

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

(Mark One)

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

For quarterly period ended JULY 31, 2012

OR

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

Commission file number 1-8551

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)

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

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

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

N/A (Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large Accelerated Filer Accelerated Filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 117,626,144 shares of Class A Common Stock and 14,658,653 shares of Class B Common Stock were outstanding as of September 4, 2012.

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

	July 31, 2012 <u>(Unaudited)</u>	October 31, 2011 <u>(1)</u>
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 219,326	\$ 244,356
Restricted cash	48,143	73,539
Inventories:		
Sold and unsold homes and lots under development	708,343	720,149
Land and land options held for future development or sale	213,482	245,529
Consolidated inventory not owned:		
Specific performance options	-	2,434
Other options	82,203	-
Total consolidated inventory not owned	82,203	2,434
Total inventories	1,004,028	968,112
Investments in and advances to unconsolidated joint ventures	59,680	57,826
Receivables, deposits, and notes	61,142	52,277
Property, plant, and equipment – net	49,674	53,266
Prepaid expenses and other assets	65,222	67,698
Total homebuilding	1,507,215	1,517,074
Financial services:		
Cash and cash equivalents	14,644	6,384
Restricted cash	9,020	4,079
Mortgage loans held for sale	91,353	72,172
Other assets	2,611	2,471
Total financial services	117,628	85,106
Total assets	<u>\$ 1,624,843</u>	<u>\$ 1,602,180</u>

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

See notes to condensed consolidated financial statements (unaudited).

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

	July 31, 2012 (Unaudited)	October 31, 2011 (1)
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse land mortgages	\$ 44,586	\$ 26,121
Accounts payable and other liabilities	299,011	303,633
Customers' deposits	25,143	16,670
Nonrecourse mortgages secured by operating properties	19,024	19,748
Liabilities from inventory not owned	69,797	2,434
Total homebuilding	457,561	368,606
Financial services:		
Accounts payable and other liabilities	21,696	14,517
Mortgage warehouse line of credit	78,208	49,729
Total financial services	99,904	64,246
Notes payable:		
Senior secured notes	967,871	786,585
Senior notes	458,607	802,862
TEU senior subordinated amortizing notes	7,004	13,323
Accrued interest	31,405	21,331
Total notes payable	1,464,887	1,624,101
Income taxes payable	6,692	41,829
Total liabilities	2,029,044	2,098,782
Equity:		
Hovnanian Enterprises, Inc. stockholders' equity deficit:		
Preferred stock, \$.01 par value - authorized 100,000 shares; issued 5,600 shares with a liquidation preference of \$140,000 at July 31, 2012 and at October 31, 2011	135,299	135,299
Common stock, Class A, \$.01 par value – authorized 200,000,000 shares; issued 129,385,707 shares at July 31, 2012 and 92,141,492 shares at October 31, 2011 (including 11,760,763 and 11,694,720 shares at July 31, 2012 and October 31, 2011, respectively, held in Treasury)	1,294	921
Common stock, Class B, \$.01 par value (convertible to Class A at time of sale) authorized 30,000,000 shares; issued 15,351,601 shares at July 31, 2012 and 15,252,212 shares at October 31, 2011 (including 691,748 shares at July 31, 2012 and October 31, 2011 held in Treasury)	154	153
Paid in capital - common stock	665,443	591,696
Accumulated deficit	(1,091,293)	(1,109,506)
Treasury stock - at cost	(115,360)	(115,257)
Total Hovnanian Enterprises, Inc. stockholders' equity deficit	(404,463)	(496,694)
Noncontrolling interest in consolidated joint ventures	262	92
Total equity deficit	(404,201)	(496,602)
Total liabilities and equity	\$ 1,624,843	\$ 1,602,180

(1) Derived from the audited balance sheet as of October 31, 2011.
See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Revenues:				
Homebuilding:				
Sale of homes	\$ 371,481	\$ 276,479	\$ 936,305	\$ 759,338
Land sales and other revenues	4,743	1,289	36,014	13,695
Total homebuilding	376,224	277,768	972,319	773,033
Financial services	10,787	7,850	25,990	20,249
Total revenues	387,011	285,618	998,309	793,282
Expenses:				
Homebuilding:				
Cost of sales, excluding interest	305,178	234,256	794,168	646,149
Cost of sales interest	14,298	14,222	40,091	43,804
Inventory impairment loss and land option write-offs	689	11,426	7,230	41,876
Total cost of sales	320,165	259,904	841,489	731,829
Selling, general and administrative	36,230	34,900	104,609	114,944
Total homebuilding expenses	356,395	294,804	946,098	846,773
Financial services	6,111	5,547	16,651	16,194
Corporate general and administrative	11,913	11,648	36,961	38,609
Other interest	24,590	25,207	72,641	74,079
Other operations (income) expense	(3,099)	341	3,289	1,933
Total expenses	395,910	337,547	1,075,640	977,588
Gain (loss) on extinguishment of debt	6,230	(1,391)	57,966	(3,035)
Income (loss) from unconsolidated joint ventures	852	(2,255)	2,324	(6,479)
(Loss) before income taxes	(1,817)	(55,575)	(17,041)	(193,820)
State and federal income tax (benefit) provision:				
State	(36,563)	(4,642)	(35,461)	(4,349)
Federal	70	(3)	207	(1,732)
Total income taxes	(36,493)	(4,645)	(35,254)	(6,081)
Net income (loss)	\$ 34,676	\$ (50,930)	\$ 18,213	\$ (187,739)
Per share data:				
Basic:				
Income (loss) per common share	\$ 0.25	\$ (0.47)	\$ 0.15	\$ (1.92)
Weighted-average number of common shares outstanding	138,472	108,721	121,357	97,648
Assuming dilution:				
Income (loss) per common share	\$ 0.25	\$ (0.47)	\$ 0.15	\$ (1.92)
Weighted-average number of common shares outstanding	138,552	108,721	121,380	97,648

See notes to condensed consolidated financial statements (unaudited).

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

	A Common Stock		B Common Stock		Preferred Stock		Paid-In Capital	Accumulated Deficit	Treasury Stock	Non-controlling Interest	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, November 1, 2011	80,446,772	\$ 921	14,560,464	\$ 153	5,600	\$ 135,299	\$ 591,696	\$ (1,109,506)	\$ (115,257)	\$ 92	\$ (496,602)
Stock options, amortization and issuances							3,332				3,332
Restricted stock amortization, issuances and forfeitures	171,248	2	117,399	1			284				287
Stock issuance	25,000,000	250					47,000				47,250
Issuance of shares for debt	8,443,713	85					23,167				23,252
Settlement of prepaid common stock purchase contracts	3,611,244	36					(36)				-
Conversion of Class B to Class A Common Stock	18,010		(18,010)								-
Changes in noncontrolling interest in consolidated joint ventures										170	170
Treasury stock purchases	(66,043)								(103)		(103)
Net income								18,213			18,213
Balance, July 31, 2012	<u>117,624,944</u>	<u>\$ 1,294</u>	<u>14,659,853</u>	<u>\$ 154</u>	<u>5,600</u>	<u>\$ 135,299</u>	<u>\$ 665,443</u>	<u>\$ (1,091,293)</u>	<u>\$ (115,360)</u>	<u>\$ 262</u>	<u>\$ (404,201)</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended July 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ 18,213	\$ (187,739)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,711	7,167
Compensation from stock options and awards	3,734	5,110
Amortization of bond discounts and deferred financing costs	5,253	4,456
Gain on sale and retirement of property and assets	(81)	(44)
(Income) loss from unconsolidated joint ventures	(2,324)	6,479
Distributions of earnings from unconsolidated joint ventures	537	366
(Gain) loss on extinguishment of debt	(57,966)	3,035
Expenses related to the debt for debt exchange	4,694	-
Inventory impairment and land option write-offs	7,230	41,876
(Increase) decrease in assets:		
Mortgage loans held for sale	(19,181)	33,128
Restricted cash, receivables, prepaids, deposits and other assets	14,129	42,344
Inventories	(8,831)	(85,657)
Increase (decrease) in liabilities:		
State and federal income tax liabilities	(35,137)	17,872
Customers' deposits	7,200	5,970
Accounts payable, accrued interest and other accrued liabilities	(4,256)	(73,604)
Net cash used in operating activities	<u>(62,075)</u>	<u>(179,241)</u>
Cash flows from investing activities:		
Proceeds from sale of property and assets	3,033	950
Purchase of property, equipment, and other fixed assets	(4,874)	(743)
Investments in and advances to unconsolidated joint ventures	(2,889)	(3,288)
Distributions of capital from unconsolidated joint ventures	2,820	2,999
Net cash used in investing activities	<u>(1,910)</u>	<u>(82)</u>
Cash flows from financing activities:		
Proceeds from mortgages and notes	8,347	61
Payments from mortgages and notes	(11,179)	-
Proceeds from land bank financing program	38,146	-
Proceeds from Senior Debt	-	151,220
Net proceeds from Senior Secured Notes	-	12,660
Net proceeds from Tangible Equity Units issuance	-	83,707
Net proceeds from Common Stock issuance	47,250	54,899
Net payments related to mortgage warehouse lines of credit	28,479	(31,984)
Principal payments and debt repurchases	(75,435)	(170,639)
Proceeds from model sale leaseback financing programs	31,651	-
Deferred financing costs from land bank financing program and note issuance	(1,067)	(5,396)
Payments related to the debt for debt exchange	(18,874)	-
Purchase of treasury stock	(103)	-
Net cash provided by financing activities	<u>47,215</u>	<u>94,528</u>
Net decrease in cash and cash equivalents	<u>(16,770)</u>	<u>(84,795)</u>
Cash and cash equivalents balance, beginning of period	250,740	367,180
Cash and cash equivalents balance, end of period	<u>\$ 233,970</u>	<u>\$ 282,385</u>

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

	Nine Months Ended July 31,	
	2012	2011
Supplemental disclosures of cash flow:		
Cash received during the period for:		
Income taxes	\$ 117	\$ 24,024

Supplemental disclosure of noncash financing activities:

During the three months ended July 31, 2012, we purchased our partners' interest in one of our unconsolidated homebuilding joint ventures. The consolidation of this entity resulted in increases in inventory, non-recourse land mortgages and accounts payables and other liabilities of \$43.7 million, \$20.6 million and \$13.2 million, respectively.

In fiscal 2012, we completed several debt for equity exchanges. See Notes 11, 12 and 15 for further information.

In the first quarter of fiscal 2012, we completed a debt for debt exchange. See Note 11 for further information.

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

See notes to Condensed Consolidated Financial Statements (unaudited).

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

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

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

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

2. For the three and nine months ended July 31, 2012, the Company's total stock-based compensation expense was \$0.8 million and \$3.7 million, respectively, and \$1.5 million and \$5.1 million for the three and nine months ended July 31, 2011, respectively. Included in this total stock-based compensation expense was the vesting of stock options of \$0.7 million and \$3.3 million for the three and nine months ended July 31, 2012, respectively, and \$1.1 million and \$3.7 million for the three and nine months ended July 31, 2011, respectively.

3. Interest costs incurred, expensed and capitalized were:

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Interest capitalized at beginning of period	\$ 118,435	\$ 135,556	\$ 121,441	\$ 136,288
Plus interest incurred(1)	39,477	40,051	110,315	117,773
Less cost of sales interest expensed	14,298	14,222	40,091	43,804
Less other interest expensed(2)(3)	24,590	25,207	72,641	74,079
Interest capitalized at end of period(4)	<u>\$ 119,024</u>	<u>\$ 136,178</u>	<u>\$ 119,024</u>	<u>\$ 136,178</u>

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

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

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

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Other interest expensed	\$ 24,590	\$ 25,207	\$ 72,641	\$ 74,079
Interest paid by our mortgage and finance subsidiaries	606	516	1,550	1,523
Increase in accrued interest	(13,356)	(12,577)	(10,073)	(10,928)
Cash paid for interest, net of capitalized interest	\$ 11,840	\$ 13,146	\$ 64,118	\$ 64,674

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

4. Accumulated depreciation at July 31, 2012 and October 31, 2011 amounted to \$76.6 million and \$75.4 million, respectively, for our homebuilding property, plant and equipment.

5. We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the nine months ended July 31, 2012, our discount rates used for the impairments recorded ranged from 16.8% to 18.5%. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments. We recorded impairment losses, which are included in the Condensed Consolidated Statement of Operations and deducted from inventory, of \$0.2 million and \$5.1 million for the three months ended July 31, 2012 and 2011, respectively, and \$5.4 million and \$28.2 million for the nine months ended July 31, 2012 and 2011, respectively.

The following tables represent inventory impairments by homebuilding segment for the three and nine months ended July 31, 2012 and 2011:

(Dollars in millions)	Three Months Ended July 31, 2012			Three Months Ended July 31, 2011		
	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)
Northeast	1	\$ 0.1	\$ 0.3	-	\$ -	\$ -
Mid-Atlantic	-	-	-	-	-	-
Midwest	-	-	-	1	0.4	0.9
Southeast	2	0.1	0.3	10	1.5	4.9
Southwest	-	-	-	-	-	-
West	-	-	-	2	3.2	10.9
Total	3	\$ 0.2	\$ 0.6	13	\$ 5.1	\$ 16.7

(Dollars in millions)	Nine Months Ended July 31, 2012			Nine Months Ended July 31, 2011		
	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre- Impairment Value(1)
Northeast	6	\$ 2.5	\$ 16.4	5	\$ 17.7	\$ 88.6
Mid-Atlantic	3	0.4	0.8	3	2.1	10.9
Midwest	1	0.1	1.1	1	0.4	0.9
Southeast	10	2.4	5.8	10	1.5	4.9
Southwest	-	-	-	-	-	-
West	-	-	-	4	6.5	21.5
Total	20	\$ 5.4	\$ 24.1	23	\$ 28.2	\$ 126.8

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

The Condensed Consolidated Statement of Operations line item entitled “Homebuilding: Inventory impairment loss and land option write-offs” also includes write-offs of options, and approval, engineering and capitalized interest costs that we record when we redesign communities and/or abandon certain engineering costs and we do not exercise options in various locations because the communities' pro forma profitability is not projected to produce adequate returns on investment commensurate with the risk. Total aggregate write-offs related to these items were \$0.5 million and \$6.3 million for the three months ended July 31, 2012 and 2011, respectively, and \$1.8 million and \$13.7 million for the nine months ended July 31, 2012 and 2011, respectively. Occasionally, these write-offs are offset by recovered deposits (sometimes through legal action) that had been written off in a prior period as walk-away costs. Historically, these recoveries have not been significant in comparison to the total cost written off.

