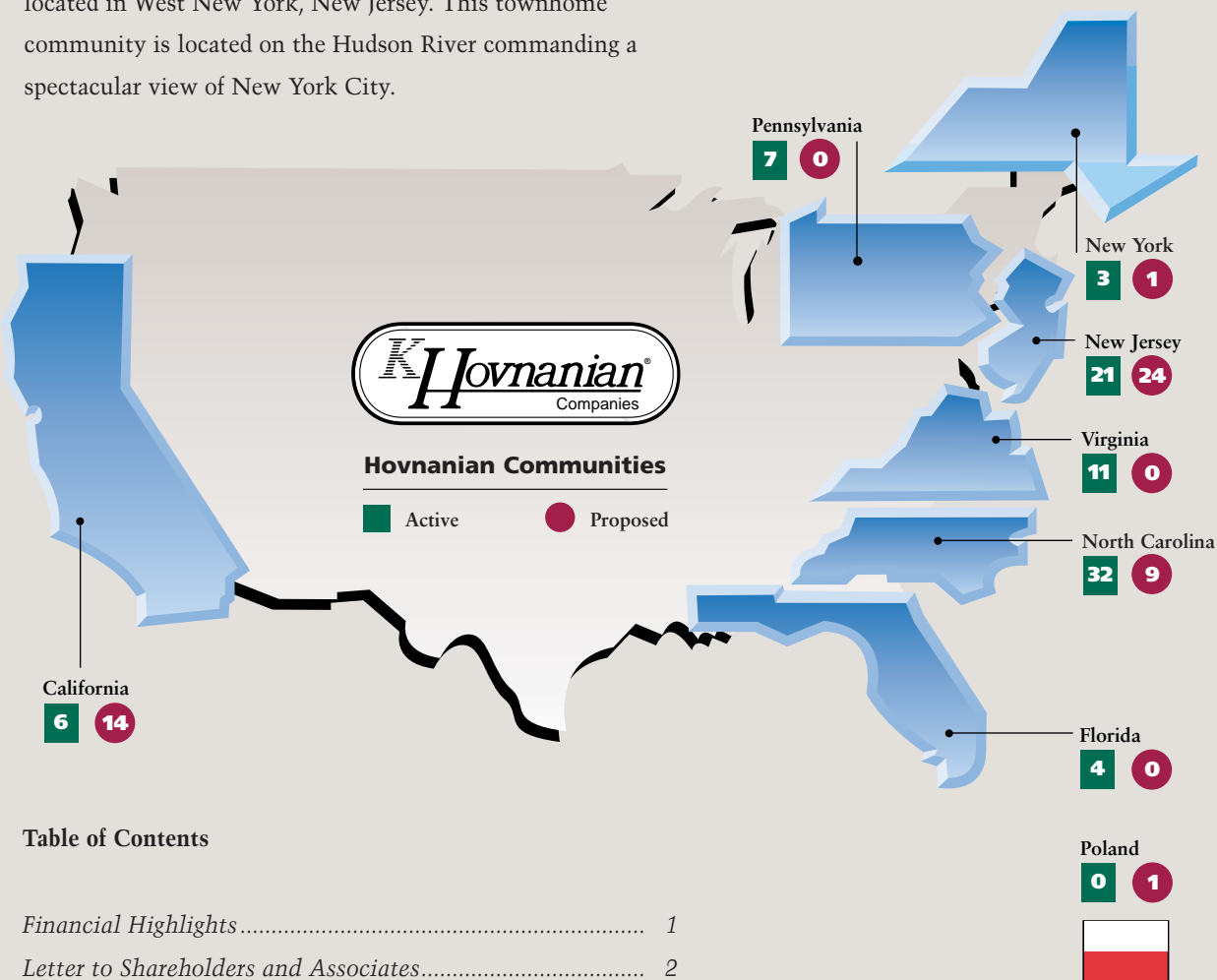


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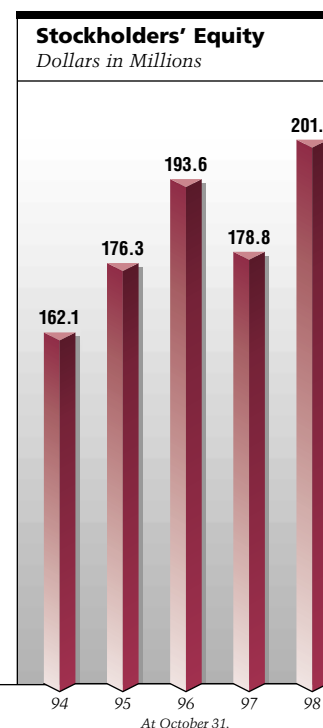
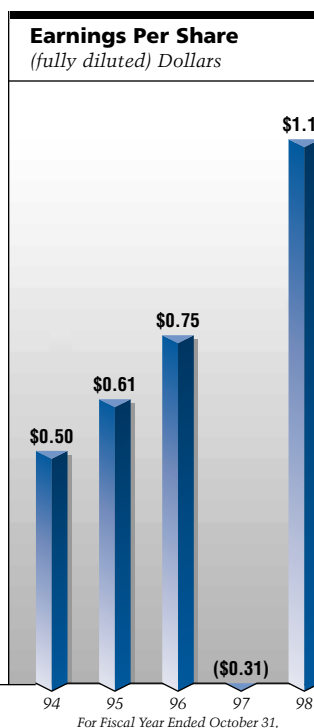
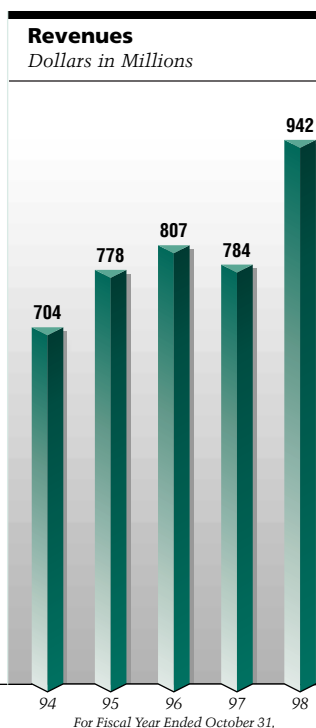
Corporate Information.....inside back cover

For additional information, visit our website at <http://www.khov.com>

For the Year Ended October 31,

	1998	1997	1996	1995
Contracts, Deliveries and Backlog (Dollars in Thousands)				
Net Sales Contracts	\$806,247	\$762,750	\$738,331	\$660,033
Deliveries	\$895,644	\$731,807	\$764,682	\$740,481
Contract Backlog at Year-End	\$381,816	\$374,314	\$292,376	\$275,701
Revenues and Income (Dollars in Thousands)				
Total Revenues	\$941,947	\$784,136	\$807,464	\$777,745
Earnings (Loss) From Operations	\$ 41,292	\$ (12,124)	\$ 25,006	\$ 21,654
Net Income (Loss)	\$ 25,403	\$ (6,970)	\$ 17,287	\$ 14,128
EBITDA	\$ 85,040	\$ 57,148	\$ 64,017	\$ 59,273
Return on Average Stockholders' Equity	13.4%	(3.8)%	9.3%	8.3%
Assets, Debt and Equity (Dollars in Thousands)				
Total Assets	\$589,102	\$637,082	\$614,111	\$645,378
Total Recourse Debt	\$213,449	\$285,000	\$230,000	\$280,650
Stockholders' Equity	\$201,392	\$178,762	\$193,622	\$176,335
Earnings and Book Value Per Share (Shares in Thousands)				
Earnings (Loss) Per Share (fully diluted)	\$ 1.16	\$ (0.31)	\$ 0.75	\$ 0.61
Weighted Average Shares Outstanding (fully diluted) ⁽¹⁾	22,016	22,712	23,120	23,032
Book Value Per Outstanding Share at Year-End	\$ 9.34	\$ 8.18	\$ 8.40	\$ 7.66

⁽¹⁾ Prior to the fiscal year ended October 31, 1996, represents basic shares outstanding.



Simply stated, Hovnanian Enterprises is building better. 1998 was a year in which we significantly improved our performance and profitability. The initiatives we put in place over the past few years to reduce costs and increase productivity helped us to generate strong profits in every quarter of fiscal 1998. We are building a better company with better structure, systems, processes, products and performance.

“The initiatives we put in place over the past few years to reduce costs and increase productivity helped us to generate strong profits in every quarter of fiscal 1998.”

Performing Better

For the year ended October 31, 1998, total revenues were \$941.9 million, up 20% from 1997's \$784.1 million. Fiscal 1998's net income reached \$25.4 million, or \$1.17 (\$1.16 fully diluted) per share compared to 1997's net loss of \$7 million or (\$0.31) per share. Excluding the impact of special items, year-to-year profit rose 100% in 1998 to \$1.20 (\$1.19 fully diluted) per share from 1997's \$0.60 earnings per share. Results for 1998 included \$5.0 million of writedowns and write-offs and almost \$750 thousand for the repurchase of 11.25% Subordinated Notes in 1998.

There were several factors aside from the robust housing market that enabled us to perform better in 1998. During the year we made great strides in our efforts to level out quarter-to-quarter home deliveries. As a consequence, we were able to make substantial progress in reducing operating and borrowing costs as well as improving productivity. Our financial services operations have begun to make a positive contribution. The mortgage capture rate of non-cash transactions among our own home purchasers has climbed above 58% and we are now serving the general public in addition to our own buyers. The strategic decisions we made in 1997, starting with the resolution to exit the investment properties business, have enabled us to reduce our leverage and redeploy more capital into our core homebuilding business. Year-to-year homebuilding gross margins (excluding land sales) climbed 170 basis points to 17.3% in 1998. The number of homes delivered in 1998 rose 11.3% to 4,138 from last year's 3,717. Net contracts reached \$806.2 million on 3,877 homes, compared to 1997's \$762.8 million on 4,073 homes.

During fiscal 1998, we reduced our *average* debt-to-equity ratio to 1.43:1 from 1.66:1 in fiscal 1997. At year end, our debt-to-equity ratio stood at 1.1:1. We remain committed to our goal of reducing the use of leverage and achieving an *average* debt-to-equity ratio of 1.1:1 by fiscal 2002.

The Company reported EBITDA of \$85 million, up from 1997's \$57.1 million. Reflecting the improvement in EBITDA, our annual interest coverage ratio increased to 2.9x compared with 1.6x last year. Late in the fourth quarter, we repurchased almost \$45 million of the 11.25% Subordinated Notes which, in addition to lowering our interest costs by close to \$2 million, will further enhance our future interest coverage ratios. Stockholders' equity increased to \$201.4 million from \$178.8 million in 1997. This increase was achieved even though we repurchased 407,100 common shares at an average cost of \$8.36 per share.

Backlog as of October 31, 1998, stood at \$381.8 million (1,681 homes), slightly above 1997's \$374.3 million (1,872 homes). This backlog, representing almost 45% of our total expected deliveries in 1999, is expected to generate even higher margins than we achieved in 1998.

Building Better

We are striving to achieve operational excellence in every facet of our business. Two years ago we introduced initiatives to become not the biggest homebuilder, but the best. We are beginning to reap the benefits from our process redesign and quality programs. Specifically, computerized scheduling, vendor consolidation, streamlined bidding procedures and product defect reductions have enabled us to "build better" in fiscal 1998 and will continue to enhance our future performance.

“Our goal is to achieve the benefits of dominance in a few selected markets rather than a strategy aimed solely at achieving geographic diversification.”

Market Concentration Strategy

The homebuilding industry is highly fragmented, with the largest builder in the country having about a one percent market share. Our goal is to achieve the benefits of dominance in a few selected markets rather than a strategy aimed solely at achieving geographic diversification. To support this approach, during 1998 we made the strategic acquisition of a Virginia-based homebuilder, PC Homes. We merged this progressive homebuilder into our Metro-DC operations to form the Virginia division. We expect this division to be solidly profitable and deliver roughly 250 homes in fiscal 1999. Our significant market presence in our Northeast Region and North Carolina is paving the way for enhanced operating efficiencies. In California, we delivered 457 homes this year and expect an over 40% increase in deliveries for 1999, taking full advantage of the state's economic recovery.

Building A Better Tomorrow

We believe our financial performance in fiscal 1998 is a testament to the strategic decisions we made in 1997 and the operating efficiencies the entire Company has been focused on over the past several years. But, we are just getting started. Our goal is to become **THE** national leader in homebuilding. The balance of this report highlights the Company's goals and accomplishments, none of which could have been realized if not for the continued dedication and support of our Associates. We wish to thank them, and you our shareholders, for your continued interest and support.

1999 promises to be another year of dramatic change. Hovnanian Enterprises stands ready to embrace it in our unending quest to **build better**.

Sincerely,



KEVORK S. HOVNANIAN
Founder and Chairman



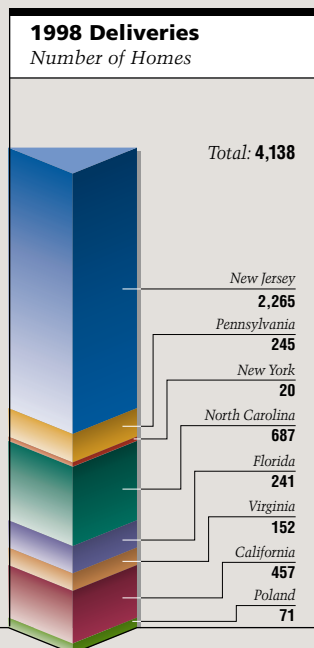
ARA K. HOVNANIAN
President and Chief Executive Officer

Change and Success

Two years ago, we announced forward-thinking initiatives to fundamentally change the way we do business and to drive us toward our goal of becoming **THE** national leader in homebuilding. During 1998, we began reaping the benefits from the successful implementation of these changes. Improvements were recorded throughout the Company, generating significant gains in a variety of performance measurements. We are encouraged by the extent of these successes and expect to report further and faster improvements as our increasingly agile, change-ready organization revolutionizes the way homebuilding is conducted in the years ahead.

Today, manufacturing leadership is often attributed to enclosed, highly-technological facilities and their support systems. Homebuilding still tends to be defined by scattered, open construction sites, fragmented activities and seasonality. Yet our extremely competitive industry is rapidly becoming professionalized. We believe that we must continue to evolve by integrating new technologies into our best practices and by incorporating advancements proven by other industries.

Hence, we are building better. Building a better company to work for, to invest in and with which to partner. A review of our planning and execution principles strongly demonstrates that this transformation is underway.



Our Northeast Region (NJ, PA, and NY) accounted for 61 percent of our 1998 home deliveries. By 2002, we expect to increase deliveries outside the Northeast Region to 55 percent from 1998's 39 percent.

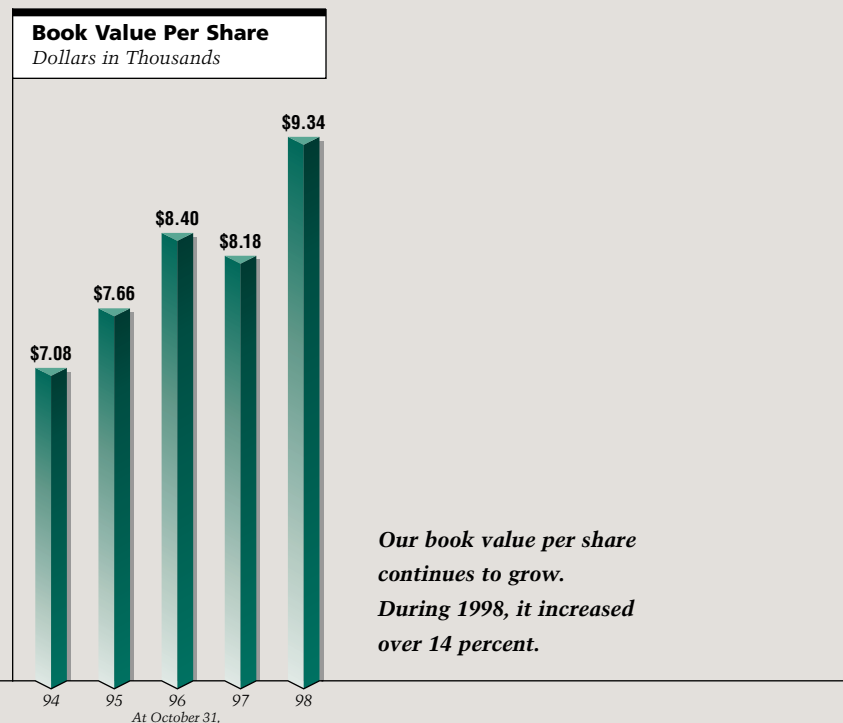


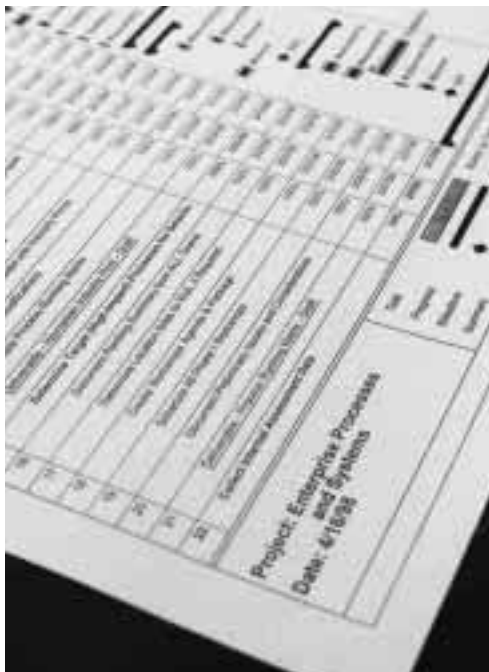
In keeping with our objective of providing homes for all segments of the for-sale housing market, Vizcaya Estates in Wayne, New Jersey (pictured above) is an example of one of our luxury home communities. In 1998, Hovnanian Enterprises sold its first \$1 million home.

Planning Better

We have won significant regional and national awards for our home designs, communities and overall quality, but we also strive to earn the appreciation of our shareholders. To accomplish this goal, we must achieve excellent execution of every aspect of our business and be responsive to tomorrow’s challenges. Managing change effectively is the key to accomplishing this effort. We are building an organization that anticipates change, prepares for that change and effectively and rapidly executes the change. Our five year strategic plan includes the following elements:

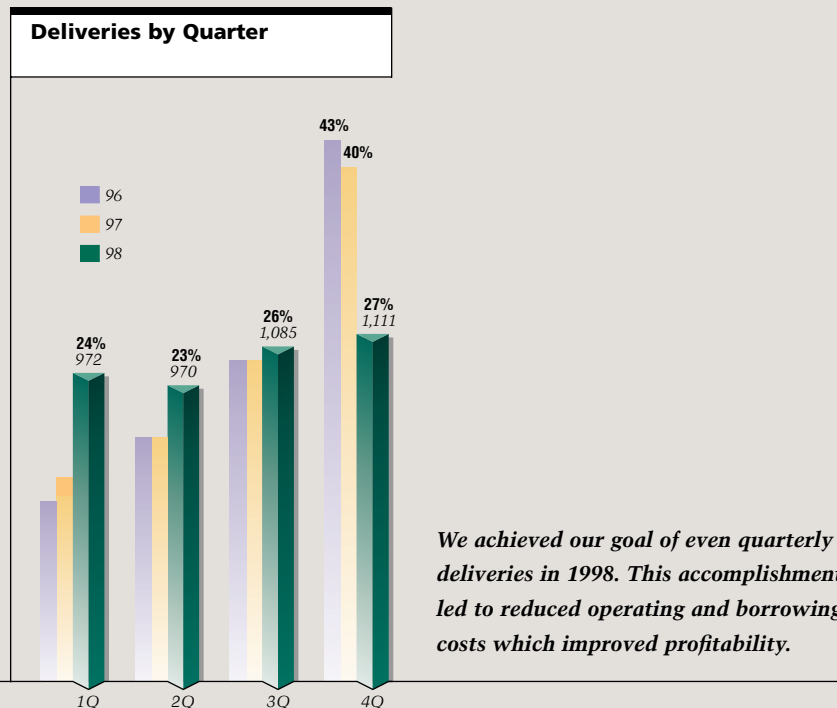
- Focusing our energies and resources on our core homebuilding and related financial services businesses. Conducting these operations in geographic areas where we can achieve a market concentration advantage. This cohesive approach allows us to do what we do best and to do it where we can benefit from the considerable advantages inherent in economies of scale and market dominance.
- Providing homes for all segments of the for-sale housing market while being responsive to demographics. We are value-engineering our homes to ensure that consumers find the designs and features that they seek at prices they can afford. By offering “standard options” we can satisfy the





consumer's desires to personalize their homes. We are making the homebuying process more exciting for the buyer by introducing modern design centers.

- Enhancing our national award winning construction systems, supervision techniques and reporting methods. The subsequent reduction in cycle time will lead to improved quality and reduced costs. We are focusing on scheduling our home deliveries evenly throughout the year, first by quarter, then by month, then by week and ultimately daily. We have consolidated the number of our business partners; selected the best and formed meaningful alliances that include information sharing, just-in-time delivery, lower cost and national purchasing contracts.
- Become the employer of choice for all associates within the homebuilding industry. Recruit, develop and retain the homebuilding industry's finest associates by institutionalizing the best leadership and human resources processes and practices. Identify core organizational and position competencies and provide the infrastructure to create a comprehensive learning environment.





In 1996, we believed that the demand for housing by the aging baby boomer generation would be increasing dramatically. Therefore, we re-entered the active adult market. In 1998, over 17 percent of our deliveries were active adult homes. Pictured above is K. Hovnanian's Four Seasons at Wall (New Jersey), a 400-home active adult community.

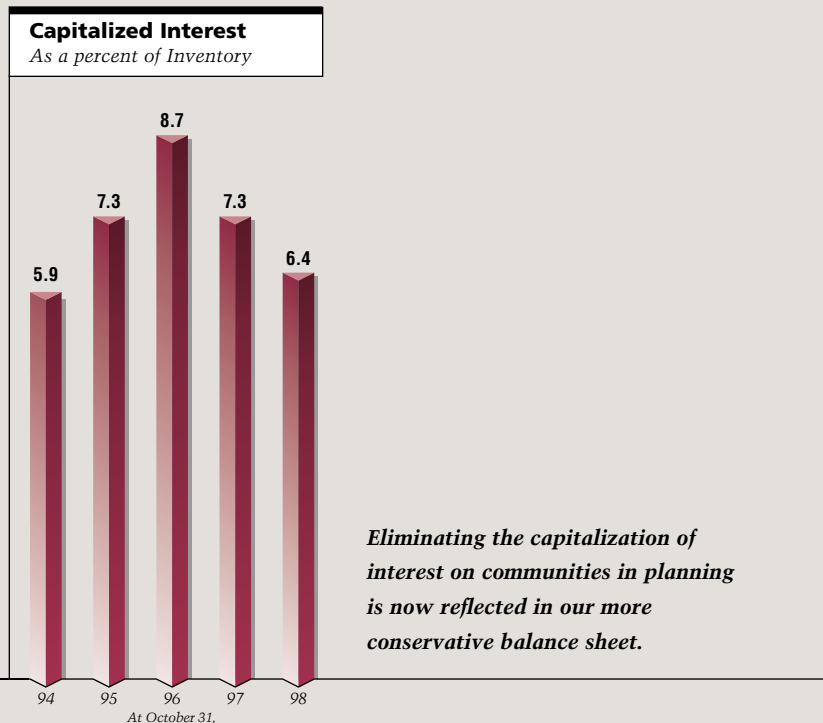
- Standardize “best practices” throughout all our business processes. Create an exportable enterprise-wide operating model that provides economic advantages and efficiencies of size that others will find difficult to copy. Design it to utilize today’s best practices while adapting to tomorrow’s changes and improvements.