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

(Dollars in millions)	Three Months Ended July 31,			
	2012		2011	
	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs
Northeast	210	\$ 0.1	486	\$ 0.8
Mid-Atlantic	-	-	485	4.8
Midwest	89	0.1	-	-
Southeast	-	-	184	0.5
Southwest	116	0.3	225	0.1
West	-	-	-	0.1
Total	415	\$ 0.5	1,380	\$ 6.3

(Dollars in millions)	Nine Months Ended July 31,			
	2012		2011	
	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs
Northeast	210	\$ 0.4	1,531	\$ 4.0
Mid-Atlantic	182	0.2	2,259	5.3
Midwest	194	0.2	230	0.4
Southeast	734	0.7	1,357	0.8
Southwest	281	0.3	295	0.1
West	-	-	143	3.1
Total	1,601	\$ 1.8	5,815	\$ 13.7

We decide to mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at the time. When we decide to mothball a community, the inventory is reclassified from “Sold and unsold homes and lots under development” to “Land and land options held for future development or sale”. During the first nine months of fiscal 2012, we mothballed one community previously held for sale, re-activated two previously mothballed communities and sold four previously mothballed communities. As of July 31, 2012, the net book value associated with our 54 total mothballed communities was \$128.0 million, net of impairment charges of \$464.6 million.

During the second and third quarters of fiscal 2012, we entered into certain model sale leaseback financing arrangements, whereby we sold and leased back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement, for accounting purposes, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Condensed Consolidated Balance Sheet, the inventory of \$32.5 million was reclassified to consolidated inventory not owned, with a \$31.7 million liability from inventory not owned for the amount of cash received.

During the third quarter of fiscal 2012, we entered into a land banking arrangement with GSO Capital Partners LP (“GSO”). We sold a portfolio of our land parcels to GSO, and GSO provided us an option to purchase back finished lots on a quarterly basis. Because of our option to repurchase these parcels, for accounting purposes, this transaction is considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheet, the inventory of \$49.7 million was reclassified to consolidated inventory not owned, with a \$38.1 million liability from inventory not owned recorded for the amount of cash received.

6. We establish a warranty accrual for repair costs under \$5,000 per occurrence to homes, community amenities, and land development infrastructure. We accrue for warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. In addition, we accrue for warranty costs over \$5,000 per occurrence as part of our general liability insurance deductible, which is expensed as selling, general, and administrative costs. For homes delivered in fiscal 2012 and 2011, our deductible under our general liability insurance is \$20 million per occurrence for construction defects and warranty claims. For bodily injury claims, our deductible per occurrence in 2012 and 2011 is \$0.1 million up to a \$5 million limit. Our aggregate retention in 2012 and 2011 is \$21 million for construction defects, warranty and bodily injury claims. Additions and charges in the warranty reserve and general liability reserve for the three and nine months ended July 31, 2012 and 2011 were as follows:

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Balance, beginning of period	\$ 123,580	\$ 118,767	\$ 123,865	\$ 125,268
Additions	6,882	9,663	23,964	22,508
Charges incurred	(8,346)	(9,359)	(25,713)	(28,705)
Balance, end of period	<u>\$ 122,116</u>	<u>\$ 119,071</u>	<u>\$ 122,116</u>	<u>\$ 119,071</u>

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

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were \$13.8 million and \$1.7 million for the three months ended July 31, 2012 and 2011, respectively, and \$16.4 million and \$8.1 million for the nine months ended July 31, 2012 and 2011, respectively, for prior year deliveries. In the third quarter of fiscal 2012, we settled two construction defect claims, one claim relating to the Northeast segment and one claim relating to the West segment, which made up the majority of the payments for the period.

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

We also are subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment. The particular environmental laws that apply to any given community vary greatly according to the community site, the site’s environmental conditions and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance, remediation and/or other costs, and can prohibit or severely restrict development and homebuilding activity.

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

The Company is also involved in the following litigation:

Hovnanian Enterprises, Inc. and K. Hovnanian Venture I, L.L.C. have been named as defendants in a class action suit. The action was filed by Mike D'Andrea and Tracy D'Andrea, on behalf of themselves and all others similarly situated in the Superior Court of New Jersey, Gloucester County. The action was initially filed on May 8, 2006 alleging that the HVAC systems installed in certain of the Company's homes are in violation of applicable New Jersey building codes and are a potential safety issue. On December 14, 2011, the Superior Court granted class certification; the potential class is 1,065 homes. We filed a request to take an interlocutory appeal regarding the class certification decision. The Appellate Division denied the request, and we filed a request for interlocutory review by the New Jersey Supreme Court, which remanded the case back to the Appellate Division for a review on the merits of the appeal on May 8, 2012. The plaintiff seeks unspecified damages as well as treble damages pursuant to the NJ Consumer Fraud Act. The Company believes there is insurance coverage available to it for this action. While we have determined that a loss related to this case is not probable, it is not possible to estimate a loss or range of loss related to this matter at this time. On December 19, 2011, certain subsidiaries of the Company filed a separate action seeking indemnification against the various manufactures and subcontractors implicated by the class action.

8. Cash and cash equivalents include cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury Bills and government money market funds with maturities of 90 days or less when purchased. Our cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. We believe we help to mitigate this risk by depositing our cash in major financial institutions. At July 31, 2012 we had no cash equivalents as the full balance of cash and cash equivalents was held as cash.

9. Our mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market within a short period of time of origination. Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. We have elected the fair value option to record loans held for sale and therefore these loans are recorded at fair value with the changes in the value recognized in the Statements of Operations in "Revenues: Financial services." We currently use forward sales of mortgage-backed securities, interest rate commitments from borrowers and mandatory and/or best efforts forward commitments to sell loans to investors to protect us from interest rate fluctuations. These short-term instruments, which do not require any payments to be made to the counter-party or investor in connection with the execution of the commitments, are recorded at fair value. Gains and losses on changes in the fair value are recognized in the Statements of Operations in "Revenues: Financial services". Loans held for sale of \$2.4 million and \$1.0 million at July 31, 2012 and October 31, 2011, respectively, represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

At July 31, 2012 and October 31, 2011, respectively, \$78.1 million and \$52.7 million of such mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note 10). We may incur losses with respect to mortgages that were previously sold that are delinquent and which had underwriting defects, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have not made significant payments associated with mortgages we originated. The reserves for these estimated losses are included in the "Mortgage loans held for sale" balance on the Condensed Consolidated Balance Sheet.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2012	2011	2012	2011
Loan origination reserves, beginning of period	\$ 6,570	\$ 5,564	\$ 5,063	\$ 5,486
Provisions for losses during the period	950	237	3,339	1,958
Adjustments to pre-existing provisions for losses from changes in estimates	220	(349)	272	(1,201)
Payments/settlements	(359)	(220)	(1,293)	(1,011)
Loan origination reserves, end of period	<u>\$ 7,381</u>	<u>\$ 5,232</u>	<u>\$ 7,381</u>	<u>\$ 5,232</u>

10. We have certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of \$32.3 million and \$54.1 million of letters of credit outstanding as of July 31, 2012 and October 31, 2011, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of July 31, 2012 and October 31, 2011, the amount of cash collateral in these segregated accounts was \$32.8 million and \$57.7 million, respectively, which is reflected in "Restricted cash" on the Condensed Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage"), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement") is a short-term borrowing facility that provides up to \$75 million through November 1, 2012 and thereafter up to \$50 million through March 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the current LIBOR subject to a floor of 1.625% plus the applicable margin ranging from 2.5% to 3.0% based on the takeout investor and type of loan. As of July 31, 2012, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was \$56.2 million.

On May 29, 2012, K. Hovnanian Mortgage entered into another secured Master Repurchase Agreement with Customers Bank (“Customers Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$37.5 million through May 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR subject to a floor of 3.5% plus the applicable margin ranging from 3.0% to 5.5% based on the takeout investor and type of loan. As of July 31, 2012, the aggregate principal amount of all borrowings under the Customers Master Repurchase Agreement was \$22.0 million.

On June 29, 2012, K. Hovnanian Mortgage entered into a third secured Master Repurchase Agreement with Credit Suisse First Boston Mortgage Capital LLC (“Credit Suisse Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$25.0 million through June 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the Credit Suisse Cost of Funds, which was 0.74% at July 31, 2012, plus the applicable margin ranging from 3.75% to 4.0% based on the takeout investor and type of loan. As of July 31, 2012, there were no outstanding borrowings under the Credit Suisse Master Repurchase Agreement.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Credit Suisse Master Repurchase Agreement (together, the “Master Repurchase Agreements”) require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the agreement, we do not consider any of these covenants to be substantive or material. As of July 31, 2012, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

11. As of July 31, 2012, we had \$992.0 million of outstanding senior secured notes (\$967.9 million, net of discount), comprised of \$797.0 million 10.625% Senior Secured Notes due 2016 (the “10.625% 2016 Notes”), \$53.2 million 2.0% Senior Secured Notes due 2021 (the “2.0% 2021 Notes”) and \$141.8 million 5.0% Senior Secured Notes due 2021 (the “5.0% 2021 Notes” and together with the 2.0% 2021 Notes, the “2021 Notes”). As of July 31, 2012, we also had \$460.6 million of outstanding senior notes (\$458.6 million, net of discount), comprised of \$36.7 million 6.5% Senior Notes due 2014, \$3.0 million 6.375% Senior Notes due 2014, \$21.4 million 6.25% Senior Notes due 2015, \$131.2 million 6.25% Senior Notes due 2016, \$86.5 million 7.5% Senior Notes due 2016, \$121.0 million 8.625% Senior Notes due 2017 and \$60.8 million 11.875% Senior Notes due 2015. In addition, as of July 31, 2012, we had outstanding \$7.0 million 7.25% Tangible Equity Units as discussed below in Note 12. Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, certain of our title insurance subsidiaries and our foreign subsidiary, we and each of our subsidiaries are guarantors of the senior secured and senior notes and Amortizing Notes (see Note 12) outstanding at July 31, 2012 (see Note 22). In addition, the 2021 Notes are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries except for certain joint ventures and joint venture holding companies (collectively, the “Secured Group”). Members of the Secured Group do not guarantee K. Hovnanian's other indebtedness.

The 10.625% Senior Secured Notes due 2016 are secured by a first-priority lien, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”) (the issuer of the senior secured notes) and the guarantors of such senior secured notes. At July 31, 2012, the aggregate book value of the real property collateral securing these notes was approximately \$640.9 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was \$164.8 million as of July 31, 2012, which includes \$32.8 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

On November 1, 2011, K. Hovnanian issued \$141.8 million aggregate principal amount of 5.0% 2021 Notes and \$53.2 million aggregate principal amount of 2.0% 2021 Notes in exchange for \$195.0 million of K. Hovnanian's unsecured senior notes with maturities ranging from 2014 through 2017. Holders of the senior notes due 2014 and 2015 that were exchanged in the exchange offer also received an aggregate of approximately \$14.2 million in cash payments and all holders of senior notes that were exchanged in the exchange offer received accrued and unpaid interest (in the aggregate amount of approximately \$3.3 million). Costs associated with this transaction were \$4.7 million. The 5.0% 2021 Notes and the 2.0% 2021 Notes were issued as separate series under an indenture, but have substantially the same terms other than with respect to interest rate and related redemption provisions, and vote together as a single class. The accounting for the debt exchange is being treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt and the costs associated with the debt exchange were expensed as incurred as shown in “Other operations” in the Condensed Consolidated Statement of Operations.

The guarantees with respect to the 2021 Notes of the Secured Group are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets of the members of the Secured Group. As of July 31, 2012, the collateral securing the guarantees primarily included (1) \$86.4 million of cash and cash equivalents and (2) equity interests in guarantors that are members of the Secured Group. Subsequent to such date, cash uses include general business operations and real estate and other investments. The aggregate book value of the real property of the Secured Group collateralizing the 2021 Notes was approximately \$36.5 million as of July 31, 2012 (not including the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value). Members of the Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of \$46.4 million as of July 31, 2012; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the Secured Group are “unrestricted subsidiaries” under K. Hovnanian's other senior notes, senior secured notes and Amortizing Notes, and thus have not guaranteed such indebtedness.

During the three months ended July 31, 2012, we repurchased for cash in the open market \$2.0 million principal amount of our 11.875% Senior Notes due 2015. During the nine months ended July 31, 2012, we repurchased for cash in the open market and privately negotiated transactions \$21.0 million principal amount of our 6.25% Senior Notes due 2016, \$61.1 million principal amount of our 7.5% Senior Notes due 2016, \$37.4 million principal amount of our 8.625% Senior Notes due 2017 and \$2.0 million principal amount of our 11.875% Senior Notes due 2015. The aggregate purchase price for these repurchases was \$1.5 million and \$72.2 million, respectively, for the three and nine months ended July 31, 2012, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$0.4 million and \$48.4 million, respectively, for the three and nine months ended July 31, 2012, net of the write-off of unamortized discounts and fees. The gain is included in the Condensed Consolidated Statement of Operations as “Gain on extinguishment of debt.” Certain of these repurchases were funded with the proceeds from our April 11, 2012 issuance of 25,000,000 shares of our Class A Common Stock (see Note 15).

In addition, during the three months ended July 31, 2012, we exchanged pursuant to agreements with bondholders, \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016 and \$9.2 million of our 8.625% Senior Notes due 2017, for shares of our Class A Common Stock, as discussed in Note 15. During the nine months ended July 31, 2012, we exchanged pursuant to agreements with bondholders \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016 and \$18.3 million of our outstanding 8.625% Senior Notes due 2017 for shares of our Class A Common Stock, as discussed in Note 15. These transactions resulted in a gain on extinguishment of debt of \$5.8 million and \$9.3 million, respectively, for the three and nine months ended July 31, 2012.

The indentures governing the notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the notes to declare the notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy, and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of July 31, 2012 we believe we were in compliance with the covenants of the indentures governing our outstanding notes.