Many of the above goals are presently being pursued by Process Redesign and Partners in Excellence improvement teams. Creating a culture of change focused on the continual pursuit of excellence will allow us to take the greatest advantage of strong markets and will generate internal strengths that protect us during market downturns.

Executing and Managing Better

The extent to which our change initiatives are succeeding can be shown by some noteworthy fiscal 1998 results:

- By exiting the Investment Properties business, we freed up \$35 million in equity, eliminated \$2 million in depreciation expense and gained \$0.13 per share in profits.
- Our financial services operations turned fiscal 1997’s loss into a \$2.1 million profit. We wrote mortgages for more than 58% of K. Hovnanian’s





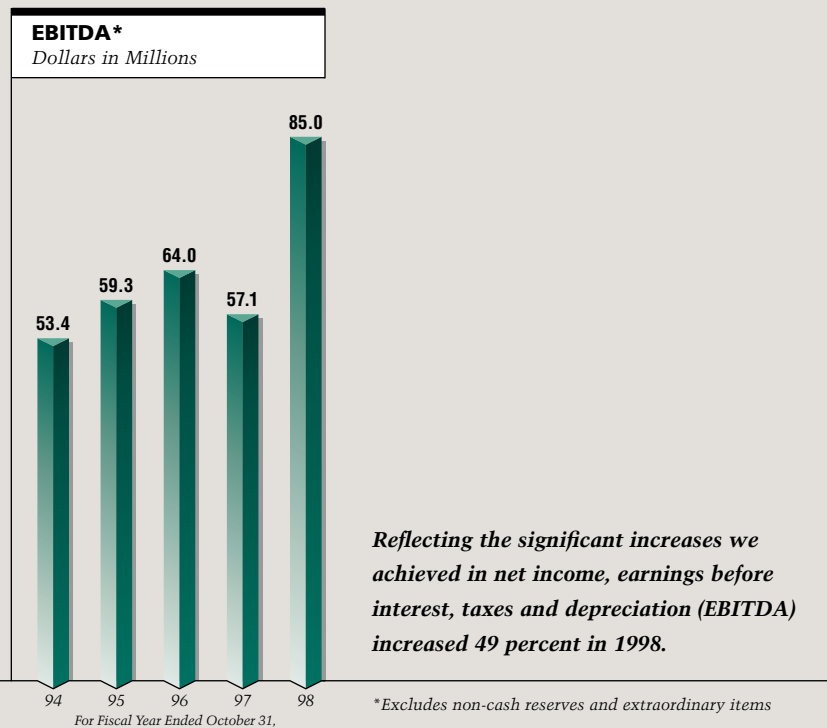
Executing
Better



non-cash home buyers, and expect this figure to rise further in 1999. Our mortgage operations established non-Hovnanian buyer business channels which generated over 40 percent of 1998's mortgage application volume. Our Financial Services business segment is expected to grow sharply in 1999.

- We are the dominant homebuilder in New Jersey. We are expanding our market share in North Carolina, where we are the state's third largest homebuilder. The 1998 acquisition of PC Homes and its subsequent merger into our Metro-DC division has created a growing operation expected to deliver about 250 homes in 1999. Sharp growth is also anticipated in southern California, where we expect to deliver over 40% more homes in 1999. Conversely, we reduced our exposure in Florida by approximately \$25 million, are seeking to regain acceptable profit levels and will reinvest only in ways that make us a prominent player in that marketplace.

- Early in 1999, we will open the K. Hovnanian Home Design Gallery in Edison, New Jersey. This will be the most progressive, comprehensive and perhaps largest design center of its kind in the nation. It is organized to gratify and excite our buyers as well as generate substantial revenue and increased profits.

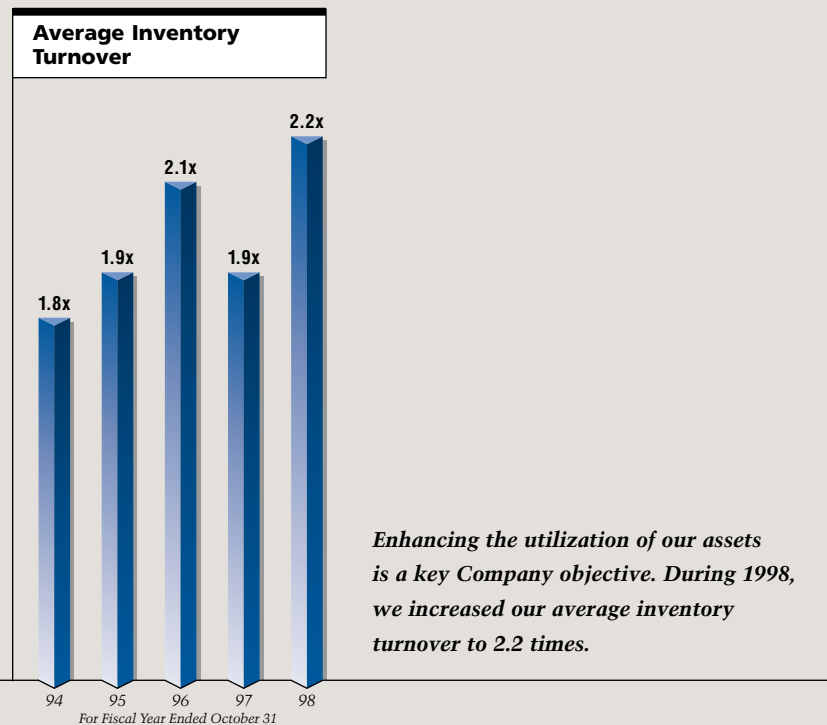




The state of California is experiencing an economic recovery and we are well positioned to reap the benefits. Our California Division is expected to increase its annual deliveries by over 40% next year. Pictured above is our Castile community located in Rancho Santa Margarita, California.



- Over 90 percent of our homebuyers would recommend us to a friend or family. Sales Associate training has been stepped up to achieve a higher conversion rate, and our goal is to fully satisfy each and every customer.
- In 1998 we achieved our goal of even quarterly deliveries, with quarter-to-quarter results being 972, 970, 1,085 and 1,111 homes. Gone are the costs and business stresses from the days of 40% of our deliveries arriving in the fourth quarter.
- In order to learn more about faster construction cycle times, we built a complete home in New Jersey, from foundation to Certificate of Occupancy, in just four working days. That may be the most rapid construction of its kind in the nation. It was completed with perfect quality. The home featured 1,860 square feet of living space with three bedrooms, two baths, a fireplace, textured nine-foot ceilings, Corian countertops, ceramic floors, upgraded lighting and a two-car garage. It avoided adverse weather effects and vandalism. It cost us less to build and made the buyer very happy. In the future, many of the building techniques utilized in completing this home will be deployed in our normal production homes.

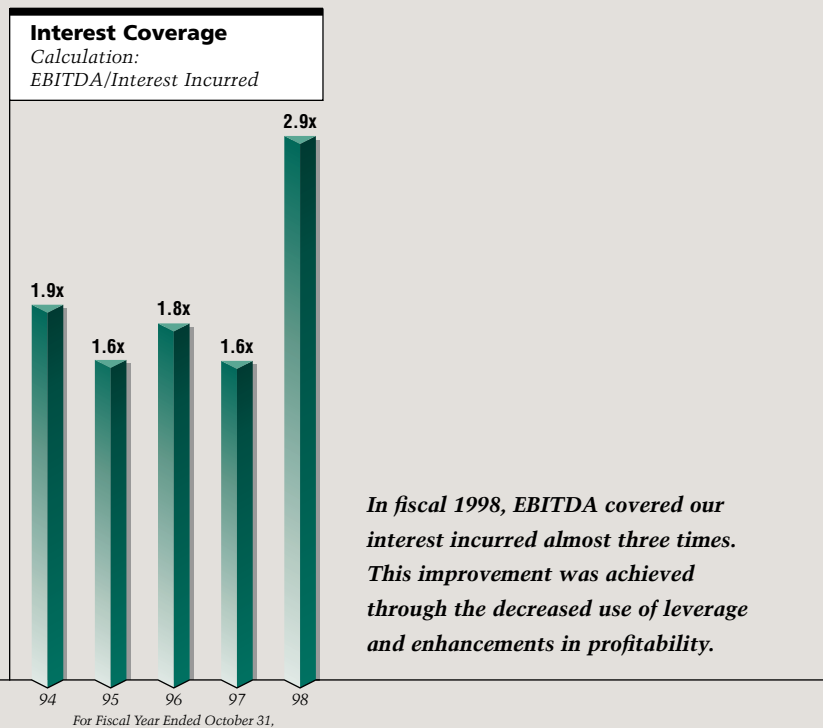




- We implemented career development programs designed to expedite associate advancement and new compensation programs which more closely link associate performance to remuneration. In fiscal 1998, we hired 12 college graduates from the nation's best construction programs.
- We reduced our *average* debt-to-equity ratio from 1.66:1 in 1997 to 1.43:1 in 1998. Our goal is to reduce this ratio to 1.1:1 by 2002. Other financial targets include averaging a return on equity of 15% or greater, the reduction of under-performing assets to five percent or less by 2001 and — while maintaining full Northeast Region investments — achieving 55% of homebuilding profits from regions outside the Northeast by 2002.

Building Better

We have proven that we can change for the better. We believe that the rate of change for homebuilders will accelerate and that our challenge will be to accept and process more and faster change while achieving flawless execution. We are making our Company and our Associates “change ready” by providing training and instilling a culture of continuous improvement. By aggressively meeting future challenges, we can continue to differentiate ourselves, enhance our competitive advantage and move closer toward becoming **THE** national leader in homebuilding.



Communities Under Development

Net Sales Contracts	For the Year Ended					
	Homes			Dollars (<i>In thousands</i>)		
	October 31, 1998	October 31, 1997	Percent Change	October 31, 1998	October 31, 1997	Percent Change
Northeast Region	2,375	2,438	(2.6)%	\$525,184	\$470,524	11.6 %
North Carolina	690	694	(0.6)%	130,280	127,242	2.4 %
Florida	164	351	(53.3)%	31,321	57,537	(45.6)%
Virginia	170	73	132.9 %	40,548	17,136	136.6 %
California	439	456	(3.7)%	75,031	85,691	(12.4)%
Poland	39	61	(36.1)%	3,883	4,620	(16.0)%
Total	3,877	4,073	(4.8)%	\$806,247	\$762,750	5.7 %

Contract Backlog	For the Year Ended					
	Homes			Dollars (<i>In thousands</i>)		
	October 31, 1998	October 31, 1997	Percent Change	October 31, 1998	October 31, 1997	Percent Change
Northeast Region	1,132	1,287	(12.0)%	\$270,753	\$266,889	1.4 %
North Carolina	235	232	1.3 %	48,713	45,879	6.2 %
Florida	73	150	(51.3)%	14,800	25,315	(41.5)%
Virginia	115	27	325.9 %	26,083	7,621	242.3 %
California	119	137	(13.1)%	20,721	25,636	(19.2)%
Poland	7	39	(82.1)%	746	2,974	(74.9)%
Total	1,681	1,872	(10.2)%	\$381,816	\$374,314	2.0 %

Deliveries	For the Year Ended					
	Homes			Dollars (<i>In thousands</i>)		
	October 31, 1998	October 31, 1997	Percent Change	October 31, 1998	October 31, 1997	Percent Change
Northeast Region	2,530	2,128	18.9 %	\$595,873	\$445,817	33.7 %
North Carolina	687	695	(1.2)%	127,592	125,242	1.9 %
Florida	241	418	(42.3)%	44,168	74,146	(40.4)%
Virginia	152	70	117.1 %	38,904	14,398	170.2 %
California	457	365	25.2 %	82,546	69,252	19.2 %
Poland	71	41	73.2 %	6,561	2,952	122.3 %
Total	4,138	3,717	11.3 %	\$895,644	\$731,807	22.4 %

Any 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 10-K for the year ended October 31, 1998.