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

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured and senior notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness, and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under our bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

12. On February 9, 2011, we issued an aggregate of 3,000,000 7.25% Tangible Equity Units (the “Units”), and on February 14, 2011, we issued an additional 450,000 Units pursuant to the over-allotment option granted to the underwriters. Each Unit initially consists of (i) a prepaid stock purchase contract (each a “Purchase Contract”) and (ii) a senior subordinated amortizing note due February 15, 2014 (each, an “Amortizing Note”). As of July 31, 2012, we had an aggregate principal amount of \$7.0 million Amortizing Notes outstanding. On each February 15, May 15, August 15 and November 15, K. Hovnanian will pay holders of Amortizing Notes equal quarterly cash installments of \$0.453125 per Amortizing Note, which cash payments in the aggregate will be equivalent to 7.25% per year with respect to each \$25 stated amount of Units. Each installment constitutes a payment of interest (at a rate of 12.072% per annum) and a partial repayment of principal on the Amortizing Note, allocated as set forth in the amortization schedule provided in the indenture under which the Amortizing Notes were issued. The Amortizing Notes have a scheduled final installment payment date of February 15, 2014. If we elect to settle the Purchase Contracts early, holders of the Amortizing Notes will have the right to require K. Hovnanian to repurchase such holders’ Amortizing Notes, except in certain circumstances as described in the indenture governing Amortizing Notes.

Unless settled earlier, on February 15, 2014 (subject to postponement under certain circumstances), each Purchase Contract will automatically settle and we will deliver a number of shares of Class A Common Stock based on the applicable market value, as defined in the purchase contract agreement, which will be between 4.7655 shares and 5.8140 shares per Purchase Contract (subject to adjustment). Each Unit may be separated into its constituent Purchase Contract and Amortizing Note after the initial issuance date of the Units, and the separate components may be combined to create a Unit. The Amortizing Note component of the Units is recorded as debt, and the Purchase Contract component of the Units is recorded in equity as additional paid in capital. We have recorded \$68.1 million, the initial fair value of the Purchase Contracts, as additional paid in capital. As of July 31, 2012, 1.5 million Purchase Contracts have been converted into 7.0 million shares of our Class A Common Stock.

During the second quarter of fiscal 2012, we exchanged pursuant to agreements with bondholders approximately \$3.1 million aggregate principal amount of our Amortizing Notes for shares of our Class A Common Stock, as discussed in Note 15. These transactions resulted in a gain on extinguishment of debt of \$0.2 million for the nine months ended July 31, 2012.

13. Basic earnings per share is computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding for the period, adjusted for non-vested shares of restricted stock (the “denominator”) for the period. The basic weighted-average number of shares for the three months and nine months ended July 31, 2012 includes 9.4 million shares related to Purchase Contracts (issued as part of our 7.25% Tangible Equity Units) which are issuable in the future with no additional cash required to be paid by the holders thereof. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of all issued and outstanding options and non-vested shares of restricted stock. Any options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation.

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

Basic and diluted earnings per share for the periods presented below were calculated as follows:

(In thousands, except per share data)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Numerator:				
Net earnings (loss) attributable to Hovnanian	\$ 34,676	\$ (50,930)	\$ 18,213	\$ (187,739)
Less: undistributed earnings allocated to nonvested shares	(76)		(52)	
Numerator for basic earnings per share	34,600	(50,930)	18,161	(187,739)
Plus: undistributed earnings allocated to nonvested shares	76		52	
Less: undistributed earnings reallocated to nonvested shares	(76)		(52)	
Numerator for diluted earnings per share	\$ 34,600	\$ (50,930)	\$ 18,161	\$ (187,739)
Denominator:				
Denominator for basic earnings per share	138,472	108,721	121,357	97,648
Effect of dilutive securities:				
Share based payments	80		23	
Denominator for diluted earnings per share – weighted average shares outstanding	138,552	108,721	121,380	97,648
Basic earnings per share	\$ 0.25	\$ (0.47)	\$ 0.15	\$ (1.92)
Diluted earnings per share	\$ 0.25	\$ (0.47)	\$ 0.15	\$ (1.92)

Incremental shares attributed to non-vested stock and outstanding options to purchase common stock of 0.1 million and 0.4 million for the three and nine months ended July 31, 2011, respectively, were excluded from the computation of diluted EPS because we had a net loss for the period, and any incremental shares would not be dilutive.

In addition, shares related to out-of-the money stock options that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS were 4.9 million for both the three and nine months ended July 31, 2012, and 5.7 million for both the three and nine months ended July 31, 2011, because to do so would have been anti-dilutive for the periods presented.

14. On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the NASDAQ Global Market under the symbol "HOVNP". During the three and nine months ended July 31, 2012 and 2011, we did not make any dividend payments on the Series A Preferred Stock as a result of covenant restrictions in the indentures governing our senior secured, senior and senior subordinated notes discussed above. We anticipate we will be restricted from paying dividends for the foreseeable future.

15. Each share of Class A Common Stock entitles its holder to one vote per share and each share of Class B Common Stock entitles its holder to ten votes per share. The amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110% of the corresponding regular cash dividend payable on a share of Class B Common Stock. If a shareholder desires to sell shares of Class B Common Stock, such stock must be converted into shares of Class A Common Stock on a one-for-one basis.

On April 11, 2012, we issued 25,000,000 shares of our Class A Common Stock at a price of \$2.00 per share, resulting in net proceeds of \$47.3 million. The net proceeds of the issuance, along with cash on hand, were used to purchase \$75.4 million principal amount of our senior notes, as discussed in Note 11.

Pursuant to agreements with bondholders, during the three months ended July 31, 2012, we issued an aggregate of 5,379,383 shares of our Class A Common Stock in exchange for an aggregate of \$21.0 million of our outstanding indebtedness, consisting of \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016 and \$9.2 million of our 8.625% Senior Notes due 2017. Pursuant to agreements with bondholders, during the nine months ended July 31, 2012, we issued an aggregate of 8,443,713 shares of our Class A Common Stock in exchange for an aggregate of \$33.2 million of our outstanding indebtedness, consisting of \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016, \$18.3 million of our outstanding 8.625% Senior Notes due 2017 and approximately \$3.1 million aggregate principal amount of our 12.072% senior subordinated amortizing notes (the "exchanges"). The exchanges were effected with existing bondholders, without any underwriters, and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchanges. The exchanges resulted in a gain on extinguishment of debt of \$5.8 million and \$9.5 million, respectively, for the three and nine months ended July 31, 2012.

In August 2008, our Board of Directors adopted a shareholder rights plan (the "Rights Plan") designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards (NOL) and built-in losses under Section 382 of the Internal Revenue Code. Our ability to use NOLs and built-in losses would be limited if there was an "ownership change" under Section 382. This would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of our stock increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382. Under the Rights Plan, one right was distributed for each share of Class A Common Stock and Class B Common Stock outstanding as of the close of business on August 15, 2008. Effective August 15, 2008, if any person or group acquires 4.9% or more of the outstanding shares of Class A Common Stock without the approval of the Board of Directors, there would be a triggering event causing significant dilution in the voting power of such person or group. However, existing stockholders who owned, at the time of the Rights Plan's adoption, 4.9% or more of the outstanding shares of Class A Common Stock will trigger a dilutive event only if they acquire additional shares. The approval of the Board of Directors' decision to adopt the Rights Plan may be terminated by the Board at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 15, 2018, unless it expires earlier in accordance with its terms. The approval of the Board of Directors' decision to adopt the Rights Plan was submitted to a stockholder vote and approved at a special meeting of stockholders held on December 5, 2008. Also at the Special Meeting on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our net operating loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in the amended Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to (i) increase the direct or indirect ownership of our stock by any person (or public group) from less than 5% to 5% or more of our common stock; (ii) increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or (iii) create a new public group. Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. There were no shares purchased during the three months ended July 31, 2012. During the nine months ended July 31, 2012, we purchased approximately 0.1 million shares. As of July 31, 2012, 3.5 million shares of Class A Common Stock have been purchased under this program.

16. The total income tax benefit was \$35.3 million for the nine months ended July 31, 2012 primarily due to the reversal of reserves for uncertain state tax positions that we have determined have been effectively settled.

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If the combination of future years' income (or loss) and the reversal of the timing differences results in a loss, such losses can be carried forward to future years. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during 2010, 2011 and 2012, resulting in additional inventory and intangible asset impairments, we are in a three-year cumulative loss position as of July 31, 2012. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable. Our valuation allowance for deferred taxes amounted to \$909.1 million and \$899.4 million at July 31, 2012 and October 31, 2011, respectively. The valuation allowance increased during the nine months ended July 31, 2012 primarily due to additional reserves recorded for the federal and state tax benefits related to the losses incurred during the period.

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

Our homebuilding operating segments are aggregated into reportable segments based primarily upon geographic proximity, similar regulatory environments, land acquisition characteristics and similar methods used to construct and sell homes. The Company's reportable segments consist of the following six homebuilding segments and a financial services segment:

Homebuilding:

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

Financial Services

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

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

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

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

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

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Revenues:				
Northeast	\$ 65,742	\$ 44,051	\$ 159,049	\$ 126,035
Mid-Atlantic	77,131	57,338	196,302	150,600
Midwest	28,271	17,721	70,100	49,295
Southeast	24,660	18,038	81,215	50,476
Southwest	139,790	108,188	346,331	298,829
West	40,559	32,423	119,322	97,896
Total homebuilding	376,153	277,759	972,319	773,131
Financial services	10,787	7,850	25,990	20,249
Corporate and unallocated	71	9	-	(98)
Total revenues	<u>\$ 387,011</u>	<u>\$ 285,618</u>	<u>\$ 998,309</u>	<u>\$ 793,282</u>
Income (loss) before income taxes:				
Northeast	\$ 1,435	\$ (8,400)	\$ (4,338)	\$ (43,124)
Mid-Atlantic	4,946	(4,816)	12,615	(13,805)
Midwest	294	(2,893)	(953)	(7,226)
Southeast	(2,417)	(4,017)	(9,150)	(10,697)
Southwest	11,815	7,577	24,600	19,449
West	(1,342)	(6,151)	(5,262)	(23,159)
Homebuilding income (loss) before income taxes	14,731	(18,700)	17,512	(78,562)
Financial services	4,676	2,303	9,339	4,055
Corporate and unallocated	(21,224)	(39,178)	(43,892)	(119,313)
Loss before income taxes	<u>\$ (1,817)</u>	<u>\$ (55,575)</u>	<u>\$ (17,041)</u>	<u>\$ (193,820)</u>

(In thousands)	July 31, 2012	October 31, 2011
Assets:		
Northeast	\$ 411,486	\$ 385,217
Mid-Atlantic	212,153	219,287
Midwest	70,785	59,105
Southeast	83,349	83,044
Southwest	215,908	188,321
West	161,990	168,590
Total homebuilding	1,155,671	1,103,564
Financial services	117,628	85,106
Corporate and unallocated	351,544	413,510
Total assets	<u>\$ 1,624,843</u>	<u>\$ 1,602,180</u>

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

In compliance with ASC 810, the Company analyzes its option purchase contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the underlying land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. As a result of its analyses, the Company determined that as of July 31, 2012 and October 31, 2011 it was not the primary beneficiary of any VIEs from which it is purchasing land under option purchase contracts.

We will continue to secure land and lots using options, some of which are with VIEs. Including deposits on our unconsolidated VIEs, at July 31, 2012, we had total cash and letters of credit deposits amounting to approximately \$40.6 million to purchase land and lots with a total purchase price of \$671.9 million. The maximum exposure to loss with respect to our land and lot options is limited to the deposits, although some deposits are refundable at our request or refundable if certain conditions are not met.

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

During the three months ended January 31, 2011, we entered into a joint venture agreement to acquire a portfolio of homebuilding projects, including land we previously owned in the consolidated group. We sold the land we owned to the joint venture for net proceeds of \$36.1 million, which was equal to our basis in the land at that time, and recorded an investment in unconsolidated joint ventures of \$19.7 million for our interest in the venture. During the three months ended April 30, 2011, we expanded this joint venture, selling additional land we owned to the joint venture for net proceeds of \$27.2 million, which was equal to our book value in the land at that time, and recorded an additional investment of \$11.4 million of our interest in the venture. Separately, during the three months ended January 31, 2011, our partner in a land development joint venture transferred its interest in the venture to us. The consolidation resulted in increases in inventory and non-recourse land mortgages of \$9.5 million and \$18.5 million, respectively, and a decrease in other liabilities of \$9.0 million.

During the three months ended July 31, 2012, we purchased our partners' interest in one of our unconsolidated homebuilding joint ventures. The consolidation of this entity resulted in increases in inventory, non-recourse land mortgages and accounts payables and other liabilities of \$43.7 million, \$20.6 million and \$13.2 million, respectively.

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

(Dollars in thousands)

	July 31, 2012		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	\$ 21,853	\$ 114	\$ 21,967
Inventories	210,650	15,131	225,781
Other assets	13,840	10	13,850
Total assets	\$ 246,343	\$ 15,255	\$ 261,598
Liabilities and equity:			
Accounts payable and accrued liabilities	\$ 25,239	\$ 10,820	\$ 36,059
Notes payable	108,425	21	108,446
Total liabilities	133,664	10,841	144,505
Equity of:			
Hovnanian Enterprises, Inc.	45,550	1,006	46,556
Others	67,129	3,408	70,537
Total equity	112,679	4,414	117,093
Total liabilities and equity	\$ 246,343	\$ 15,255	\$ 261,598
Debt to capitalization ratio	49%	0%	48%

(Dollars in thousands)

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

As of July 31, 2012 and October 31, 2011, we had advances outstanding of approximately \$13.1 million and \$11.7 million, respectively, to these unconsolidated joint ventures, which were included in the "Accounts payable and accrued liabilities" balances in the tables above. On our Condensed Consolidated Balance Sheets, our "Investments in and advances to unconsolidated joint ventures" amounted to \$59.7 million and \$57.8 million at July 31, 2012 and October 31, 2011, respectively. In some cases, our net investment in these joint ventures is less than our proportionate share of the equity reflected in the tables above because of the differences between asset impairments recorded against our joint venture investments and any impairments recorded in the applicable joint venture. Impairments of our joint venture equity investments are recorded when we deem a decline in fair value to be other than temporary while impairments recorded in the joint ventures are recorded when undiscounted cash flows of the community indicate that the carrying amount is not recoverable. During fiscal 2011 and the first nine months of fiscal 2012, we did not write down any joint venture investments based on our determination that none of the investments in our joint ventures sustained an other than temporary impairment during those periods.