Ten Year Financial Summary

Summary Consolidated Income Statement Data

(In Thousands Except Per Share Data)	October 31, 1998	October 31, 1997	October 31, 1996
Revenues	\$941,947	\$784,136	\$807,464
% change in revenues	20.1%	(2.9)%	3.8%
Costs and expenses	\$900,655	\$796,260	\$782,458
Income (loss) before income taxes, extraordinary loss and cumulative effect of change in accounting for income taxes	\$41,292	\$(12,124)	\$25,006
Pre-tax margin	4.4%	(1.5)%	3.1%
State and Federal income taxes	\$15,141	\$(5,154)	\$7,719
Effective tax rate	36.7%	(42.5)%	30.9%
Extraordinary loss from extinguishment of debt.....	\$ (748)		
Cumulative effect of change in accounting for income taxes			
Net income (loss).....	\$25,403	\$(6,970)	\$17,287
% change in net income (loss).....		(140.3)%	22.4%
Net margin.....	2.7%	(0.9)%	2.1%
Return on beginning equity.....	14.2%	(3.6)%	9.8%
Per common share (fully diluted):			
Net income	\$1.16	\$(0.31)	\$0.75
% change.....		(141.3)%	23.0%
Weighted average number of common shares outstanding (fully diluted) ⁽²⁾	22,016	22,712	23,120
EBITDA	\$85,040	\$57,148	\$64,017

Summary Consolidated Balance Sheet Data

(In Thousands Except Per Share Data)	October 31, 1998	October 31, 1997	October 31, 1996
Total assets.....	\$589,102	\$637,082	\$614,111
Mortgages and notes payable	\$150,282	\$184,519	\$145,336
Bonds collateralized by mortgages receivable.....	\$5,652	\$7,855	\$9,231
Subordinated notes	\$145,449	\$190,000	\$200,000
Stockholders' equity	\$201,392	\$178,762	\$193,622
Debt/equity ratio ⁽³⁾	1.1:1	1.6:1	1.2:1
Stockholders' equity per share.....	\$9.34	\$8.18	\$8.40

⁽¹⁾ The summary consolidated income statement data included above for the fiscal years ended October 31, 1995 through 1997 and February 28, (29), 1990 through 1994 has been derived from the Company's audited historical financial statements. The summary consolidated income statement 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.

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

⁽³⁾ Does not include non-recourse debt.

Year Ended						
October 31, 1995	October 31, 1994 ⁽¹⁾	February 28, 1994	February 28, 1993	February 29, 1992	February 28, 1991	February 28, 1990
\$777,745	\$704,443	\$587,010	\$429,315	\$318,527	\$275,428	\$410,409
10.4%	20.0%	36.7%	34.8%	15.6%	(32.9)%	10.7%
\$756,091	\$687,912	\$557,859	\$414,790	\$316,633	\$296,610	\$371,193
\$21,654	\$16,531	\$29,151	\$14,525	\$1,894	\$(21,182)	\$39,216
2.8%	2.3%	5.0%	3.4%	0.6%	(7.7)%	9.6%
\$7,526	\$5,054	\$9,229	\$4,735	\$299	\$(5,937)	\$17,428
34.8%	30.6%	31.7%	32.6%	15.8%	(28.0)%	44.4%
		\$(1,277)				
				\$883		
\$14,128	\$11,477	\$18,645	\$9,790	\$2,478	\$(15,245)	\$21,788
23.1%	(38.4)%	90.4%	295.1%		(169.9)%	(24.3)%
1.8%	1.6%	3.2%	2.3%	0.8%	(5.5)%	5.3%
8.7%	6.7%	12.4%	6.9%	2.0%	(10.8)%	18.2%
\$0.61	\$0.50	\$0.82	\$0.43	\$0.11	\$(0.74)	\$1.05
22.0%	(39.0)%	90.7%	290.9%		(170.0)%	(23.9)%
23,032	22,906	22,821	22,775	21,988	20,695	20,834
\$59,273	\$53,400	\$54,716	\$42,818	\$27,239	\$18,863	\$78,539
October 31, 1995	October 31, 1994	February 28, 1994	February 28, 1993	February 29, 1992	February 28, 1991	February 28, 1990
\$645,378	\$612,925	\$539,602	\$465,146	\$399,455	\$437,930	\$457,567
\$183,044	\$167,179	\$68,248	\$66,699	\$105,071	\$158,836	\$121,420
\$17,880	\$20,815	\$30,343	\$39,914	\$49,879	\$55,456	\$60,677
\$200,000	\$200,000	\$200,000	\$152,157	\$67,723	\$71,559	\$81,794
\$176,335	\$162,130	\$171,001	\$151,937	\$141,989	\$125,421	\$140,666
1.6:1	1.8:1	1.2:1	1.1:1	1.0:1	1.5:1	1.3:1
\$7.66	\$7.08	\$7.49	\$6.67	\$6.24	\$6.06	\$6.75

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

Capital Resources and Liquidity

The Company's cash uses during the twelve months ended October 31, 1998 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, the redemption of subordinated indebtedness, and the net reduction of the revolving credit line. The Company provided for its cash requirements from housing and land sales, the revolving credit facility, the sale of commercial facilities, financial service fees, and other revenues. The Company believes that these sources of cash are sufficient to finance its working capital requirements and other needs.

In December 1998 the Board of Directors increased the stock repurchase program to purchase up to 3 million shares of Class A Common Stock. This authorization expires on December 31, 2000. As of October 31, 1998, 1,591,500 shares were repurchased under this program of which 407,100 were repurchased the year ended October 31, 1998.

The Company's bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") which provides a revolving credit line and letter of credit line of up to \$280,000,000 through July 2001. Interest is payable monthly and at various rates of either the prime rate or Libor plus 1.45%. The Company believes that it will be able either to extend the Agreement beyond July 2001 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. The Company currently is in compliance and intends to maintain compliance with its covenants under the Agreement. As of October 31, 1998, borrowings under the Agreement were \$68,000,000.

The aggregate principal amount of subordinated indebtedness issued by the Company and outstanding as of October 31, 1998 was \$145,449,000. During the year ended October 31, 1998, the Company reduced its subordinated debt by \$44,551,000. See "Results of Operations - Extraordinary Loss." Payments of \$45,449,000 and \$100,000,000 are due in April 2002 and June 2005, respectively.

The Company's mortgage banking subsidiary borrows under a bank warehousing arrangement. 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 the Company's subsidiaries. As of October 31, 1998, the aggregate outstanding principal amount of such borrowings was \$72,318,000.

The book value of the Company's inventories, rental condominiums, and commercial properties completed and under development amounted to the following:

	October 31, 1998	October 31, 1997
Residential real estate inventory	\$375,733,000	\$410,393,000
Senior residential rental property	10,794,000	11,412,000
Total residential real estate	386,527,000	421,805,000
Commercial properties	17,832,000	38,946,000
Combined Total	\$404,359,000	\$460,751,000

Total residential real estate decreased \$35,278,000 from October 31, 1997 to October 31, 1998 as a result of an inventory decrease of \$34,660,000 and depreciation of senior residential rental property. The decrease in residential real estate inventory was primarily due to decreases in the Company's Northeast Region where fewer deliveries are planned for the first quarter of fiscal year 1999 compared to the same period in fiscal 1998. Residential homes under construction or completed and included in residential real estate inventory at October 31, 1998 are expected to be closed during the next twelve months. Most residential real estate, completed or under development, is financed through the Company's line of credit and subordinated indebtedness.

The following table summarizes housing lots included in the Company's total residential real estate:

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
October 31, 1998:			
Owned	8,054	1,673	6,381
Optioned.....	13,668	8	13,660
Total	21,722	1,681	20,041
October 31, 1997:			
Owned	8,266	1,848	6,418
Optioned.....	12,159	24	12,135
Total	20,425	1,872	18,553

The following table summarizes the Company's started or completed unsold homes in active, substantially completed and suspended communities:

	October 31, 1998			October 31, 1997		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region.....	180	16	196	279	63	342
North Carolina	93	—	93	83	—	83
Florida.....	24	6	30	47	11	58
Virginia.....	23	11	34	16	10	26
California	78	21	99	60	16	76
Poland.....	11	—	11	10	2	12
Total.....	409	54	463	495	102	597

Prior to the second quarter of fiscal 1997, the Company's commercial properties represented long-term investments in commercial and retail facilities completed or under development. At the end of the second quarter of fiscal 1997, the Company announced it was planning an orderly exit from the business of owning investment properties. During fiscal 1998, the Company sold all its remaining commercial facilities which had a book value of \$23,920,000 and outstanding loan balances of \$19,241,000 as of October 31, 1997. In addition, a 50% owned partnership sold its retail center. The Company has various parcels of land approved for commercial development. The Company has contracts on all such parcels and expects to close substantially all such land sales in the first quarter of 1999. See "Results of Operations - Investment Properties."

Collateral Mortgage Financing - collateral for bonds payable consists of collateralized mortgages receivable which are pledged against non-recourse collateralized mortgage obligations. Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$71,002,000 and \$47,660,000 at October 31, 1998 and October 31, 1997, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of

mortgage loans held for sale is being held as an investment by the Company. The Company 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, the Company has incurred minimal credit losses.

Results of Operations

The Company's operations consist primarily of residential housing development and sales in its Northeast Region (comprised primarily of New Jersey, southern New York state, and eastern Pennsylvania), in southeastern Florida, North Carolina, northern Virginia, southern California, and Poland. In addition, the Company had developed and operated commercial properties as long-term investments in New Jersey, and, to a lesser extent, Florida, but has exited this business (see "Investment Properties" below).

During the years ended October 31, 1998, 1997, and 1996, the Company's Northeast Region and North Carolina Division housing operations consistently produced operating profits. The Company's California housing operations produced profits in 1998 and 1997. In 1998, financial services and the sale of commercial properties also contributed profits to the Company. These profits have been reduced by net losses from its other housing divisions, the writedown of certain residential inventories and commercial properties to their estimated fair value and the write-off of optioned properties and related approval, engineering and capitalized interest costs. See "Notes to Consolidated Financial Statements - Note 10".

Historically, the Company's first two quarters produced the least amount of deliveries for the year and the fourth quarter produced the most deliveries for the year, sometimes in excess of 40%. The Company's management has made a concerted effort to change this trend using new management tools to focus on delivery evenness and through a new quarterly bonus incentive plan. The percentage distribution of deliveries for the last three years is as follows:

	Quarter Ended				Total
	January 31	April 30	July 31	October 31	
1998	24%	23%	26%	27%	100%
1997	16%	19%	25%	40%	100%
1996	14%	18%	25%	43%	100%

Total Revenues

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

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
<i>(Dollars in Thousands)</i>			
Homebuilding:			
Sale of homes	\$163,837	\$(32,875)	\$24,201
Land sales and other revenues	(11,572)	8,371	3,214
Financial services	8,363	(481)	868
Investment properties	(2,646)	2,838	1,388
Collateralized mortgage financing	(171)	(1,181)	48
Total change	\$157,811	\$(23,328)	\$29,719
Percent change	20.1%	(2.9%)	3.8%

Homebuilding

Compared to the same prior period, housing revenues increased \$163.8 million or 22.4% for the year ended October 31, 1998, after decreasing \$32.9 million or 4.3% for the year ended October 31, 1997, and increasing \$24.2 million or 3.3% for the year ended October 31, 1996. 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:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31,1998	October 31, 1997	October 31, 1996
Northeast Region:			
Housing Revenues	\$595,873	\$445,817	\$460,931
Homes Delivered	2,530	2,128	2,364
North Carolina:			
Housing Revenues	\$127,592	\$125,242	\$123,347
Homes Delivered	687	695	738
Florida:			
Housing Revenues	\$ 44,168	\$ 74,146	\$ 99,085
Homes Delivered	241	418	632
Virginia:			
Housing Revenues	\$ 38,904	\$ 14,398	\$ 16,749
Homes Delivered	152	70	75
California:			
Housing Revenues	\$ 82,546	\$ 69,252	\$ 64,570
Homes Delivered	457	365	325
Poland:			
Housing Revenues	\$ 6,561	\$ 2,952	—
Homes Delivered	71	41	—
Totals:			
Housing Revenues	\$895,644	\$731,807	\$764,682
Homes Delivered	4,138	3,717	4,134

The overall increase in housing revenues is a combination of higher deliveries and increases in average sales prices. The increase in the number of homes delivered during the year ended October 31, 1998 is primarily due to the increased deliveries in the Northeast Region, California and Virginia which was partially offset by decreased sales in Florida. The increase in the Northeast was due to the timing of deliveries in fiscal 1997 and the Company's desire to even out deliveries over the four quarters of fiscal 1998. In California, deliveries increased due to the opening of additional communities. In Virginia, deliveries increased due to the acquisition of a small home developer on May 1, 1998. In Florida, deliveries declined since the Company cut back its operations due to a highly competitive market. The increased average sales prices are primarily the result of diversifying the Company's product mix in the Northeast Region to include more detached single family homes and larger townhouses with garages designed for the move-up buyer and the sale of more decorator and structural options. In Florida, average sales prices increased as a result of fewer communities, all of which are higher priced single family developments. In Virginia, average sales prices increased because there was a higher percentage of single family detached homes delivered. In North Carolina, average sales prices did not show a significant change. In California, sales prices decreased due to a change in product mix to smaller, less expensive homes.

Unaudited quarterly housing revenues and sales contracts using base sales prices by market area for the years ending October 31, 1998, 1997, and 1996 are set forth below:

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998
Housing Revenues:				
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
Virginia.....	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

Sales Contracts (Net of Cancellations):				
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
Virginia.....	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

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 1997	July 31, 1997	April 30, 1997	January 31, 1997
Housing Revenues:				
Northeast Region.....	\$193,513	\$118,186	\$ 70,678	\$ 63,440
North Carolina.....	41,566	35,293	26,341	22,042
Florida.....	28,951	14,325	17,042	13,828
Virginia.....	5,214	2,759	3,018	3,407
California.....	23,317	15,113	18,489	12,333
Poland.....	1,212	1,008	667	65
Total	\$293,773	\$186,684	\$136,235	\$115,115

Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$134,280	\$124,860	\$118,840	\$ 92,544
North Carolina.....	29,409	30,339	35,988	31,506
Florida.....	11,134	15,296	21,399	9,708
Virginia.....	5,618	3,761	5,279	2,478
California.....	24,255	22,785	22,383	16,268
Poland.....	2,109	436	468	1,607
Total	\$206,805	\$197,477	\$204,357	\$154,111

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 1996	July 31, 1996	April 30, 1996	January 31, 1996
Housing Revenues:				
Northeast Region.....	\$210,951	\$112,665	\$ 81,950	\$ 55,365
North Carolina.....	44,334	33,506	24,445	21,062
Florida.....	38,910	21,407	20,890	17,878
Virginia.....	5,538	3,614	3,200	4,397
California.....	25,747	15,936	13,019	9,868
Total	\$325,480	\$187,128	\$143,504	\$108,570
Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$149,930	\$ 94,933	\$147,576	\$ 55,785
North Carolina.....	28,973	31,485	43,136	19,594
Florida.....	13,485	19,668	41,003	19,315
Virginia.....	1,638	2,249	5,821	3,463
California.....	16,419	14,847	19,496	8,209
Poland.....	1,306	—	—	—
Total	\$211,751	\$163,182	\$257,032	\$106,366

The Company's contract backlog using base sales prices by market area is set forth below:

<i>(Dollars in Thousands)</i>	October 31, 1998	October 31, 1997	October 31, 1996
Northeast Region:			
Total Contract Backlog.....	\$270,753	\$266,889	\$198,248
Number of Homes.....	1,132	1,287	977
North Carolina:			
Total Contract Backlog.....	\$ 48,713	\$ 45,879	\$ 43,587
Number of Homes.....	235	232	233
Florida:			
Total Contract Backlog.....	\$ 14,800	\$ 25,315	\$ 36,910
Number of Homes.....	73	150	217
Virginia:			
Total Contract Backlog.....	\$ 26,083	\$ 7,621	\$ 4,252
Number of Homes.....	115	27	24
California:			
Total Contract Backlog.....	\$ 20,721	\$ 25,636	\$ 8,073
Number of Homes.....	119	137	46
Poland:			
Total Contract Backlog.....	\$ 746	\$ 2,974	\$ 1,306
Number of Homes.....	7	39	19
Totals:			
Total Contract Backlog.....	\$381,816	\$374,314	\$292,376
Number of Homes.....	1,681	1,872	1,516

The Company has written down or written off certain residential inventories \$4.0 million, \$14.0 million and \$1.6 million during the years ended October 31, 1998, 1997, and 1996, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 10" for additional explanation. These writedowns and writeoffs were incurred primarily because of lower property values due to economic downturns, 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, 1998, the Company has written down one Florida residential community and one New Jersey parcel of land for sale. In the Florida residential community, higher discounts are being offered to speed up sales. At the New Jersey land site, lots are 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. The Company has also written off three New Jersey residential land options including approval, engineering and capitalized interest costs amounting to \$2.1 million. The Company did not exercise these options because of changes in local market conditions and difficulties in obtaining government approvals.

During the year ended October 31, 1997, the Company had written down certain residential communities, and written off certain residential land options including approval, engineering and capitalized interest costs. In Florida, the Company's return on investment was unsatisfactory. As a result, the Company established a goal to reduce its investment in Florida by \$25.0 million. To do so on an accelerated basis, it reduced prices and offered pricing concessions in all Florida residential communities. The Company also decided to sell all inactive properties in Florida. In the Northeast Region, the Company changed the product type to be constructed on a parcel of land it owns. In an active community in the Northeast Region, the Company incurred unforeseen development costs. Also in the Northeast, the Company decided to sell an optioned property instead of developing it. The result of the above decisions was a reduction in fair values below carrying amounts and, in accordance with FAS 121, the Company recorded an impairment loss on the related inventories. At October 31, 1997, residential inventories were reduced \$9.3 million to reduce such inventories to estimated fair value. The Northeast Region also wrote off costs associated with three option properties and related approval, engineering and capitalized interest costs amounting to \$4.7 million. In two cases, the Company decided not to exercise the option due to environmental problems. The third option was not exercised because the community's proforma profitability did not produce an adequate return on investment commensurate with the risk.

The writedowns of residential inventories during the year ended October 31, 1996 were primarily attributable to one community in New Jersey, a parcel of land in Florida and one community and a parcel of land in Virginia. In New Jersey, the writedown was due to the change in use of a parcel of land from residential to commercial. In Florida, a parcel of idle land was written down due to a decline in land values. In Virginia, the writedown was primarily due to reduced sales prices in one community. Also in Virginia, a reserve was recorded against a parcel of land which the Company was attempting to liquidate through lot sales.

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:

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
<i>(Dollars In Thousands)</i>			
Sale of homes.....	\$895,644	\$731,807	\$764,682
Cost of sales.....	740,871	617,312	638,944
Housing gross margin	\$154,773	\$114,495	\$125,738
Gross margin percentage	17.3%	15.6%	16.4%

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

<i>(Dollars In Thousands)</i>	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Sale of homes	100.0%	100.0%	100.0%
Cost of sales:			
Housing, land and development costs.....	74.8	76.0	75.5
Commissions	1.9	2.0	1.7
Financing concessions	0.7	0.9	1.0
Overheads.....	5.3	5.5	5.4
Total cost of sales.....	82.7	84.4	83.6
Gross margin	17.3%	15.6%	16.4%

The Company sells 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, 1998, the Company's gross margin increased 1.7% from the previous year. This can be attributed to higher gross margins being achieved in each of the Company's markets except Florida. Higher gross margins are primarily attributed to positive effects from process redesign and quality programs that reduced the housing and land development costs, selective price increases or reduced selling incentives in the Company's stronger markets, and an increased percentage of deliveries from the better performing communities. In addition, gross margin percentages are higher in the Northeast Region compared to the Company's other markets. In 1998, the gross margin benefited from a higher percentage of housing revenues from the Northeast Region amounting to 66.5% in fiscal 1998 compared to 60.9% in fiscal 1997.

During the year ended October 31, 1997, gross margins decreased in all the Company's markets compared to the prior year. This decline was primarily caused by higher housing, land and development costs and commission expenses. 0.3% of the increase was the result of unforeseen development costs in one community in the Northeast Region. The balance of the increase in housing, land and development costs was due to a higher number of communities not obtaining acceptable housing, land and development cost performance. The increase in commissions was the result of more co-broker sales and sales associate incentives to increase sales.

Selling and general administrative expenses as a percentage of homebuilding revenues decreased to 7.5% for the year ended October 31, 1998 from 8.2% for the year ended October 31, 1997 which had increased from 7.7% for the year ended October 31, 1996. The percentage decrease during the year ended October 31, 1998 is due to increased deliveries. The percentage increase during the year ended October 31, 1997 was due to increased costs while home deliveries declined. Such expenses increased \$5.7 million and \$1.8 million for the years ended October 31, 1998 and 1997, respectively, from the previous year. The dollar increase is due primarily to increased salary and bonus administration costs in 1998 and increased advertising and sales center operations in 1997.

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:

(In Thousands)	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Land and lot sales.....	\$8,636	\$22,855	\$13,998
Cost of sales.....	8,070	17,005	12,548
Land and lot sales gross margin	\$ 566	\$ 5,850	\$ 1,450

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

Financial Services

Financial services consists primarily of originating mortgages from the Company's homebuyers, as well as from third parties, selling such mortgages in the secondary market, and title insurance activities. During the year ended October 31, 1998 financial services provided a \$2.1 million pretax profit, up from break even the prior year and up from a pretax profit of \$.5 million in 1996. In the market areas served by the Company's wholly-owned mortgage banking subsidiaries, approximately 58%, 51%, and 51% of the Company's non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 1998, 1997, 1996, respectively. The Company's mortgage banking goals are to improve profitability by increasing the capture rate of its homebuyers and expanding its business to include originations from unrelated mortgages. The Company has initiated efforts to originate mortgages from unrelated third parties and expects these third party loans to increase as a percentage of the Company's total loan volume over the next few years. During the year ended October 31, 1998, third party loans amounted to 40% of total mortgage closings. Most servicing rights on new mortgages originated by the Company will be sold as the loans are closed.