(In thousands)	For the Three Months Ended July 31, 2012		
	Homebuilding	Land Development	Total
Revenues	\$ 89,749	\$ 3,755	\$ 93,504
Cost of sales and expenses	(84,615)	(3,246)	(87,861)
Joint venture net income	\$ 5,134	\$ 509	\$ 5,643
Our share of net income	\$ 823	\$ 255	\$ 1,078

(In thousands)	For the Three Months Ended July 31, 2011		
	Homebuilding	Land Development	Total
Revenues	\$ 57,781	\$ 3,249	\$ 61,030
Cost of sales and expenses	(58,629)	(3,076)	(61,705)
Joint venture net (loss) income	\$ (848)	\$ 173	\$ (675)
Our share of net (loss) income	\$ (2,246)	\$ 139	\$ (2,107)

(In thousands)	For the Nine Months Ended July 31, 2012		
	Homebuilding	Land	
		Development	Total
Revenues	\$ 220,880	\$ 9,838	\$ 230,718
Cost of sales and expenses	(210,904)	(7,830)	(218,734)
Joint venture net income	\$ 9,976	\$ 2,008	\$ 11,984
Our share of net income	\$ 1,803	\$ 1,003	\$ 2,806

(In thousands)	For the Nine Months Ended July 31, 2011		
	Homebuilding	Land	
		Development	Total
Revenues	\$ 110,302	\$ 9,888	\$ 120,190
Cost of sales and expenses	(119,057)	(9,215)	(128,272)
Joint venture net (loss) income	\$ (8,755)	\$ 673	\$ (8,082)
Our share of net (loss) income	\$ (6,175)	\$ 419	\$ (5,756)

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

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

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing. The amount of financing is generally targeted to be no more than 50% of the joint venture’s total assets. For our more recent joint ventures, obtaining financing has become challenging, therefore, some of our joint ventures are capitalized only with equity. However, for our most recent joint venture, a portion of our partner's contribution was in the form of mortgage financing. Including the impact of impairments recorded by the joint ventures, the average debt to capitalization ratio of all our joint ventures is currently 48%. Any joint venture financing is on a nonrecourse basis, with guarantees from us limited only to performance and completion of development, environmental warranties and indemnification, standard indemnification for fraud, misrepresentation and other similar actions, including a voluntary bankruptcy filing. In some instances, the joint venture entity is considered a VIE under ASC 810 due to the returns being capped to the equity holders; however, in these instances, we have determined that we are not the primary beneficiary, and therefore we do not consolidate these entities.

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

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

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

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

(In thousands)	Fair Value Hierarchy	Fair Value at July 31, 2012	Fair Value at October 31, 2011
Mortgage loans held for sale (1)	Level 2	\$ 91,898	\$ 73,126
Interest rate lock commitments	Level 2	326	142
Forward contracts	Level 2	(871)	(1,096)
		<u>\$ 91,353</u>	<u>\$ 72,172</u>

(1) The aggregate unpaid principal balance was \$87.4 million and \$70.4 million at July 31, 2012 and October 31, 2011, respectively.

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

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

(In thousands)	Three Months Ended July 31, 2012		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net income (loss), all reflected in financial services revenues	<u>\$ 863</u>	<u>\$ 193</u>	<u>\$ (257)</u>

(In thousands)	Three Months Ended July 31, 2011		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net income (loss), all reflected in financial services revenues	<u>\$ 11</u>	<u>\$ (72)</u>	<u>\$ 186</u>

(In thousands)	Nine Months Ended July 31, 2012		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net income (loss), all reflected in financial services revenues	<u>\$ 417</u>	<u>\$ 184</u>	<u>\$ 225</u>

(In thousands)	Nine Months Ended July 31, 2011		
	Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Changes in fair value included in net income (loss), all reflected in financial services revenues	<u>\$ (369)</u>	<u>\$ 235</u>	<u>\$ (573)</u>

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the periods presented. The assets measured at fair value on a nonrecurring basis are all within the Company's Homebuilding operations and are summarized below:

Non-financial Assets

		Three Months Ended July 31, 2012		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ -	\$ -	\$ -
Land and land options held for future development or sale	Level 3	\$ 635	\$ (165)	\$ 470

		Three Months Ended July 31, 2011		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 14,827	\$ (4,445)	\$ 10,382
Land and land options held for future development or sale	Level 3	\$ 1,864	\$ (689)	\$ 1,175

		Nine Months Ended July 31, 2012		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 6,978	\$ (2,714)	\$ 4,264
Land and land options held for future development or sale	Level 3	\$ 17,131	\$ (2,693)	\$ 14,438

		Nine Months Ended July, 2011		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 81,532	\$ (18,472)	\$ 63,060
Land and land options held for future development or sale	Level 3	\$ 45,294	\$ (9,734)	\$ 35,560

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. We recorded inventory impairments, which are included in the Condensed Consolidated Statements of Operations as "Inventory impairment loss and land option write-offs" and deducted from Inventory of \$0.2 million and \$5.1 million for the three months ended July 31, 2012 and 2011, respectively, and \$5.4 million and \$28.2 million for the nine months ended July 31, 2012 and 2011, respectively. See Note 5 for additional information.

The Financial Services segment had a pipeline of loan applications in process of \$389.8 million at July 31, 2012. Loans in process for which interest rates were committed to the borrowers totaled approximately \$50.6 million as of July 31, 2012. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers, the total commitments do not necessarily represent future cash requirements.

The Financial Services segment uses investor commitments and forward sales of mandatory mortgage-backed securities (“MBS”) to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments, option contracts with investment banks, federally regulated bank affiliates and loan sales transactions with permanent investors meeting the segment’s credit standards. The segment’s risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At July 31, 2012, the segment had open commitments amounting to \$20.5 million to sell MBS with varying settlement dates through October 18, 2012.

Our Level 1 financial instruments consist of cash and cash equivalents and restricted cash, the fair value of which is based on Level 1 inputs. Our Level 2 financial instruments consist of mortgage loans held for sale and the senior secured, senior and senior subordinated amortizing notes payable. The fair value of mortgage loans held for sale is determined as discussed above. The fair value of each of the senior secured, senior and senior subordinated amortizing notes is estimated based on recent trades or quoted market prices for the same issues or based on recent trades or quoted market prices for our debt of similar security and maturity to achieve comparable yields. The fair value of the senior secured, senior and senior subordinated amortizing notes was estimated at \$966.7 million, \$396.4 million and \$3.9 million, respectively, as of July 31, 2012, and \$653.5 million, \$359.0 million and \$4.4 million, respectively, as of October 31, 2011.

22. Hovnanian Enterprises, Inc., the parent company (the “Parent”), is the issuer of publicly traded common stock, preferred stock, which is represented by depository shares, and 7.25% Tangible Equity Units. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the “Subsidiary Issuer”), acts as a finance entity that as of July 31, 2012, had issued and outstanding approximately \$992.0 million of senior secured notes (\$967.9 million, net of discount), \$460.6 million senior notes (\$458.6 million, net of discount), and \$7.0 million senior subordinated amortizing notes (issued as a component of our 7.25% Tangible Equity Units). The senior secured notes, senior notes, and senior subordinated amortizing notes are fully and unconditionally guaranteed by the Parent.

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

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

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

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET
JULY 31, 2012
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS:						
Homebuilding	\$ 10,793	\$ 183,869	\$ 1,076,088	\$ 236,465	\$ -	\$ 1,507,215
Financial services			9,496	108,132		117,628
Investments in and amounts due to and from consolidated subsidiaries	(371,004)	2,027,698	(2,420,053)	9,570	753,789	-
Total assets	<u>\$ (360,211)</u>	<u>\$ 2,211,567</u>	<u>\$ (1,334,469)</u>	<u>\$ 354,167</u>	<u>\$ 753,789</u>	<u>\$ 1,624,843</u>

LIABILITIES AND EQUITY:						
Homebuilding	\$ 4,329	\$ (361)	\$ 416,675	\$ 36,918	\$ -	\$ 457,561
Financial services			9,341	90,563		99,904
Notes payable		1,464,809	78			1,464,887
Income taxes payable	39,923		(33,231)			6,692
Stockholders' (deficit) equity	(404,463)	747,119	(1,727,332)	226,424	753,789	(404,463)
Non-controlling interest in consolidated joint ventures				262		262
Total liabilities and equity	<u>\$ (360,211)</u>	<u>\$ 2,211,567</u>	<u>\$ (1,334,469)</u>	<u>\$ 354,167</u>	<u>\$ 753,789</u>	<u>\$ 1,624,843</u>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET
OCTOBER 31, 2011
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS:						
Homebuilding	\$ 12,756	\$ 200,281	\$ 1,096,594	\$ 207,443	\$ -	\$ 1,517,074
Financial services			4,537	80,569		85,106
Investments in and amounts due to and from consolidated subsidiaries	(467,562)	2,140,349	(2,435,348)	(9,364)	771,925	-
Total assets	<u>\$ (454,806)</u>	<u>\$ 2,340,630</u>	<u>\$ (1,334,217)</u>	<u>\$ 278,648</u>	<u>\$ 771,925</u>	<u>\$ 1,602,180</u>

LIABILITIES AND EQUITY:						
Homebuilding	\$ 2,172	\$ (33)	\$ 355,191	\$ 11,276	\$ -	\$ 368,606
Financial services			4,231	60,015		64,246
Notes payable		1,623,957	144			1,624,101
Income tax payable	39,716		2,113			41,829
Stockholders' (deficit) equity	(496,694)	716,706	(1,695,896)	207,265	771,925	(496,694)
Non-controlling interest in consolidated joint ventures				92		92
Total liabilities and equity	<u>\$ (454,806)</u>	<u>\$ 2,340,630</u>	<u>\$ (1,334,217)</u>	<u>\$ 278,648</u>	<u>\$ 771,925</u>	<u>\$ 1,602,180</u>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2012

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 4	\$ (92)	\$ 356,862	\$ 20,701	\$ (1,251)	\$ 376,224
Financial services			2,237	8,550		10,787
Intercompany charges		53,026	(15,107)	(234)	(37,685)	-
Total revenues	\$ 4	\$ 52,934	\$ 343,992	\$ 29,017	\$ (38,936)	\$ 387,011
Expenses:						
Homebuilding	1,640	88,266	352,332	14,572	(67,011)	389,799
Financial services	23		1,407	4,679	2	6,111
Total expenses	1,663	88,266	353,739	19,251	(67,009)	395,910
Gain on extinguishment of debt		6,230				6,230
Income from unconsolidated joint ventures			30	822		852
(Loss) income before income taxes	(1,659)	(29,102)	(9,717)	10,588	28,073	(1,817)
State and federal income tax (benefit)	(4,261)		(32,232)			(36,493)
Equity in income (loss) of consolidated subsidiaries	32,074				(32,074)	-
Net income (loss)	\$ 34,676	\$ (29,102)	\$ 22,515	\$ 10,588	\$ (4,001)	\$ 34,676

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2011

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 17	\$ (25)	\$ 277,591	\$ 1,425	\$ (1,240)	\$ 277,768
Financial services			1,409	6,441		7,850
Intercompany charges		28,679	(31,769)	(71)	3,161	-
Total revenues	17	28,654	247,231	7,795	1,921	285,618
Expenses:						
Homebuilding	1,159	40,672	291,688	(525)	(994)	332,000
Financial services	76		1,241	4,230		5,547
Total expenses	1,235	40,672	292,929	3,705	(994)	337,547
Loss on extinguishment of debt		(1,391)				(1,391)
Loss from unconsolidated joint ventures			(100)	(2,155)		(2,255)
(Loss) income before income taxes	(1,218)	(13,409)	(45,798)	1,935	2,915	(55,575)
State and federal income tax (benefit)	(4,631)		(14)			(4,645)
Equity in (loss) income of consolidated subsidiaries	(54,343)				54,343	-
Net (loss) income	\$ (50,930)	\$ (13,409)	\$ (45,784)	\$ 1,935	\$ 57,258	\$ (50,930)

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2012

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 8	\$ (197)	\$ 934,330	\$ 41,907	\$ (3,729)	\$ 972,319
Financial services			5,232	20,758		25,990
Intercompany charges		76,975	(46,238)	(3,682)	(27,055)	-
Total revenues	\$ 8	\$ 76,778	\$ 893,324	\$ 58,983	\$ (30,784)	\$ 998,309
Expenses:						
Homebuilding	5,815	112,342	954,080	29,144	(42,392)	1,058,989
Financial services	103		3,967	12,592	(11)	16,651
Total expenses	5,918	112,342	958,047	41,736	(42,403)	1,075,640
Gain on extinguishment of debt		57,966				57,966
Income from unconsolidated joint ventures			521	1,803		2,324
(Loss) income before income taxes	(5,910)	22,402	(64,202)	19,050	11,619	(17,041)
State and federal income tax provision	12,929		22,325			35,254
Equity in income (loss) of consolidated subsidiaries	11,194				(11,194)	-
Net income (loss)	\$ 18,213	\$ 22,402	\$ (41,877)	\$ 19,050	\$ 425	\$ 18,213

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2011

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ 24	\$ (223)	\$ 773,299	\$ 3,652	\$ (3,719)	\$ 773,033
Financial services			3,951	16,298		20,249
Intercompany charges		85,294	(68,066)	(428)	13,200	-
Total revenues	\$ 24	\$ 85,071	\$ 679,184	\$ 19,522	\$ 9,481	\$ 793,282
Expenses:						
Homebuilding	4,261	119,657	838,298	330	(1,152)	961,394
Financial services	246		3,717	12,234	(3)	16,194
Total expenses	4,507	119,657	842,015	12,564	(1,155)	977,588
Loss on extinguishment of debt		(3,035)				(3,035)
Loss from unconsolidated joint ventures			(801)	(5,678)		(6,479)
(Loss) income before income taxes	(4,483)	(37,621)	(163,632)	1,280	10,636	(193,820)
State and federal income tax (benefit) provision	(15,599)		9,518			(6,081)
Equity in (loss) income of consolidated subsidiaries	(198,855)				198,855	-
Net (loss) income	\$ (187,739)	\$ (34,621)	\$ (173,150)	\$ 1,280	\$ 209,491	\$ (187,739)

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2012

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ 18,213	\$ 22,402	\$ (41,877)	\$ 19,050	\$ 425	\$ 18,213
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	31,198	(28,260)	(4,336)	(78,465)	(425)	(80,288)
Net cash provided by (used in) operating activities	49,411	(5,858)	(46,213)	(59,415)	-	(62,075)
Net cash provided by (used in) investing activities		26	(2,178)	242		(1,910)
Net cash provided by (used in) financing activities	47,147	(94,309)	50,954	43,423		47,215
Intercompany investing and financing activities – net	(96,558)	112,651	2,841	(18,934)		-
Net increase (decrease) in cash	-	12,510	5,404	(34,684)	-	(16,770)
Cash and cash equivalents balance, beginning of period	-	112,122	(4,989)	143,607	-	250,740
Cash and cash equivalents balance, end of period	<u>\$ -</u>	<u>\$ 124,632</u>	<u>\$ 415</u>	<u>\$ 108,923</u>	<u>\$ -</u>	<u>\$ 233,970</u>