Investment Properties

Investment Properties consist of rental properties, property management, and gains or losses from sale of such property. See "Capital Resources and Liquidity" for information on the Company's decision to sell its investment properties. The Company plans to liquidate all properties except for its senior rentals. At October 31, 1998, all properties had been liquidated except various parcels of land. These parcels are under contract and are expected to close during 1999. During the year ended October 31, 1998 one of these contracted parcels was written down \$1.0 million due to increased land development costs. During the years ended October 31, 1998 and 1997, investment property revenues included a \$6.5 million pretax gain and a \$4.9 million pretax gain, respectively, from the sale of its commercial facilities and land. Investment properties' expenses do not include interest expense (see "Interest" below).

Collateralized Mortgage Financing

In the years prior to February 29, 1988 the Company pledged mortgage loans originated by its mortgage banking subsidiaries against collateralized mortgage obligations ("CMOs"). Subsequently, the Company discontinued its 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, the Company has also sold a portion of its CMO pledged mortgages.

Corporate General and Administrative

Corporate general and administrative expenses includes the operations at the Company's headquarters in Red Bank, New Jersey. As a percentage of total revenues, such expenses were 2.2%, 1.9%, and 1.7% for the years ended October 31, 1998, 1997, and 1996, respectively. In 1998, the increase was primarily attributed to increased bonus accruals (there were no bonus accruals based on the Return on Equity incentive program in 1997), increased depreciation from the amortization of capitalized process redesign costs in prior years and increased expenditures for long term improvement initiatives. The Company's 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, 1998, 1997, and 1996 amounting to \$3.8 million, \$2.2 million, and \$1.6 million, respectively.

Interest

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Sale of homes.....	\$31,499	\$29,505	\$25,992
Land and lot sales.....	652	962	657
Rental properties.....	2,272	5,308	5,508
Total.....	\$34,423	\$35,775	\$32,157

Housing interest as a percentage of sale of home revenues amounted to 3.5%, 4.0%, and 3.4% for the years ended October 31, 1998, 1997, and 1996, respectively. The decrease in the percentage for the year ended October 31, 1998 was primarily due to decreased levels of debt during the year compared to 1997. This decrease was the result of the Company delivering a more even flow of homes during 1998. The increase in the percentage for the year ended October 31, 1997 was primarily the result of the Company discontinuing the capitalization of interest on communities in planning which were not under active development. As a result, interest expense increased approximately \$2.8 million for the year ended October 31, 1997.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations, amortization of subordinated note issuance expenses, and corporate owned life insurance loan interest.

Total Taxes

Total taxes as a percentage of income before income taxes amounted to 36.7% and 30.9% for the years ended October 31, 1998 and 1996, respectively. Net tax benefits as a percentage of the loss before income taxes amounted to 42.5% for the year ended October 31, 1997. 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. (See "Notes to Consolidated Financial Statements - Note 9" for an additional explanation of taxes.)

Extraordinary Loss

In October 1998, the Company redeemed \$44,551,000 of its 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.

Year 2000 Issues

The Company has assessed and formulated a plan to resolve its information technology ("IT") and non-IT system year 2000 issues. The Company has designated a full-time year 2000 project leader, engaged consultants to review and evaluate its plan, completed the identification of Company IT and non-IT noncompliant systems and is in the process of evaluating subcontractors' and suppliers' state of readiness. The Company's plan has prioritized its efforts on its software systems and computer hardware equipment. The Company has upgraded, fixed or retired 80% of its noncompliant systems. The Company expects to have substantially all critical IT software year 2000 capable and tested by June 30, 1999. All other Company IT and non-IT systems are not considered critical to Company operations, and if noncapable for year 2000, would only be an inconvenience. The Company does not anticipate the costs of implementation of its plan to have a material impact on future earnings and is expected to be funded through operations.

The Company is concerned about the readiness of its subcontractors and suppliers. The Company is in the process of communicating with these third parties. If the Company finds third parties whose lack of readiness as to year 2000 issues would have a substantial impact on the Company's operations, the Company will look to replace such subcontractors and suppliers. In most cases, the Company uses more than one subcontractor and supplier so it believes finding replacements will not be difficult.

The Company believes it is on track to solve its year 2000 issues. It does not believe it will have material lost revenues due to the year 2000 issues. Based on the above, it sees no need to develop a worst-case year 2000 scenario. However, the Company is in the process of developing year 2000 contingency plans which are approximately 75% complete.

Inflation

Inflation has a long-term effect on the Company because increasing costs of land, materials and labor result in increasing sales prices of its homes. In general, these price increases have been commensurate with the general rate of inflation in the Company's housing markets and have not had a significant adverse effect on the sale of the Company's 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 it sells homes, the Company has not found this risk to be a significant problem.

Inflation has a lesser short-term effect on the Company because the Company generally negotiates fixed price contracts with its subcontractors and material suppliers for the construction of its 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 55% of the Company's homebuilding cost of sales.

Consolidated Statements of Operations

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
<i>(In Thousands Except Per Share Data)</i>			
Revenues:			
Homebuilding:			
Sale of homes	\$895,644	\$731,807	\$764,682
Land sales and other revenues	15,411	26,983	18,612
Total Homebuilding	911,055	758,790	783,294
Financial Services.....	19,098	10,735	11,216
Investment Properties.....	11,111	13,757	10,919
Collateralized Mortgage Financing.....	683	854	2,035
Total Revenues.....	941,947	784,136	807,464
Expenses:			
Homebuilding:			
Cost of sales	748,941	634,317	651,492
Selling, general and administrative.....	68,170	62,475	60,704
Inventory impairment loss (Note 10)	3,994	14,019	1,608
Total Homebuilding.....	821,105	710,811	713,804
Financial Services.....	17,010	10,780	10,669
Investment Properties:			
Operations	3,395	5,909	6,388
Provision for impairment loss (Note 10)	1,038	14,446	
Total Investment Properties.....	4,433	20,355	6,388
Collateralized Mortgage Financing	672	878	2,076
Corporate General and Administration (Note 2)	21,048	15,088	14,002
Interest	34,423	35,775	32,157
Other operations	1,964	2,573	3,362
Total Expenses.....	900,655	796,260	782,458
Income (Loss) Before Income Taxes and Extraordinary Loss.....	41,292	(12,124)	25,006
State and Federal Income Taxes:			
State (Note 9).....	3,572	1,796	1,336
Federal (Note 9)	11,569	(6,950)	6,383
Total Taxes	15,141	(5,154)	7,719
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes.....	(748)		
Net Income (Loss)	\$ 25,403	\$ (6,970)	\$ 17,287
Per Share Data:			
Basic:			
Net Income (Loss) Per Common Share Before Extraordinary Loss.....	\$ 1.20	\$ (0.31)	\$ 0.75
Extraordinary Loss	(.03)		
Net Income (Loss)	\$ 1.17	\$ (0.31)	\$ 0.75
Assuming Dilution:			
Net Income (Loss) Per Common Share Before Extraordinary Loss.....	\$ 1.19	\$ (0.31)	\$ 0.75
Extraordinary Loss	(.03)		
Net Income (Loss)	\$ 1.16	\$ (0.31)	\$ 0.75

See notes to consolidated financial statements.

Consolidated Balance Sheets

<i>(In Thousands)</i>	October 31, 1998	October 31, 1997
Assets		
Homebuilding:		
Cash and cash equivalents (Note 4).....	\$ 13,306	\$ 7,952
Inventories - At cost, not in excess of fair value (Notes 6 and 10):		
Sold and unsold homes and lots under development.....	332,225	363,592
Land and land options held for future development or sale	43,508	46,801
Total Inventories.....	375,733	410,393
Receivables, deposits, and notes (Notes 5 and 11).....	29,490	35,723
Property, plant, and equipment - net (Note 3)	16,831	18,027
Prepaid expenses and other assets	32,650	36,708
Total Homebuilding	468,010	508,803
Financial Services:		
Cash	1,486	2,598
Mortgage loans held for sale (Note 5).....	71,611	48,382
Other assets.....	3,717	2,518
Total Financial Services	76,814	53,498
Investment Properties:		
Held for sale:		
Rental property - net (Notes 3 and 10).....		23,920
Land and improvements (Notes 3 and 10)	17,832	15,026
Other assets.....	295	1,397
Held for investment:		
Cash.....	762	763
Rental property - net (Note 3).....	10,794	11,412
Other assets.....	868	1,072
Total Investment Properties	30,551	53,590
Collateralized Mortgage Financing:		
Collateral for bonds payable (Note 5).....	5,970	7,999
Other assets.....	426	627
Total Collateralized Mortgage Financing.....	6,396	8,626
Income Taxes Receivable - Including deferred tax benefits (Note 9)	7,331	12,565
Total Assets.....	\$589,102	\$637,082

See notes to consolidated financial statements.

<i>(In Thousands)</i>	October 31, 1998	October 31, 1997
Liabilities and Stockholders' Equity		
Homebuilding:		
Nonrecourse land mortgages (Note 6)	\$ 11,846	\$ 20,625
Accounts payable and other liabilities.....	53,765	45,521
Customers' deposits (Note 4)	23,857	22,422
Nonrecourse mortgages secured by operating properties (Note 6).....	3,770	3,830
Total Homebuilding.....	93,238	92,398
Financial Services:		
Accounts payable and other liabilities.....	2,422	1,522
Mortgage warehouse line of credit (Note 5)	66,666	45,823
Total Financial Services.....	69,088	47,345
Investment Properties:		
Accounts payable and other liabilities.....	1,373	502
Nonrecourse mortgages secured by rental property.....		19,241
Total Investment Properties	1,373	19,743
Collateralized Mortgage Financing:		
Accounts payable and other liabilities.....	6	10
Bonds collateralized by mortgages receivable (Note 5).....	5,652	7,855
Total Collateralized Mortgage Financing	5,658	7,865
Notes Payable:		
Revolving credit agreement (Note 6)	68,000	95,000
Subordinated notes (Note 7)	145,449	190,000
Accrued interest	4,904	5,969
Total Notes Payable	218,353	290,969
Total Liabilities	387,710	458,320
Commitments and Contingent Liabilities (Notes 4 and 13)		
Stockholders' Equity (Notes 11 and 12):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 15,803,297 shares (including 1,937,374 shares in 1998 and 1,530,274 shares in 1997 held in Treasury)	157	156
Common Stock, Class B, \$.01 par value-(convertible to Class A at time of sale) authorized 13,000,000 shares; issued 8,040,171 shares (including 345,874 shares held in Treasury)	80	81
Paid in Capital.....	34,561	33,935
Retained Earnings (Note 7).....	183,182	157,779
Treasury Stock - at cost	(16,588)	(13,189)
Total Stockholders' Equity	201,392	178,762
Total Liabilities and Stockholders' Equity	\$589,102	\$637,082

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

<i>(Dollars in Thousands)</i>	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, 1995	15,038,483	\$154	7,998,570	\$83	\$33,935	\$147,462	\$ (5,299)	\$176,335
Conversion of Class B to Class A common stock	96,865	1	(96,865)	(1)		17,287		17,287
Net Income.....								
Balance, October 31, 1996	15,135,348	155	7,901,705	82	33,935	164,749	(5,299)	193,622
Conversion of Class B to Class A common stock	146,893	1	(146,893)	(1)				
Treasury stock purchases	(1,184,400)						(7,890)	(7,890)
Net Loss.....						(6,970)		(6,970)
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