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2011

(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	\$ (187,739)	\$ (37,621)	\$ (173,150)	\$ 1,280	\$ 209,491	\$ (187,739)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	85,787	(15,216)	148,195	(777)	(209,491)	8,498
Net cash (used in) provided by operating activities	(101,952)	(52,837)	(24,955)	503	-	(179,241)
Net cash provided by (used in) investing activities			577	(659)		(82)
Net cash provided by (used in) financing activities	54,899	71,552	61	(31,984)		94,528
Intercompany investing and financing activities – net	47,043	(82,916)	31,484	4,389		-
Net (decrease) increase in cash	(10)	(64,201)	7,167	(27,751)	-	(84,795)
Cash and cash equivalents balance, beginning of period	10	212,370	(12,812)	167,612	-	367,180
Cash and cash equivalents balance, end of period	<u>\$ -</u>	<u>\$ 148,169</u>	<u>\$ (5,645)</u>	<u>\$ 139,861</u>	<u>\$ -</u>	<u>\$ 282,385</u>

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

OVERVIEW

Since late 2006, the U.S. housing market has been impacted by declining consumer confidence, high home foreclosure rates and large supplies of resale and new home inventories. The result has been weakened demand for new homes, slower sales, higher than normal cancellation rates and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products became more constrained starting in February 2007 when the mortgage industry began to more closely scrutinize subprime, Alt-A, and other nonprime mortgage products, and over the past few years, many lenders have significantly tightened their underwriting standards. The overall economy has weakened significantly and fears of further prolonged economic weakness are still present due, among other factors, to high unemployment levels, deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we experienced significant decreases in our revenues and gross margins during fiscal 2007, 2008, 2009 and 2010 compared with prior years. During fiscal 2011 and through the first quarter of fiscal 2012, the homebuilding market has exhibited a large degree of choppiness. Beginning in the second quarter of fiscal 2012, we began to see positive operating trends, which continued into the third quarter of fiscal 2012, including year over year improvements when comparing the nine months ended July 31, 2012 to the nine months ended July 31, 2011, such as: contract growth of 28.0%, an increase in gross margin percentage from 15.6% to 17.5% and a decrease in selling, general and administrative costs (including corporate general and administrative expenses) as a percentage of total revenue from 19.4% to 14.2%. In addition, contract cancellation rates were 20% in the third quarter of fiscal 2012, a rate which we believe to be a more normalized level. Active selling communities decreased to 175 compared to 184 in the same period a year ago, while net contracts per average active selling community increased to 20.8 for the nine months ended July 31, 2012 compared to 16.1 in the same period in the prior year. While we are encouraged by the positive operating trends for the second and third quarters of fiscal 2012, several challenges such as persistently high unemployment levels, economic weakness and uncertainty, and the potential for more foreclosures continue to threaten a recovery in the housing market.

Over the course of this multiple year downturn in the homebuilding market, we have recorded \$2.4 billion in inventory impairment and option walkaway charges from the first quarter of fiscal 2006 through the third quarter of 2012. We have exposure to additional impairments of our inventories, which, as of July 31, 2012, had a book value of \$1.0 billion, net of \$702.7 million of impairments recorded on 111 of our communities. This includes \$39.4 million of cash invested in 10,597 lots under option as of July 31, 2012. In addition, we had \$1.2 million in letters of credit deposits on optioned lots as of July 31, 2012. We write off amounts associated with an option if we determine it is probable we will not exercise it. As of July 31, 2012, we had total investments in, and advances to, unconsolidated joint ventures of \$59.7 million. Each of our joint ventures assesses its inventory and other long-lived assets for impairment and we separately assess our equity investment in joint ventures for other than temporary declines in value, which has resulted in total reductions in our equity investment in joint ventures of \$119.1 million from the second half of fiscal 2006, the first period in which we had impairments on our joint ventures, through July 31, 2012. There have been no write downs of our equity investment in unconsolidated joint ventures since fiscal 2009, however, a community in one of our joint ventures in the Northeast recorded an asset impairment in the fourth quarter of fiscal 2011. We recorded our proportional share of this impairment charge as part of our share of the net loss of the venture. We still have exposure to future write-downs of our equity investment in unconsolidated joint ventures if conditions deteriorate further in the markets in which our joint ventures operate.

As the market for new homes declined, we adjusted our approach to land acquisition and construction practices and shortened our land pipeline, reduced production volumes, and balanced home price and profitability with sales pace. We delayed and cancelled planned land purchases and renegotiated land prices and significantly reduced our total number of controlled lots owned and under option. Additionally, we significantly reduced our total number of speculative homes put into production over the past several years. Since January 2009, however, we have begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces and plan to continue pursuing such land acquisitions. New land purchases at pricing that we believe will generate appropriate investment returns and drive greater operating efficiencies are needed to return to sustained profitability. During the nine months ended July 31, 2012, we opened 48 new communities, purchased approximately 1,900 lots within 138 newly identified communities (which we define as communities that were controlled subsequent to January 31, 2009) and optioned approximately 4,400 lots in 170 newly identified communities. Also during the three months ended July 31, 2012, we sold 620 of our owned lots to GSO Capital Partners LP ("GSO"), for proceeds of \$37.1 million, net of transaction costs of \$ 1.1 million, with the option to purchase back finished lots on a quarterly basis. During fiscal 2011, our active selling communities fluctuated, but at the end of fiscal 2011 we had the same number of active selling communities as the end of fiscal 2010. From October 31, 2011 through July 31, 2012, our active community count decreased by 17 communities as a result of increased sales pace. We continue to consider and make new land acquisitions to replenish our community count. We have also continued to closely evaluate and make reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses \$12.0 million from \$153.6 million for the nine months ended July 31, 2011 to \$141.6 million for the nine months ended July 31, 2012 due to the continued tightening of variable spending across all of our operating segments. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the nine months ended July 31, 2012, homebuilding selling, general and administrative costs declined 9.0% to \$104.6 million compared to the nine months ended July 31, 2011.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations and warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to the sellers' representations and warranties in particular loan sale agreements. To date, we have not made significant payments to the purchasers of our loans and we have established reserves for probable losses. Included in mortgage loans held for sale at July 31, 2012 is \$2.4 million of mortgage loans, which represent the fair value of loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

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

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

We have decided to mothball (or stop development on) certain communities where we have determined the current market conditions do not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale". As of July 31, 2012, the net book value associated with our 54 mothballed communities was \$128.0 million, net of impairment charges of \$464.6 million. We regularly review communities to determine if mothballing is appropriate. During the first nine months of fiscal 2012, we mothballed one community previously held for sale, re-activated two communities and sold four communities which were previously mothballed.

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

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

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

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

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

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;
- community-specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;
- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community;
- current local market economic and demographic conditions and related trends and forecasts; and
- existing home inventory supplies, including foreclosures and short sales.

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

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

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

Inventories held for sale are land parcels ready for sale in their current condition, where we have decided not to build homes but are instead actively marketing for sale. These land parcels represented \$7.1 million of our total inventories at July 31, 2012, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

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

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

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

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

Income Taxes - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes. If the combination of future years' income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years or carried forward to future years to recover the deferred tax assets. In accordance with ASC 740-10, "Income Taxes - Overall" ("ASC 740-10"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740-10 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more-likely-than-not" standard. See "Total Taxes" below under "Results of Operations" for further discussion of the valuation allowances.

In evaluating the exposures associated with our various tax filing positions, we recognize tax liabilities in accordance with ASC 740-10, for more likely than not exposures. We re-evaluate the exposures associated with our tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision. A number of years may elapse before a particular matter for which we have established a liability is audited and fully resolved or clarified. We adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, or the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a liability that is materially different from our current estimate. Any such changes will be reflected as increases or decreases to income tax expense in the period in which they are determined.

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

CAPITAL RESOURCES AND LIQUIDITY

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

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities (when we had such facilities for our homebuilding operations) and the issuance of new debt and equity securities. In light of the challenging homebuilding market conditions we have been experiencing since late 2006, we had been operating with a primary focus to generate cash flows from operations through reductions in assets during fiscal 2007 through fiscal 2009. The generation of cash flow, together with debt repurchases and exchanges at prices below par, allowed us to reduce net debt (notes payable, excluding accrued interest, less homebuilding cash and cash equivalents) during fiscal 2008 and 2009 by approximately \$773 million. Since the latter half of fiscal 2009, we have seen more opportunities to purchase land at prices that make economic sense given the then-current home sales prices and sales paces. As such, since that time, despite acquiring new land at higher levels than in the previous few years we have been able to further reduce our net debt by approximately \$118 million.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and noncash charges relating to depreciation, amortization of computer software costs, stock compensation awards and impairment losses for inventory. When we are expanding our operations, inventory levels, prepaids, and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what happened during the last half of fiscal 2007 through fiscal 2009, allowing us to generate positive cash flow from operations during this period. Since the latter part of fiscal 2009 cumulative through July 31, 2012, as a result of the new land purchases and land development we have used cash in operations as we add new communities. Looking forward, given the unstable housing market, it will continue to be difficult to generate positive cash flow from operations until we return to sustained profitability. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity while also taking steps to return to sustained profitability, including through land acquisitions.

Our homebuilding cash balance at July 31, 2012 decreased by \$25.0 million from October 31, 2011. The significant uses of cash during the first three quarters of fiscal 2012 were primarily due to spending approximately \$235.9 million on land and land development, \$75.5 million, including \$3.3 million for accrued interest, for the repurchase of certain of our senior notes and \$22.1 million for the November 2011 debt exchange, including accrued interest and costs associated with the transaction. These items were partially offset by \$47.3 million of proceeds received through the April 2012 common stock issuance, \$31.7 million of proceeds from model sale leaseback financing programs, \$37.1 million from a new land banking arrangement, net of \$1.1 million of transaction costs and a \$25.4 million reduction of homebuilding restricted cash. Most of this restricted cash became unrestricted as the letters of credit the cash collateralized were released during the second quarter of fiscal 2012. The remaining change in cash came from normal operations.

Our cash uses during the nine months ended July 31, 2012 and 2011 were for operating expenses, land purchases, land deposits, land development, construction spending, debt payments, repurchases, state income taxes, interest payments and investments in joint ventures. During these periods, we funded our cash requirements from available cash on hand, equity issuances, housing and land sales, model sale leasebacks, land banking deals, financial service revenues, and other revenues. We believe that these sources of cash will be sufficient through fiscal 2012 to finance our working capital requirements and other needs. However, if necessary, potential additional sources to generate cash could include entering into additional joint ventures or land banking deals, issuing equity for cash or debt, selling excess land, entering into additional model sale leasebacks, limiting started unsold homes, delaying or reducing land purchases and take-downs or reducing land development spending.

As of July 31, 2012, we had \$992.0 million of outstanding senior secured notes (\$967.9 million, net of discount), comprised of \$797.0 million 10.625% Senior Secured Notes due 2016, \$53.2 million 2.0% Senior Secured Notes due 2021 and \$141.8 million 5.0% Senior Secured Notes due 2021. As of July 31, 2012, we also had \$460.6 million of outstanding senior notes (\$458.6 million, net of discount), comprised of \$36.7 million 6.5% Senior Notes due 2014, \$3.0 million 6.375% Senior Notes due 2014, \$21.4 million 6.25% Senior Notes due 2015, \$131.2 million 6.25% Senior Notes due 2016, \$86.5 million 7.5% Senior Notes due 2016, \$121.0 million 8.625% Senior Notes due 2017 and \$60.8 million 11.875% Senior Notes due 2015. In addition, as of July 31, 2012, we had outstanding \$7.0 million 7.25% Tangible Equity Units.

During the three months ended July 31, 2012, we repurchased for cash in the open market \$2.0 million principal amount of our 11.875% Senior Notes due 2015. During the nine months ended July 31, 2012, we repurchased for cash in the open market and privately negotiated transactions \$21.0 million principal amount of our 6.25% Senior Notes due 2016, \$61.1 million principal amount of our 7.5% Senior Notes due 2016, \$37.4 million principal amount of our 8.625% Senior Notes due 2017 and \$2.0 million principal amount of our 11.875% Senior Notes due 2015. The aggregate purchase price for these repurchases was \$1.5 million and \$72.2 million, respectively, for the three and nine months ended July 31, 2012, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$0.4 million and \$48.4 million, respectively, for the three and nine months ended July 31, 2012, net of the write-off of unamortized discounts and fees. The gain is included in the Condensed Consolidated Statement of Operations as "Gain on extinguishment of debt." Certain of these repurchases were funded with the proceeds from our April 11, 2012 issuance of 25,000,000 shares of our Class A Common Stock (see Notes 11 and 15 to the Condensed Consolidated Financial Statements).

Pursuant to agreements with bondholders, during the three months ended July 31, 2012, we also issued an aggregate of 5,379,383 shares of our Class A Common Stock in exchange for an aggregate of \$21.0 million of our outstanding indebtedness, consisting of \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016 and \$9.2 million of our 8.625% Senior Notes due 2017. Pursuant to agreements with bondholders, during the nine months ended July 31, 2012, we issued an aggregate of 8,443,713 shares of our Class A Common Stock in exchange for an aggregate of \$33.2 million of our outstanding indebtedness, consisting of \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016, \$18.3 million of our outstanding 8.625% Senior Notes due 2017 and approximately \$3.1 million aggregate principal amount of our 12.072% senior subordinated amortizing notes (the "exchanges"). The exchanges were effected with existing bondholders, without any underwriters, and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchanges. These exchanges resulted in a gain on extinguishment of debt of \$5.8 million and \$9.5 million, respectively, for the three and nine months ended July 31, 2012.

On April 11, 2012, we issued 25,000,000 shares of our Class A Common Stock at a price of \$2.00 per share, resulting in net proceeds of \$47.3 million. The net proceeds of the issuance, together with cash on hand, were used to purchase \$75.4 million principal amount of our senior notes (see Notes 11 and 15 to our Condensed Consolidated Financial Statements).