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
<i>(In thousands)</i>			
Cash Flows From Operating Activities:			
Net Income (Loss)	\$25,403	\$ (6,970)	\$17,287
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	4,293	5,032	5,246
Loss (gain) on sale and retirement of property and assets	(6,189)	(4,760)	(1,998)
Deferred income taxes	1,987	(4,568)	(820)
Impairment losses	5,032	28,465	1,608
Decrease (increase) in assets:			
Receivables, prepaids and other assets	6,828	(6,830)	(4,297)
Mortgage notes receivable	(19,485)	2,858	(10,966)
Inventories	30,666	(48,105)	26,498
Increase (decrease) in liabilities:			
State and Federal income taxes	3,248	(7,325)	6,509
Customers' deposits	1,490	10,007	774
Interest and other accrued liabilities	2,235	3,726	(3,366)
Post development completion costs	4,438	(8,746)	4,062
Accounts payable	2,233	5,034	(3,681)
Net cash provided by (used in) operating activities	62,179	(32,182)	36,856
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets	30,436	14,997	10,308
Purchase of property	(3,135)	(3,156)	(5,882)
Investment in and advances to unconsolidated affiliates	243	195	3,792
Investment in income producing properties	(3,844)	(11,099)	(2,134)
Net cash provided by (used in) investing activities	23,700	937	6,084
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes	632,531	1,139,780	1,142,106
Principal payments on mortgages and notes	(668,987)	(1,101,969)	(1,188,449)
Principal payments on subordinated debt	(44,551)	(10,000)	
Investment in mortgage notes receivable	2,142	1,474	8,941
Purchase of treasury stock	(3,399)	(7,890)	
Proceeds from sale of stock	626		
Net cash provided by (used in) financing activities	(81,638)	21,395	(37,402)
Net Increase (Decrease) In Cash	4,241	(9,850)	5,538
Cash and Cash Equivalent Balance, Beginning of Period	11,313	21,163	15,625
Cash and Cash Equivalent Balance, End of Period	\$15,554	\$11,313	\$21,163
Supplemental Disclosures of Cash Flow:			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$35,135	\$35,869	\$32,194
Income Taxes	\$12,303	\$ 6,809	\$ 6,875
Non-cash Investing and Finance Activities:			
Debt assumed on sale of property and assets	\$13,530		

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 1998, 1997, and 1996

1. Summary of Accounting Policies

Operations - The Company, a Delaware Corporation, principally develops housing communities in New Jersey, Pennsylvania, New York, Florida, North Carolina, Virginia, California and Poland. In addition, the Company provides financial services to its homebuilding customers and third parties. The Company also developed and held for investment income producing properties but has exited from this business.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and all wholly-owned or majority-owned subsidiaries after elimination of all significant intercompany balances and transactions. The Company's investments in joint ventures in which the Company's interest is 50% or less are accounted for by the equity method of accounting.

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.

Income Recognition - Income from 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 - Cash includes cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury bills and government money market funds with original maturities of less than 90 days at date of issuance.

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. The Company's financial instruments consist of cash equivalents, mortgages and notes receivable, mortgages and notes payable, and the 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 in a community are amortized equally based upon the number of homes to be constructed in each housing community.

Interest costs related to properties in progress are capitalized during the construction period and expensed along with the associated cost of sales as the related inventories are sold (see Note 6).

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 the Company determines it will not exercise the option.

Property - Rental operations of the Company arise primarily from rental of commercial properties. In addition, the Company has, from time to time, rented under short-term leases condominium homes not yet under contract of sale. Such homes are reclassified from inventory and depreciated after a reasonable selling period not to exceed one year.

Post Development Completion Costs - In those instances where a development is substantially completed and sold and the Company has additional construction work to be incurred, an estimated liability is provided to cover the cost of such work.

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 December 10, 1998, the Company's Board of Directors approved an increase in the stock repurchase plan to purchase up to 3 million shares. The 3 million shares equals 13.0% of the Company's total and outstanding shares as of December 16, 1996 when the initial repurchase plan was approved by the Board. As of October 31, 1998, 1,591,500 shares have been repurchased under this program.

Depreciation - The straight-line method is used for both financial and tax reporting purposes for all assets except office furniture and equipment, which are depreciated using the declining balance method over their estimated useful lives.

Prepaid Expenses - Prepaid expenses which relate to specific housing communities (marketing materials, 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. The Company intends to continue accounting for its stock option plan under APB 25. Under APB 25, no compensation expense was recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant (see Note 12).

Per Share Calculations - New Accounting Pronouncement - 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. The Company has adopted FAS 128 for 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. Diluted earnings per common share has been presented for prior years and is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 235,000, 97,000, and 83,000 for the years ended October 31, 1998, 1997, and 1996, respectively.

New Accounting Pronouncement - Statement of Financial Accounting Standards No. 131 ("FAS 131") "Disclosures About Segments of an Enterprise and Related Information" requires disclosure about operating segments and is effective for fiscal years beginning after December 15, 1997. At October 31, 1998, the Company has not adopted FAS 131. The Company believes the requirements of FAS 131 are not expected to materially impact the Company.

2. Corporate Initiatives

The Company has embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administration is \$3,756,000, \$2,216,000, and \$1,601,000 for the years ended October 31, 1998, 1997, and 1996, respectively, related to such initiatives.

3. Property

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used by the Company and its subsidiaries to conduct day to day business. Homebuilding accumulated depreciation related to these assets at October 31, 1998 and October 31, 1997 amounted to \$15,088,000 and \$15,338,000, respectively. At October 31, 1997, held for sale - rental property consisted of two office buildings, three office warehouse facilities and one retail shopping center. All held for sale - rental property was sold during the year ended October 31, 1998 for \$33,442,000 resulted in a pretax gain on \$6,475,000. In addition at October 31, 1998 and 1997, two senior residential rental properties were classified as held for investment - rental property. Accumulated depreciation on rental property at October 31, 1998 and October 31, 1997 amounted to \$1,826,000 and \$10,450,000, respectively. The Company owned and held for sale three parcels of commercial land at October 31, 1998. All three parcels are under contract and are expected to close during the year ended October 31, 1999 for \$20,955,000. During the year ended October 31, 1998 a 50%-owned partnership also sold its retail center resulting in the Company recording a pretax gain of \$1,418,000.

4. Escrow Cash

The Company holds escrow cash amounting to \$4,775,000 and \$3,248,000 at October 31, 1998 and October 31, 1997, respectively, which primarily represents customers' deposits which are restricted from use by the Company. The Company is able to release escrow cash by pledging letters of credit. At October 31, 1998 and October 31, 1997, \$14,000,000 and \$13,500,000 was released from escrow and letters of credit were pledged, respectively. Escrow cash accounts are substantially invested in short-term certificates of deposit or time deposits.

5. Mortgages and Notes Receivable

The Company's wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of the Company's 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, 1998 and October 31, 1997, respectively, \$71,002,000 and \$47,660,000 of such mortgages were pledged against the Company's mortgage warehouse line (see "Notes to Consolidated

Financial Statements - Note 6"). The Company 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, the Company has 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, 1998.

6. 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 \$115,000 in 1999, \$119,000 in 2000, \$132,000 in 2001, \$138,000 in 2002, \$2,581,000 in 2003, and \$685,000 after 2003. The interest rates on these obligations range from 7.000% to 8.375%.

The Company has an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$280,000,000 through July 2001. Interest is payable monthly and at various rates of either the prime rate or LIBOR plus 1.45%. In addition, the Company pays .325% per annum on the weighted average unused portion of the line.

Interest costs incurred, expensed and capitalized were:

(Dollars In Thousands)	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Interest incurred ⁽¹⁾ :			
Residential ⁽³⁾	\$26,675	\$29,469	\$30,058
Commercial ⁽⁴⁾	2,272	5,308	5,493
Total incurred.....	\$28,947	\$34,777	\$35,551
Interest expensed:			
Residential ⁽³⁾	\$32,151	\$30,467	\$26,649
Commercial ⁽⁴⁾	2,272	5,308	5,508
Total expensed.....	\$34,423	\$35,775	\$32,157
Interest capitalized at beginning of year.....	\$35,950	\$39,152	\$36,182
Plus interest incurred.....	28,947	34,777	35,551
Less interest expensed.....	34,423	35,775	32,157
Less impairment adjustments.....	—	275	424
Less property written off.....	460	945	—
Less sale of assets.....	4,469	984	—
Interest capitalized at end of year.....	\$25,545	\$35,950	\$39,152
Interest capitalized at end of year ⁽⁵⁾ :			
Residential ⁽³⁾	\$23,868	\$29,804	\$32,669
Commercial ⁽²⁾	1,677	6,146	6,483
Total interest capitalized.....	\$25,545	\$35,950	\$39,152

⁽¹⁾ Data does not include interest incurred by the Company's mortgage and finance subsidiaries.

⁽²⁾ Data does not include a reduction for depreciation.

⁽³⁾ Represents acquisition interest for construction, land and development costs which is charged to interest expense when land is not under active development and when homes are delivered.

⁽⁴⁾ Represents interest allocated to or incurred on long term debt for investment properties and charged to interest expense.

⁽⁵⁾ Commercial interest for October 31, 1997 includes \$832,000 reported at October 31, 1996 as capitalized residential interest. This reclassification was the result of the transfer of two parcels of land and related capitalized interest from homebuilding to investment properties.

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

(Dollars In Thousands)	October 31, 1998	October 31, 1997	October 31, 1996
Average outstanding borrowings.....	\$ 98,090	\$133,760	\$127,770
Average interest rate during period.....	8.4%	8.2%	8.5%
Average interest rate at end of period ⁽¹⁾	6.9%	7.8%	7.6%
Maximum outstanding at any month end.....	\$125,325	\$184,550	\$157,125

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

7. Subordinated Notes

On April 29, 1992, the Company issued \$100,000,000 principal amount of 11 1/4% Subordinated Notes due April 15, 2002. Interest is payable semi-annually. In November and December 1996, the Company redeemed \$10,000,000 principal amount at an average price of 100.3% of par. In October 1998, the Company also redeemed \$44,551,000 principal amount at an average price of 101.6% of par. The funds for this redemption 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. The remaining principal amount is due April 2002.

On June 7, 1993, the Company 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 the Company's 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.

The indentures relating to the subordinated notes and the Revolving Credit Agreement contain restrictions on the payment of cash dividends. At October 31, 1998, \$42,995,000 of retained earnings were free of such restrictions.

The fair value of the Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The combined fair value of the Subordinated Notes is estimated at \$136,329,000 as of October 31, 1998.

8. Retirement Plan

In December 1982, the Company 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 \$1,523,000, \$1,520,000, and \$1,406,000 for the years ended October 31, 1998, 1997, and 1996, respectively.

9. Income Taxes

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

<i>(In Thousands)</i>	October 31, 1998	October 31, 1997
State income taxes:		
Current	\$ 2,897	\$ 1,387
Deferred	(1,495)	(1,586)
Federal income taxes:		
Current	36	(1,611)
Deferred	(8,769)	(10,755)
Total	\$(7,331)	\$(12,565)

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996
Current income tax expense:			
Federal ⁽¹⁾	\$ 9,177	\$(2,381)	\$7,205
State	3,484	2,051	1,768
	12,661	(330)	8,973
Deferred income tax expense:			
Federal	1,989	(4,569)	(822)
State	88	(255)	(432)
	2,077	(4,824)	(1,254)
Total	\$14,738	\$(5,154)	\$7,719

⁽¹⁾ The current federal income tax expense includes a tax benefit of \$403,000 in the year ended October 31, 1998 relating to the loss on the redemption of Subordinated Notes that was reported as an extraordinary item in the "Statement of Operations."