On November 1, 2011, we issued \$141.8 million aggregate principal amount of 5.0% Senior Secured Notes due 2021 (“the 5.0% 2021 Notes”) and \$53.2 million aggregate principal amount of 2.0% Senior Secured Notes due 2021 (the “2.0% 2021 Notes”, and together with the 5.0% 2021 Notes the “2021 Notes”) in exchange for \$195.0 million of certain of our unsecured senior notes with maturities ranging from 2014 through 2017. Holders of the senior notes due 2014 and 2015 that were exchanged in the exchange offer also received an aggregate of approximately \$14.2 million in cash payments and all holders of senior notes that were exchanged in the exchange offer received accrued and unpaid interest (in the aggregate amount of approximately \$3.3 million). Costs associated with this transaction were \$4.7 million. The 5.0% 2021 Notes and the 2.0% 2021 Notes were issued as separate series under an indenture, but have substantially the same terms other than with respect to interest rate and related redemption provisions, and vote together as a single class. The accounting for the debt exchange is being treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt and the costs associated with the debt exchange were expensed as incurred as shown in “Other operations” in the Condensed Consolidated Statement of Operations. See Note 11 to the Condensed Consolidated Financial Statements.

On July 3, 2011, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. There were no shares purchased during the three months ended July 31, 2012. During the nine months ended July 31, 2012, we purchased approximately 0.1 million shares. As of July 31, 2012, 3.5 million shares of Class A Common Stock have been purchased under this program.

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company’s common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the NASDAQ Global Market under the symbol “HOVNP”. During the three and nine months ended July 31, 2012 and 2011, we did not make any dividend payments on our Series A Preferred Stock as a result of covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

We do not have a revolving credit facility. We have certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of \$32.3 million and \$54.1 million of letters of credit outstanding as of July 31, 2012 and October 31, 2011, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of July 31, 2012 and October 31, 2011, the amount of cash collateral in these segregated accounts was \$32.8 million and \$57.7 million, respectively, which is reflected in “Restricted cash” on the Condensed Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. (“Chase Master Repurchase Agreement”) is a short-term borrowing facility that provides up to \$75 million through November 1, 2012 and thereafter up to \$50 million through March 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the current LIBOR subject to a floor of 1.625% plus the applicable margin ranging from 2.5% to 3.0% based on the takeout investor and type of loan. As of July 31, 2012, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was \$56.2 million.

On May 29, 2012, K. Hovnanian Mortgage entered into another secured Master Repurchase Agreement with Customers Bank (“Customers Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$37.5 million through May 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR subject to a floor of 3.5% plus the applicable margin ranging from 3.0% to 5.5% based on the takeout investor and type of loan. As of July 31, 2012, the aggregate principal amount of all borrowings under the Customers Master Repurchase Agreement was \$22.0 million.

On June 29, 2012, K. Hovnanian Mortgage entered into a third secured Master Repurchase Agreement with Credit Suisse First Boston Mortgage Capital LLC (“Credit Suisse Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$25.0 million through June 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the Credit Suisse Cost of Funds, which was 0.74% at July 31, 2012, plus the applicable margin ranging from 3.75% to 4.0% based on the takeout investor and type of loan. As of July 31, 2012, there were no outstanding borrowings under the Credit Suisse Master Repurchase Agreement.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Credit Suisse Master Repurchase Agreement (together, the “Master Repurchase Agreements”) require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the agreement, we do not consider any of these covenants to be substantive or material. As of July 31, 2012, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

The 10.625% Senior Secured Notes due 2016 are secured by a first-priority lien, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”) (the issuer of the senior secured notes) and the guarantors of such senior secured notes. At July 31, 2012, the aggregate book value of the real property collateral securing these notes was approximately \$640.9 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was \$164.8 million as of July 31, 2012, which includes \$32.8 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, certain of our title insurance subsidiaries and our foreign subsidiary, we and each of our subsidiaries are guarantors of the senior secured and senior notes and Amortizing Notes (see Note 12 to the Condensed Consolidated Financial Statements.) outstanding at July 31, 2012 (see Note 22 to the Condensed Consolidated Financial Statements.). In addition, the 2021 Notes are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries except for certain joint ventures and joint venture holding companies (collectively, the “Secured Group”).

The guarantees with respect to the 2021 Notes of the Secured Group are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets of the members of the Secured Group. As of July 31, 2012, the collateral securing the guarantees primarily included (1) \$86.4 million of cash and cash equivalents and (2) equity interests in guarantors that are members of the Secured Group. Subsequent to such date, cash uses include general business operations and real estate and other investments. The aggregate book value of the real property of the Secured Group collateralizing the 2021 Notes was approximately \$36.5 million as of July 31, 2012 (not including the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value). Members of the Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of \$46.4 million as of July 31, 2012; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the Secured Group are “unrestricted subsidiaries” under K. Hovnanian's other senior notes, senior secured notes and senior subordinated amortizing notes, and thus have not guaranteed such indebtedness.

Under the terms of the indentures (including with respect to the senior subordinated amortizing notes described in Note 12 to the Condensed Consolidated Financial Statements), we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We also continue to evaluate our capital structure and may also continue to make debt purchases and/or exchanges for debt or equity from time to time through tender offers, open market purchases, private transactions, or otherwise or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

The indentures governing the notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the notes to declare the notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy, and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of July 31, 2012 we believe we were in compliance with the covenants of the indentures governing our outstanding notes.

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured and senior notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness, and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under our bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

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

- On June 28, 2011, S&P downgraded our corporate credit rating from CCC+ to CCC.
- On September 8, 2011, Moody’s downgraded our corporate family and probability of default ratings to Caa2 from Caa1. Moody’s also lowered the rating on our 10.625% senior secured notes to B2 from B1 and our senior unsecured notes to Caa3 from Caa2. The rating on our preferred stock was affirmed at Ca, and our speculative grade liquidity assessment remained SGL-3.
- On October 5, 2011, S&P downgraded our corporate credit ratings and its ratings on our 10.625% senior secured notes to “CC” from “CCC”. S&P also lowered the rating on our senior unsecured notes to C from CC.
- On October 20, 2011, Moody’s changed our probability of default ratings to Caa2/LD from Caa2 and also lowered the rating on our 10.625% senior secured notes to B3 from B2 and assigned a rating of B3 to our 2.0% and 5.0% senior secured notes (issued in November 2011). Subsequently, on October 25, 2011, the LD designation on our probability of default ratings was removed.
- On October 29, 2011, S&P lowered our corporate credit rating to Selective Default (“SD”) from CC and lowered our rating on our senior unsecured notes from C to D. Subsequently, on November 3, 2011, S&P raised the Company’s corporate credit rating to CCC- from SD. S&P also raised our ratings on our 10.625% senior secured notes to CCC- from CC and our senior unsecured notes to CC from D.
- On November 2, 2011, Fitch lowered our Issuer Default Rating (“IDR”) to Restricted Default (“RD”) from CCC. Subsequently, on November 14, 2011, Fitch raised our IDR from RD back to CCC.
- On July 27, 2012, S&P revised its outlook on the Company to positive from negative. At the same time, it affirmed its ratings on the Company, including the “CCC-“ corporate credit rating.

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

Total inventory, excluding consolidated inventory not owned, decreased \$43.9 million during the nine months ended July 31, 2012. Total inventory, excluding consolidated inventory not owned, increased in the Midwest \$9.0 million and in the Southwest by \$9.7 million. This increase was offset by decreases in the Northeast of \$2.8 million, in the Mid-Atlantic by \$29.4 million, in the Southeast by \$6.6 million, and in the West of \$23.8 million. The decreases are primarily attributable to inventory that was reclassified to consolidated inventory not owned during the period as discussed below and to delivering homes at a faster pace than replenishing with new land, as noted by the decrease in our community count from October 31, 2011 to July 31, 2012. There were also land sales in several of our segments throughout fiscal 2012, contributing to the decrease in inventory. These decreases were partially offset by the acquisition of new land parcels and consolidation of a community that was previously held in one of our unconsolidated joint ventures. During the nine months ended July 31, 2012, we incurred \$5.4 million in impairments, the majority of which related to properties that are held for sale in the Northeast. In addition, we wrote-off costs in the amount of \$1.8 million during the nine months ended July 31, 2012 related to land options that expired or that we terminated, as the communities’ forecasted profitability was not projected to produce adequate returns on investment commensurate with the risk. In the last few years, we have been able to acquire new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. There can be no assurances that this trend will continue in the near term. Substantially all homes under construction or completed and included in inventory at July 31, 2012 are expected to be closed during the next 12 months.

The total inventory decrease discussed above excluded the increase in consolidated inventory not owned of \$79.8 million. Consolidated inventory not owned consists of specific performance options and other options that were added to our balance sheet in accordance with accounting principles generally accepted in the United States. The increase from October 31, 2011 to July 31, 2012, was due to sale and leaseback of certain model homes and land banking transactions during the second and third quarters of fiscal 2012. During the second and third quarters of fiscal 2012, we sold and leased back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement, these sale and leaseback transactions are considered a financing rather than a sale for accounting purposes. Therefore, for purposes of our Condensed Consolidated Balance Sheet, the inventory of \$32.5 million was reclassified to consolidated inventory not owned, with a \$31.7 million liability from inventory not owned for the amount of cash received. In addition, we entered into a land banking arrangement in the third quarter of fiscal 2012 with GSO whereby we sold a portfolio of our land parcels to GSO, and GSO provided us an option to purchase back finished lots on a quarterly basis. Because of our option to repurchase these parcels, for accounting purposes this transaction is considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheet, the inventory of \$49.7 million was reclassified to consolidated inventory not owned, with a \$38.1 million liability from inventory not owned recorded for the amount of cash received. Offsetting the increase in consolidated inventory not owned was a decrease due to the purchase of properties in the Southwest and West during the period, which had specific performance obligations.

When possible, we option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. The costs associated with optioned properties are included in "Land and land options held for future development or sale inventory". Also included in "Land and land options held for future development or sale inventory" are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we decide against spending money to improve land today and save the raw land until such times as the markets improve. As of July 31, 2012, we have mothballed land in 54 communities. The book value associated with these communities at July 31, 2012 was \$128.0 million, net of impairment write-downs of \$464.6 million. We continually review communities to determine if mothballing is appropriate. During the first nine months of fiscal 2012, we mothballed one community previously held for sale, re-activated two communities and sold four communities which were previously mothballed. Our inventory representing "Land and land options held for future development or sale" at July 31, 2012, on the Condensed Consolidated Balance Sheets, decreased by \$32.0 million compared to October 31, 2011. The decrease is due to the movement of certain of our communities from held for future development to sold and unsold homes and lots under development during the quarter, combined with land sales in the Northeast and Southeast and additional impairments taken primarily in the Northeast and Southeast in the first three quarters of fiscal 2012, offset by an increase due to the acquisition of new land in all segments during the first three quarters of fiscal 2012.

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

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
July 31, 2012:				
Northeast	16	1,644	2,932	4,576
Mid-Atlantic	23	2,407	3,583	5,990
Midwest	26	1,692	466	2,158
Southeast	18	962	863	1,825
Southwest	80	4,084	1,845	5,929
West	12	1,732	5,059	6,791
Consolidated total	175	12,521	14,748	27,269
Unconsolidated joint ventures	19	1,718	274	1,992
Total including unconsolidated joint ventures	194	14,239	15,022	29,261
Owned		6,378	10,122	16,500
Optioned		5,971	4,626	10,597
Controlled lots		12,349	14,748	27,097
Construction to permanent financing lots		172	0	172
Consolidated total		12,521	14,748	27,269
Lots controlled by unconsolidated joint ventures		1,718	274	1,992
Total including unconsolidated joint ventures		14,239	15,022	29,261

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

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
October 31, 2011:				
Northeast	15	1,511	3,228	4,739
Mid-Atlantic	24	2,256	3,336	5,592
Midwest	26	1,354	745	2,099
Southeast	22	1,950	896	2,846
Southwest	89	3,963	1,564	5,527
West	16	2,334	5,168	7,502
Consolidated total	192	13,368	14,937	28,305
Unconsolidated joint ventures	22	2,160	571	2,731
Total including unconsolidated joint ventures	214	15,528	15,508	31,036
Owned		7,651	10,626	18,277
Optioned		5,602	4,311	9,913
Controlled lots		13,253	14,937	28,190
Construction to permanent financing lots		115	-	115
Consolidated total		13,368	14,937	28,305
Lots controlled by unconsolidated joint ventures		2,160	571	2,731
Total including unconsolidated joint ventures		15,528	15,508	31,036

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

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

	July 31, 2012			October 31, 2011		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	121	7	128	86	18	104
Mid-Atlantic	73	5	78	73	30	103
Midwest	35	30	65	45	38	83
Southeast	96	13	109	58	30	88
Southwest	372	28	400	431	81	512
West	64	10	74	118	52	170
Total	761	93	854	811	249	1,060
Started or completed unsold homes and models per active selling communities (1)	4.3	0.5	4.9	4.2	1.3	5.5

(1) Active selling communities (which are communities that are open for sale with 10 or more home sites) available were 175 and 192 at July 31, 2012 and October 31, 2011, respectively.

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

Receivables, deposits and notes increased \$8.9 million since October 31, 2011, to \$61.1 million at July 31, 2012. The increase is primarily due to an increase in receivables for home closings as a result of cash in transit from various title companies at the end of the respective periods, as well as reimbursements receivable from our insurance carriers for certain warranty claims.

Property, plant and equipment decreased \$3.6 million during the nine months ended July 31, 2012, primarily due to depreciation and a small amount of disposals, which were offset by minor additions during the period.

Prepaid expenses and other assets were as follows as of:

(In thousands)	July 31, 2012	October 31, 2011	Dollar Change
Prepaid insurance	\$ 3,832	\$ 1,808	\$ 2,024
Prepaid project costs	25,983	27,206	(1,223)
Senior residential rental properties	5,579	7,374	(1,795)
Other prepaids	20,273	21,699	(1,426)
Other assets	9,555	9,611	(56)
Total	\$ 65,222	\$ 67,698	\$ (2,476)

Prepaid insurance increased due to the payment of a full year of certain liability insurance premiums in the first and third quarters of fiscal 2012, offset by two quarters of amortization for the first quarter payments at July 31, 2012. These costs are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Prepaid project costs decreased for homes delivered and were not fully offset by prepaid spending for new communities. Senior residential rental properties decreased due to the sale of one of our properties during the third quarter of fiscal 2012. Other prepaids decreased mainly due to the amortization of the remaining prepaid debt costs.