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

(In Thousands)	October 31, 1998	October 31, 1997
Deferred tax assets:		
Deferred income	\$ 40	\$ 321
Maintenance guarantee reserves.....	701	481
Provision to reduce inventory to net realizable value	136	95
Inventory impairment loss.....	6,077	8,621
Uniform capitalization of overhead	2,967	3,972
Post development completion costs.....	1,379	509
State net operating loss carryforwards	27,205	22,227
Other	843	639
Total	39,348	36,865
Valuation allowance ⁽²⁾	(27,205)	(22,227)
Deferred tax assets.....	12,143	14,638
Deferred tax liabilities:		
Deferred interest	31	31
Installment sales.....	137	208
Accelerated depreciation	1,711	2,058
Total	1,879	2,297
Net deferred tax assets	\$10,264	\$12,341

⁽²⁾ The net change in the valuation allowance of \$4,978,000 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, 1998	October 31, 1997	October 31, 1996
Computed "expected" tax rate.....	35.0 %	(35.0)%	35.0%
State income taxes, net of Federal income tax benefit.....	6.0 %	11.6 %	3.2%
Company owned life insurance.....	(1.6)%	(6.2)%	(2.9)%
Low income housing tax credit	(3.4)%	(11.2)%	(5.3)%
Other7 %	(1.9)%	.9%
Effective tax rate	36.7 %	(42.7)%	30.9%

The Company has state net operating loss carryforwards for financial reporting and tax purposes of \$359,000,000 due to expire between the years October 31, 1999 and October 31, 2013.

10. Reduction of Inventory to Fair Value

In accordance with FAS 121, the Company records impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cashflows estimated to be generated by those assets are less than their related carrying amounts. As of October 31, 1998, 1997 and 1996, inventory with a carrying amount of \$3,077,000, \$33,143,000 and \$2,240,000, respectively, was written down by \$353,000, \$9,258,000 and \$1,289,000, respectively, to its fair value. This was based on the Company's 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. The writedowns during the year ended October 31, 1997 were attributable to numerous communities in Florida after the Company decided to reduce its investment in that state and two communities in New Jersey resulting from a product type change and unforeseen development costs.

Also in accordance with FAS 121, the Company records 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, 1998, 1997 and 1996, inventory and commercial properties with a carrying amount of \$4,629,000, \$32,008,000 and \$12,031,000, respectively, was written down by \$2,588,000, \$12,690,000 and \$3,795,000, respectively, to its fair value. 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. The writedowns during the year ended October 31, 1997 were attributable to four residential parcels of land in Florida, one residential parcel of land in New Jersey, one multi-use commercial parcel of

land in New Jersey and two Florida commercial facilities with expansion land attached to one facility. During the year ended October 31, 1998, when these commercial facilities were liquidated, the Company recovered the carrying value. During the years ended October 31, 1998, 1997 and 1996, the Company 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 operations, on the inventory held for development and the land or commercial facilities held for sale were \$2,941,000, \$21,948,000, and \$1,608,000 for the years ended October 31, 1998, 1997 and 1996, respectively.

On the statement of operations, the lines entitled "Homebuilding - Inventory impairment loss" and "Investment Properties - Provision for impairment loss" also include writeoffs of options including approval, engineering and capitalized interest costs. During the year ended October 31, 1998, the writeoffs amounted to \$2,091,000 and zero, respectively. During the year ended October 31, 1997, the writeoffs amounted to \$4,761,000 and \$1,756,000, respectively. During 1998, the Company did not exercise three residential options because of changes in local market conditions and difficulties in obtaining government approvals. During 1997, the Company decided not to exercise three residential options due to environmental problems or the property's proforma did not produce an adequate return on investment commensurate with the risk and one commercial property option because an anchor tenant with an acceptable credit rating could not be found.

11. Transactions With Related Parties

The Company's Board of Directors has adopted a general policy providing that it will not make loans to officers or directors of the Company 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 the Company's Board of Directors who have no interest in the transaction. At October 31, 1998 and 1997 included in receivables, deposits and notes are related party receivables from officers and directors amounted to \$2,117,000 and \$1,889,000, respectively. Notwithstanding the policy stated above, the Board of Directors of the Company concluded that the following transactions were in the best interests of the Company.

The Company provides property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, Chief Executive Officer, President and a Director of the Company, is a general partner, and members of his family and certain officers and directors of the Company are limited partners. At October 31, 1998, no amounts were due the Company by these partnerships.

12. Stock Option Plan

The Company has 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. All options expire after ten years after the date of the grant. In addition, during the year ended October 31, 1997 each of the three outside directors of the Company were granted options to purchase 5,000 shares at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	October 31, 1998	Weighted Average Exercise Price	October 31, 1997	Weighted Average Exercise Price	October 31, 1996	Weighted Average Exercise Price
Options outstanding at beginning of period	1,336,500	\$7.83	1,156,000	\$8.04	1,176,000	\$8.00
Granted	291,500	\$9.09	190,500	\$6.47		
Exercised	114,667	\$5.45				
Forfeited	98,333	\$9.98	10,000	\$5.81	20,000	\$5.81
Options outstanding at end of period	1,415,000	\$8.13	1,336,500	\$7.83	1,156,000	\$8.04
Options exercisable at end of period	1,013,166		1,069,333		996,000	
Price range of options outstanding	\$5.13-\$11.50		\$5.13-\$11.50		\$5.13-\$11.50	
Weighted-average remaining contractual life.....	5.4 yrs.		5.4 yrs.		5.8 yrs.	

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 the Company had accounted for its 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 1998 and 1997: risk-free interest rate of 4.5% and 5.8%, respectively; dividend yield of zero; volatility factor of the expected market price of the Company's common stock of 0.46 and 0.47, respectively; and a weighted-average expected life of the option of 7.5 and 7.0 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 the Company's 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. The Company's pro forma information follows (in thousands except for earnings per share information):

	Year Ended		
	October 31, 1998	October 31, 1997	October 31, 1996 ⁽¹⁾
Pro forma net income (loss)	\$25,107	\$(7,131)	\$17,287
Pro forma basic earnings (loss) per share.....	\$ 1.15	\$ (0.32)	\$ 0.75
Pro forma diluted earnings (loss) per share	\$ 1.14	\$ (0.32)	\$ 0.75

⁽¹⁾ No options were granted in 1996, as a result pro forma amounts equal actual per the income statement.

13. Commitments and Contingent Liabilities

The Company is 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 the Company.

As of October 31, 1998 and 1997, respectively, the Company is obligated under various performance letters of credit amounting to \$6,934,000 and \$6,834,000.

14. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 1998, 1997, and 1996 is as follows:

	Three Months Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998
<i>(In Thousands Except Per Share Data)</i>				
Revenues.....	\$267,542	\$248,125	\$212,320	\$213,960
Expenses	\$255,268	\$235,735	\$204,710	\$204,942
Income before income taxes and extraordinary loss..	\$ 12,274	\$ 12,390	\$ 7,610	\$ 9,018
State and Federal income tax	\$ 4,762	\$ 4,677	\$ 2,597	\$ 3,105
Extraordinary loss from extinguishment of debt, net of income taxes	\$ (748)			
Net income	\$ 6,764	\$ 7,713	\$ 5,013	\$ 5,913
Per Share Data:				
Basic:				
Income per common share before extraordinary loss	\$ 0.35	\$ 0.35	\$ 0.23	\$ 0.27
Extraordinary loss	\$ (.03)			
Income	\$ 0.32	\$ 0.35	\$ 0.23	\$ 0.27
Weighted average number of common shares outstanding	21,661	21,785	21,848	21,834
Assuming Dilution:				
Income per common share before extraordinary loss	\$ 0.34	\$ 0.35	\$ 0.23	\$ 0.27
Extraordinary loss	\$ (.03)			
Income	\$ 0.31	\$ 0.35	\$ 0.23	\$ 0.27
Weighted average number of common shares outstanding	21,896	22,018	22,042	21,985

(In Thousands Except Per Share Data)	Three Months Ended ⁽¹⁾			
	October 31, 1997	July 31, 1997	April 30, 1997	January 31, 1997
Revenues.....	\$315,150	\$205,107	\$143,526	\$120,353
Expenses	\$302,494	\$196,105	\$173,453	\$124,208
Income before income taxes	\$ 12,656	\$ 9,002	\$ (29,927)	\$ (3,855)
State and Federal income tax	\$ 4,930	\$ 2,782	\$ (10,785)	\$ (2,081)
Net income (loss)	\$ 7,726	\$ 6,220	\$ (19,142)	\$ (1,774)
Per Share Data:				
Basic:				
Income per common share	\$ 0.35	\$ 0.27	\$ (0.83)	\$ (.08)
Weighted average number of common shares outstanding	22,098	22,409	22,925	23,037
Assuming dilution:				
Income per common share	\$ 0.35	\$ 0.27	\$ (0.83)	\$ (.08)
Weighted average number of common shares outstanding	22,195	22,485	22,999	23,121

(In Thousands Except Per Share Data)	Three Months Ended ⁽¹⁾			
	October 31, 1996	July 31, 1996	April 30, 1996	January 31, 1996
Revenues	\$342,049	\$195,812	\$152,464	\$117,139
Expenses	\$323,474	\$191,280	\$150,881	\$116,823
Income before income taxes	\$ 18,575	\$ 4,532	\$ 1,583	\$ 316
State and Federal income tax.....	\$ 6,146	\$ 1,422	\$ 335	\$ (184)
Net income	\$ 12,429	\$ 3,110	\$ 1,248	\$ 500
Per Share Data:				
Basic:				
Income per common share	\$ 0.54	\$ 0.13	\$ 0.06	\$ 0.02
Weighted average number of common shares outstanding.....	23,037	23,037	23,037	23,037
Assuming dilution:				
Income per common share	\$ 0.54	\$ 0.13	\$ 0.06	\$ 0.02
Weighted average number of common shares outstanding.....	23,120	23,115	23,112	23,093

⁽¹⁾ The earnings per share for the years ended October 31, 1997 and 1996 have been restated as required to comply with FAS 128. For further discussion of earnings per share and the impact of FAS 128, see Note 1.

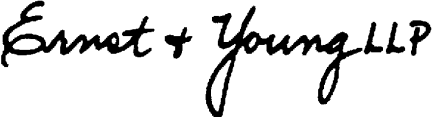
Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles.



Ernst & Young LLP

New York, New York
December 15, 1998

Board of Directors and Corporate Officers

KEVORK S. HOVNANIAN
*Founder, Chairman of the Board
and Director*

ARA K. HOVNANIAN
*President, Chief Executive Officer
and Director*

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

DESMOND P. McDONALD
Director

STEPHEN D. WEINROTH
*Director and Partner
Andersen, Weinroth and Co., L.P.*

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

WILLIAM L. CARPITELLA
*Senior Vice President –
Organizational Development*

GERALD L. COSTANZO
Vice President of Training

MARK S. HODGES
Vice President for Quality

TIMOTHY P. MASON
Vice President – Risk Management

NANCY A. MARRAZZO
Assistant Treasurer

PETER S. REINHART
*Senior Vice President
General Counsel and Director*

JOHN D. ROBERTS
Vice President of Process Redesign

AVNI SHARMA
Vice President and Chief Information Officer

J. LARRY SORSBY
*Senior Vice President, Treasurer,
Chief Financial Officer and Director*

Corporate Information

Annual Meeting

March 5, 1999, 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

Auditors

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1211 Avenue of the Americas
New York, New York 10036

Counsel

Simpson Thacher & Bartlett
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New York, New York 10017-3909

Transfer Agent and Registrar

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Boston EquiServe
P.O. Box 8040
Boston, MA 02266-8040
<http://www.EquiServe.com>

Investor Relations Contact

J. Larry Sorsby
*Senior Vice President, Treasurer
and Chief Financial Officer*
(732) 747-7800

For additional information, visit our
website at <http://www.khov.com>



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