Financial Services - Mortgage loans held for sale consist primarily of residential mortgages receivable held for sale of which \$89.0 million and \$71.2 million at July 31, 2012 and October 31, 2011, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. The increase in mortgage loans held for sale from October 31, 2011 is primarily related to an increase in the volume of loans originated during the third quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011, along with an increase in the average loan value. Also included are residential mortgages receivable held for sale of \$2.4 million and \$1.0 million at July 31, 2012 and October 31, 2011, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur losses with respect to mortgages that were previously sold that are delinquent and which had underwriting defects, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

Nonrecourse land mortgages increased to \$44.6 million at July 31, 2012 from \$26.1 million at October 31, 2011. The increase is primarily due to a mortgage on a community that was previously owned by one of our unconsolidated joint ventures and was consolidated during the third quarter of fiscal 2012.

Accounts payable and other liabilities are as follows:

(In thousands)	July 31, 2012	October 31, 2011	Dollar Change
Accounts payable	\$ 89,039	\$ 85,415	\$ 3,624
Reserves	134,107	141,496	(7,389)
Accrued expenses	28,324	43,151	(14,827)
Accrued compensation	22,712	23,432	(720)
Other liabilities	24,829	10,139	14,690
Total	<u>\$ 299,011</u>	<u>\$ 303,633</u>	<u>\$ (4,622)</u>

The increase in accounts payable was primarily due to the higher volume of deliveries in the third quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. The decrease in the reserves is primarily related to various legal settlements. The decrease in accrued expenses is primarily due to decreases in property tax and payroll accruals due to timing of the payments and amortization of abandoned lease space accruals. The decrease in accrued compensation is primarily due to the payment of our fiscal year 2011 bonuses during the first quarter of 2012 only partially offset by three quarters of our fiscal 2012 bonus accrual. Other liabilities increased primarily due to a new note payable to a former joint venture partner for the buy-out of their share of the joint venture during the third quarter of fiscal 2012.

Customer deposits increased \$8.4 million from \$16.7 million at October 31, 2011 to \$25.1 million at July 31, 2012. This increase is primarily attributable to the increase in backlog during the nine months ended July 31, 2012.

Liabilities from inventory not owned increased from \$2.4 million at October 31, 2011 to \$69.8 million at July 31, 2012. The increase is primarily due to the land banking and model home financing programs, described with the change in inventory not owned discussion under "Capital Resources and Liquidity". Offsetting the increase was a decrease due to the take-down of properties in the Southwest and West during the period, which had a specific performance purchase obligation.

Accounts payable and other liabilities for our Financial Services segment increased \$7.2 million to \$21.7 million at July 31, 2012. The increase primarily relates to the increase in Financial Services restricted cash during the period, due to an increase in the volume and timing of home closings during the period.

Mortgage warehouse lines of credit increased \$28.5 million to \$78.2 million at July 31, 2012. The increase correlates to the increase in the volume of mortgage loans held for sale during the period. In connection with the increase in loan volume, we entered into two new secured master repurchase agreements during the third quarter of fiscal 2012, thereby increasing our available lines of credit at July 31, 2012.

Accrued interest increased \$10.1 million to \$31.4 million at July 31, 2012. This increase is attributable to higher accruals in the current quarter due to the timing of interest payments on our notes outstanding.

Income taxes payable of \$41.8 million at October 31, 2011 decreased \$35.1 million to \$6.7 million at July 31, 2012, primarily due to the reversal of certain state tax reserves for uncertain tax positions that we have determined have been effectively settled.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2012 COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2011

Total revenues

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

(Dollars in thousands)	Three Months Ended			Percentage Change
	July 31, 2012	July 31, 2011	Dollar Change	
Homebuilding:				
Sale of homes	\$ 371,481	\$ 276,479	\$ 95,002	34.4%
Land sales and other revenues	4,743	1,289	3,454	268.0%
Financial services	10,787	7,850	2,937	37.4%
Total revenues	\$ 387,011	\$ 285,618	\$ 101,393	35.5%

(Dollars in thousands)	Nine Months Ended			Percentage Change
	July 31, 2012	July 31, 2011	Dollar Change	
Homebuilding:				
Sale of homes	\$ 936,305	\$ 759,338	\$ 176,967	23.3%
Land sales and other revenues	36,014	13,695	22,319	163.0%
Financial services	25,990	20,249	5,741	28.4%
Total revenues	\$ 998,309	\$ 793,282	\$ 205,027	25.8%

Homebuilding

For the three and nine months ended July 31, 2012, sale of homes revenues increased \$95.0 million or 34.4% and \$177.0 million, or 23.3%, respectively, as compared to the same period of the prior year. This increase was primarily due to the number of home deliveries increasing 22.1% and 14.9% for the three and nine months ended July 31, 2012, respectively, compared to the three and nine months ended July 31, 2011. The average price per home increased to \$307,000 in the three months ended July 31, 2012 from \$278,000 in the three months ended July 31, 2011. The average price per home increased to \$298,000 in the nine months ended July 31, 2012 from \$277,000 in the nine months ended July 31, 2011. The fluctuations in average prices were a result of geographic and community mix of our deliveries, as well as price increases in individual communities. During fiscal 2012, we were able to raise prices in a number of our communities. Land sales are ancillary to our homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on the increase in land sales and other revenues, see the section titled "Land Sales and Other Revenues" below.

Information on homes delivered by segment is set forth below:

(Dollars in thousands)	Three Months Ended July 31,			Nine Months Ended July 31,		
	2012	2011	% Change	2012	2011	% Change
Northeast:						
Dollars	\$ 63,811	\$ 43,443	46.9%	\$ 146,722	\$ 122,852	19.4%
Homes	148	99	49.5%	339	282	20.2%
Mid-Atlantic:						
Dollars	\$ 75,075	\$ 57,104	31.5%	\$ 192,620	\$ 150,011	28.4%
Homes	179	147	21.8%	462	395	17.0%
Midwest:						
Dollars	\$ 28,213	\$ 17,716	59.3%	\$ 69,960	\$ 49,216	42.1%
Homes	128	87	47.1%	317	257	23.3%
Southeast:						
Dollars	\$ 24,432	\$ 17,894	36.5%	\$ 66,019	\$ 50,082	31.8%
Homes	103	75	37.3%	283	216	31.0%
Southwest:						
Dollars	\$ 139,407	\$ 107,861	29.2%	\$ 344,844	\$ 292,427	17.9%
Homes	529	461	14.8%	1,363	1,224	11.4%
West:						
Dollars	\$ 40,543	\$ 32,461	24.9%	\$ 116,140	\$ 94,750	22.6%
Homes	125	124	0.8%	380	363	4.7%
Consolidated total:						
Dollars	\$ 371,481	\$ 276,479	34.4%	\$ 936,305	\$ 759,338	23.3%
Homes	1,212	993	22.1%	3,144	2,737	14.9%
Unconsolidated joint ventures						
Dollars	\$ 89,304	\$ 57,609	55.0%	\$ 218,770	\$ 109,434	99.9%
Homes	175	119	47.1%	462	234	97.4%
Totals:						
Housing revenues	\$ 460,785	\$ 334,088	37.9%	\$ 1,155,075	\$ 868,772	33.0%
Homes delivered	1,387	1,112	24.7%	3,606	2,971	21.4%

The overall increase in housing revenues and deliveries during the three and nine months ended July 31, 2012, as compared to the same periods of the prior year, was primarily attributed to an increase in sales pace per community from 6.3 to 7.6 for the three months ended July 31, 2011 and 2012, respectively, and from 16.1 to 20.8 for the nine months ended July 31, 2011 and 2012, respectively.

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

(Dollars in thousands)	Net Contracts (1) for the Nine Months Ended July 31,		Contract Backlog as of July 31,	
	2012	2011	2012	2011
Northeast:				
Dollars	\$ 137,660	\$ 151,255	\$ 125,497	\$ 122,290
Homes	318	351	285	284
Mid-Atlantic:				
Dollars	\$ 187,143	\$ 181,874	\$ 131,712	\$ 130,215
Homes	447	470	310	308
Midwest:				
Dollars	\$ 116,939	\$ 54,125	\$ 95,615	\$ 43,455
Homes	531	266	440	231
Southeast:				
Dollars	\$ 102,338	\$ 67,286	\$ 66,259	\$ 37,953
Homes	427	288	268	154
Southwest:				
Dollars	\$ 436,508	\$ 303,166	\$ 180,660	\$ 107,686
Homes	1,667	1,283	635	396
West:				
Dollars	\$ 157,516	\$ 93,655	\$ 74,416	\$ 25,972
Homes	458	349	194	96
Consolidated total:				
Dollars	\$ 1,138,104	\$ 851,361	\$ 674,159	\$ 467,571
Homes	3,848	3,007	2,132	1,469
Unconsolidated joint ventures:				
Dollars	\$ 264,594	\$ 129,382	\$ 139,767	\$ 103,238
Homes	547	306	320	267
Totals:				
Dollars	\$ 1,402,698	\$ 980,743	\$ 813,926	\$ 570,809
Homes	4,395	3,313	2,452	1,736

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

In the first three quarters of 2012, our open for sale community count decreased to 175 from 192 at October 31, 2011, which is the net result of opening 48 new communities, closing 66 communities and adding one active community from a previously unconsolidated joint venture, since the beginning of fiscal 2012. Our reported level of sales contracts (net of cancellations) has been impacted by an increase in the pace of sales in most of the Company's segments, due to better market conditions and lower interest rates on mortgages during the first three quarters of fiscal 2012 as compared to the same period in the prior year. Contracts per average active selling community for the nine months ended July 31, 2012 were 20.8 compared to 16.1 for the same period in the prior year, demonstrating an increase in sales pace.

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

Quarter	2012	2011	2010	2009	2008
First	21%	22%	21%	31%	38%
Second	16%	20%	17%	24%	29%
Third	20%	18%	23%	23%	32%
Fourth		21%	24%	24%	42%

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

Quarter	2012	2011	2010	2009	2008
First	18%	18%	13%	22%	16%
Second	21%	22%	17%	31%	24%
Third	18%	20%	15%	23%	20%
Fourth		18%	25%	20%	30%

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

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

(Dollars in thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Sale of homes	\$ 371,481	\$ 276,479	\$ 936,305	\$ 759,338
Cost of sales, net of impairment reversals and excluding interest	303,760	234,129	772,368	640,507
Homebuilding gross margin, before cost of sales interest expense and land charges	67,721	42,350	163,937	118,831
Cost of sales interest expense, excluding land sales interest expense	14,178	14,222	34,829	41,671
Homebuilding gross margin, after cost of sales interest expense, before land charges	53,543	28,128	129,108	77,160
Land charges	689	11,426	7,230	41,876
Homebuilding gross margin, after cost of sales interest expense and land charges	\$ 52,854	\$ 16,702	\$ 121,878	\$ 35,284
Gross margin percentage, before cost of sales interest expense and land charges	18.2%	15.3%	17.5%	15.6%
Gross margin percentage, after cost of sales interest expense, before land charges	14.4%	10.2%	13.8%	10.2%
Gross margin percentage, after cost of sales interest expense and land charges	14.2%	6.0%	13.0%	4.6%

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Sale of homes	100.0%	100.0%	100.0%	100.0%
Cost of sales, net of impairment reversals and excluding interest:				
Housing, land and development costs	70.7%	71.8%	70.9%	71.6%
Commissions	3.5%	3.4%	3.5%	3.6%
Financing concessions	1.7%	2.0%	1.8%	2.0%
Overheads	5.9%	7.5%	6.3%	7.2%
Total cost of sales, before interest expense and land charges	81.8%	84.7%	82.5%	84.4%
Gross margin percentage, before cost of sales interest expense and land charges	18.2%	15.3%	17.5%	15.6%
Cost of sales interest	3.8%	5.1%	3.7%	5.4%
Gross margin percentage, after cost of sales interest expense and before land charges	14.4%	10.2%	13.8%	10.2%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margins, before interest expense and land impairment and option write off charges, increased to 18.2% during the three months ended July 31, 2012, compared to 15.3% for the same period last year and increased to 17.5% during the nine months ended July 31, 2012 compared to 15.6% for the same period last year. The increase in gross margin percentage is primarily due to the mix of higher margin homes delivered in the three and nine months ended July 31, 2012 compared to the same periods of the prior year. In the third quarter, we continued to see an increase in the pace of sales in some of our markets and, as a result, in some communities we have been able to increase base prices and increase lot premiums, without adversely impacting the sales pace. In addition, we are currently delivering more homes in communities where we acquired the land more recently at lower costs than land acquired before the housing downturn.

Reflected as inventory impairment loss and land option write-offs in cost of sales ("land charges"), we have written-off or written-down certain inventories totaling \$0.7 million and \$11.4 million during the three months ended July 31, 2012 and 2011, respectively, and \$7.2 million and \$41.9 million during the nine months ended July 31, 2012 and 2011, respectively, to their estimated fair value. During the three and nine months ended July 31, 2012, we wrote-off residential land options and approval and engineering costs amounting to \$0.5 million and \$1.8 million compared to \$6.3 million and \$13.7 million for the three and nine months ended July 31, 2011, which are included in the total land charges discussed above. When a community is redesigned or abandoned, engineering costs are written-off. Option, approval and engineering costs are written-off when a community's pro forma profitability is not projected to produce adequate returns on the investment commensurate with the risk and we believe it is probable we will cancel the option. Such write-offs were located in our Northeast, Mid-Atlantic, Midwest, Southeast and Southwest segments during the nine months ended July 31, 2012, and in our Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West segments during the nine months ended July 31, 2011. We recorded inventory impairments of \$0.2 million and \$5.1 million during the three months ended July 31, 2012 and 2011, respectively, and \$5.4 million and \$28.2 million during the nine months ended July 31, 2012 and 2011, respectively. Inventory impairments during the nine months ended July 31, 2012 and 2011 were lower than they had been in several years as we have begun to see some stabilization in prices and sales pace in some of our segments. It is difficult to predict if this trend will continue and, should it become necessary to further lower prices, or should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments. See "Notes to Condensed Consolidated Financial Statements" – Note 5 for an additional information of segment impairments.

Land Sales and Other Revenues:

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

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2012	2011	2012	2011
Land and lot sales	\$ 1,823	\$ 174	\$ 28,737	\$ 8,217
Cost of sales, excluding interest	1,418	127	21,800	5,642
Land and lot sales gross margin, excluding interest	405	47	6,937	2,575
Land sales interest expense	120	-	5,262	2,133
Land and lot sales gross margin, including interest	<u>\$ 285</u>	<u>\$ 47</u>	<u>\$ 1,675</u>	<u>\$ 442</u>

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Although we budget land sales, they are often dependent upon receiving approvals and entitlements, the timing of which can be uncertain. As a result, projecting the amount and timing of land sales is difficult. The number of land sales in the three months ended July 31, 2012 was similar to the number in the same period of the prior year, which resulted in an increase of \$1.6 million in land sales revenue. There were also several land sales for the nine months ended July 31, 2012 and 2011. There were a few larger parcel sales in the current fiscal year, which resulted in an increase of \$20.5 million in land sales revenue as compared to the first nine months of the prior fiscal year.

Land sales and other revenues increased \$3.5 million and \$22.3 million for the three and nine months ended July 31, 2012, compared to the same period in the prior year. Other revenues include income from contract cancellations where the deposit has been forfeited due to contract terminations, interest income, cash discounts, buyer walk-aways and miscellaneous one-time receipts. For the three and nine months ended July 31, 2012, compared to the three and nine months ended July 31, 2011, there were minor fluctuations in other revenues, resulting in a net increase of \$1.8 million for the three months and a net increase of \$1.8 million for the nine months. This is in addition to the increase in land sales revenue described above.

Homebuilding Selling, General and Administrative

Homebuilding selling, general and administrative expenses increased \$1.3 million and decreased \$10.3 million for the three and nine months ended July 31, 2012 compared to the same period last year. The slight increase for the three months ended July 31, 2012 compared to 2011 is attributed to costs for additional advertising and selling overhead to generate traffic and sales as we begin to see improvements in the overall market. The decrease for the nine months ended July 31, 2012 compared to 2011 is a result of the continued efforts to reduce homebuilding selling, general and administrative expenses through administration consolidation and other cost saving measures. In addition, homebuilding selling, general and administrative expenses as a percentage of homebuilding revenues improved to 9.8% and 11.2% for the three and nine months ended July 31, 2012 compared to 12.6% and 15.1% for the three and nine months ended July 31, 2011.

HOMEBUILDING OPERATIONS BY SEGMENT

Segment Analysis

(Dollars in thousands, except average sales price)	Three Months Ended July 31,			
	2012	2011	Variance	Variance %
Northeast				
Homebuilding revenue	\$ 65,742	\$ 44,051	\$ 21,691	49.2%
Income (loss) before income taxes	\$ 1,435	\$ (8,400)	\$ 9,835	117.1%
Homes delivered	148	99	49	49.5%
Average sales price	\$ 431,155	\$ 438,818	\$ (7,663)	(1.7)%
Contract cancellation rate	24.8%	13.0%	11.8%	
Mid-Atlantic				
Homebuilding revenue	\$ 77,131	\$ 57,338	\$ 19,793	34.5%
Income (loss) before income taxes	\$ 4,946	\$ (4,816)	\$ 9,762	202.7%
Homes delivered	179	147	32	21.8%
Average sales price	\$ 419,413	\$ 388,463	\$ 30,950	8.0%
Contract cancellation rate	30.6%	17.7%	12.9%	
Midwest				
Homebuilding revenue	\$ 28,271	\$ 17,721	\$ 10,550	59.5%
Income (loss) before income taxes	\$ 294	\$ (2,893)	\$ 3,187	110.2%
Homes delivered	128	87	41	47.1%
Average sales price	\$ 220,414	\$ 203,632	\$ 16,782	8.2%
Contract cancellation rate	18.0%	24.8%	(6.8)%	
Southeast				
Homebuilding revenue	\$ 24,660	\$ 18,038	\$ 6,622	36.7%
Loss before income taxes	\$ (2,417)	\$ (4,017)	\$ 1,600	39.8%
Homes delivered	103	75	28	37.3%
Average sales price	\$ 237,204	\$ 238,587	\$ (1,383)	(0.6)%
Contract cancellation rate	24.5%	7.6%	16.9%	
Southwest				
Homebuilding revenue	\$ 139,790	\$ 108,188	\$ 31,602	29.2%
Income before income taxes	\$ 11,815	\$ 7,577	\$ 4,238	55.9%
Homes delivered	529	461	68	14.8%
Average sales price	\$ 263,529	\$ 233,972	\$ 29,557	12.6%
Contract cancellation rate	16.8%	21.0%	(4.2)%	
West				
Homebuilding revenue	\$ 40,559	\$ 32,423	\$ 8,136	25.1%
Loss before income taxes	\$ (1,342)	\$ (6,151)	\$ 4,809	78.2%
Homes delivered	125	124	1	0.8%
Average sales price	\$ 324,344	\$ 261,782	\$ 62,562	23.9%
Contract cancellation rate	19.0%	14.5%	4.5%	

	Nine Months Ended July 31,			
	2012	2011	Variance	Variance %
Northeast				
Homebuilding revenue	\$ 159,049	\$ 126,035	\$ 33,014	26.2%
Loss before income taxes	\$ (4,338)	\$ (43,124)	\$ 38,786	89.9%
Homes delivered	339	282	57	20.2%
Average sales price	\$ 432,808	\$ 435,645	\$ (2,837)	(0.7)%
Contract cancellation rate	26.6%	15.2%	11.4%	
Mid-Atlantic				
Homebuilding revenue	\$ 196,302	\$ 150,600	\$ 45,702	30.3%
Income (loss) before income taxes	\$ 12,615	\$ (13,805)	\$ 26,420	191.4%
Homes delivered	462	395	67	17.0%
Average sales price	\$ 416,926	\$ 379,775	\$ 37,151	9.8%
Contract cancellation rate	27.2%	25.4%	1.8%	
Midwest				
Homebuilding revenue	\$ 70,100	\$ 49,295	\$ 20,805	42.2%
Loss before income taxes	\$ (953)	\$ (7,226)	\$ 6,273	86.8%
Homes delivered	317	257	60	23.3%
Average sales price	\$ 220,694	\$ 191,502	\$ 29,192	15.2%
Contract cancellation rate	14.5%	21.5%	(7.0)%	
Southeast				
Homebuilding revenue	\$ 81,215	\$ 50,476	\$ 30,739	60.9%
Loss before income taxes	\$ (9,150)	\$ (10,697)	\$ 1,547	14.5%
Homes delivered	283	216	67	31.0%
Average sales price	\$ 233,283	\$ 231,861	\$ 1,422	0.6%
Contract cancellation rate	18.0%	14.8%	3.2%	
Southwest				
Homebuilding revenue	\$ 346,331	\$ 298,829	\$ 47,502	15.9%
Income before income taxes	\$ 24,600	\$ 19,449	\$ 5,151	26.5%
Homes delivered	1,363	1,224	139	11.4%
Average sales price	\$ 253,004	\$ 238,911	\$ 14,093	5.9%
Contract cancellation rate	16.6%	20.5%	(3.9)%	
West				
Homebuilding revenue	\$ 119,322	\$ 97,896	\$ 21,426	21.9%
Loss before income taxes	\$ (5,262)	\$ (23,159)	\$ 17,897	77.3%
Homes delivered	380	363	17	4.7%
Average sales price	\$ 305,632	\$ 261,019	\$ 44,613	17.1%
Contract cancellation rate	18.9%	17.7%	1.2%	

Homebuilding Results by Segment

Northeast - Homebuilding revenues increased 49.2% for the three months ended July 31, 2012 compared to the same period of the prior year. The increase for the three months ended July 31, 2012 was attributed to a 49.5% increase in homes delivered and a \$1.3 million increase in land sales and other revenue, partially offset by a 1.7% decrease in average sales price. The decrease in average sales price was the result of the mix of communities delivering in the three months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$9.8 million compared to the prior year to a profit of \$1.4 million for the three months ended July 31, 2012. This decrease is mainly due to the increase in homebuilding revenues discussed above, a \$0.6 million decrease in inventory impairment losses and land option write-offs recorded for the three months ended July 31, 2012. In addition, selling, general and administrative costs were down \$0.6 million due to decreased salaries from headcount reductions and other overhead cost savings. Also, gross margin percentage before interest expense increased for the three months ended July 31, 2012.

Homebuilding revenues increased 26.2% for the nine months ended July 31, 2012 compared to the same period of the prior year. The increase for the nine months ended July 31, 2012 was attributed to a 20.2% increase in homes delivered and by a \$9.1 million increase in land sales and other revenue, while average sales prices were relatively flat.

Loss before income taxes decreased \$38.8 million compared to the prior year to a loss of \$4.3 million for the nine months ended July 31, 2012. This decrease is mainly due to the increase in homebuilding revenues discussed above, an \$18.8 million decrease in inventory impairment losses and land option write-offs recorded for the nine months ended July 31, 2012. In addition, selling, general and administrative costs were down \$5.1 million due to decreased salaries from headcount reductions and other overhead cost savings. In addition, gross margin percentage before interest expense increased for the nine months ended July 31, 2012.

Mid-Atlantic - Homebuilding revenues increased 34.5% for the three months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 21.8% increase in homes delivered, an 8.0% increase in average sales price and a \$1.8 million increase in land sales and other revenue for the three months ended July 31, 2012. The increase in average sales prices was the result of the mix of communities delivering in the three months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$9.8 million to a profit of \$4.9 million for the three months ended July 31, 2012 due primarily to the increase in homebuilding revenues discussed above, combined with a \$4.8 million decrease in inventory impairment losses and land option write-offs and a \$0.7 million decrease in selling, general and administrative costs for the three months ended July 31, 2012. In addition, gross margin percentage before interest expense was relatively flat for the three months ended July 31, 2012.

Homebuilding revenues increased 30.3% for the nine months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 17.0% increase in homes delivered, a 9.8% increase in average sales price and a \$3.1 million increase in land sales and other revenue for the nine months ended July 31, 2012. The increase in average sales prices was the result of the mix of communities delivering in the nine months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$26.4 million to a profit of \$12.6 million for the nine months ended July 31, 2012 due primarily to the increase in homebuilding revenues discussed above, combined with a \$6.8 million decrease in inventory impairment losses and land option write-offs and a \$2.7 million decrease in selling, general and administrative costs for the nine months ended July 31, 2012. Also, gross margin percentage before interest expense was relatively flat for the nine months ended July 31, 2012.

Midwest - Homebuilding revenues increased 59.5% for the three months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 47.1% increase in homes delivered and an 8.2% increase in average sales price for the three months ended July 31, 2012. The increase in average sales price was the result of the mix of communities delivering in the three months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$3.2 million to a profit of \$0.3 million for the three months ended July 31, 2012. The decrease in the loss for the three months ended July 31, 2012 was primarily due to the increase in homebuilding revenues discussed above, an increase in gross margin percentage before interest expense for the period and a \$0.3 million decrease in both inventory impairment losses and land option write-offs and selling, general and administrative costs.

Homebuilding revenues increased 42.2% for the nine months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 23.3% increase in homes delivered and a 15.2% increase in average sales price for the nine months ended July 31, 2012. The increase in average sales price was the result of the mix of communities delivering in the nine months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$6.3 million to a loss of \$1.0 million for the nine months ended July 31, 2012. The decrease in the loss for the nine months ended July 31, 2012 was primarily due to the increase in homebuilding revenues discussed above, an increase in gross margin percentage before interest expense for the period and a \$0.5 million decrease in inventory impairment losses and land option write-offs.

Southeast - Homebuilding revenues increased 36.7% for the three months ended July 31, 2012 compared to the same period in the prior year. The increase for the three months ended July 31, 2012 was attributed to the 37.3% increase in homes delivered, offset by a 0.6% decrease in average sales price. The decrease in average sales price was primarily due to the different mix of communities delivering in the three months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$1.6 million to a loss of \$2.4 million for the three months ended July 31, 2012 primarily due to an increase in homebuilding revenues discussed above, a decrease in inventory impairment losses and land option write-offs of \$1.9 million and an increase in gross margin percentage before interest expense, offset by a \$2.5 million increase in selling, general and administrative costs.

Homebuilding revenues increased 60.9% for the nine months ended July 31, 2012 compared to the same period in the prior year. The increase for the nine months ended July 31, 2012 was attributed to the 31.0% increase in homes delivered, a 0.6% increase in average sales price and was further impacted by a \$14.8 million increase in land sales and other revenue. The increase in average sales price was primarily due to the different mix of communities delivering in the three months ended July 31, 2012 compared to the same period of fiscal 2011.

Loss before income taxes decreased \$1.5 million to a loss of \$9.2 million for the nine months ended July 31, 2012 primarily due to the increase in homebuilding revenues and land sales and other revenue mentioned above, offset by an increase in inventory impairment losses and land option write-offs of \$0.8 million, and a \$0.9 million increase in selling, general and administrative costs, while gross margin percentage before interest expense was flat.

Southwest - Homebuilding revenues increased 29.2% for the three months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to a 14.8% increase in homes delivered and a 12.6% increase in average sales price for the three months ended July 31, 2012, as a result of the different mix of communities delivering in the three months ended July 31, 2012 compared to the same period in fiscal 2011.

Income before income taxes increased \$4.2 million to \$11.8 million for the three months ended July 31, 2012. The increase was primarily due to the increase in homebuilding revenues discussed above. Gross margin percentage before interest expense for the three months ended July 31, 2012 was relatively flat compared to the same period of the prior year.

Homebuilding revenues increased 15.9% for the nine months ended July 31, 2012 compared to the same period in the prior year. The increase was primarily due to an 11.4% increase in homes delivered and a 5.9% increase in average sales price for the nine months ended July 31, 2012, as a result of the different mix of communities delivering in the nine months ended July 31, 2012 compared to the same period in 2011. This was offset by a \$4.9 million decrease in land sale and other revenue for the nine months ended July 31, 2012 compared to the same period of the prior year.

Income before income taxes increased \$5.2 million to \$24.6 million for the nine months ended July 31, 2012. The increase was primarily due to the increase in homebuilding revenue mentioned above. Gross margin percentage before interest expense for the nine months ended July 31, 2012 was relatively flat compared to the same period of the prior year.

West - Homebuilding revenues increased 25.1% for the three months ended July 31, 2012 compared to the same period in the prior year. The increase for the three months ended July 31, 2012 was attributed to a 23.9% increase in average sales price, due to the different mix of communities delivering in the three months ended July 31, 2012 compared to the same period of the prior year.

Loss before income taxes decreased \$4.8 million to a loss of \$1.3 million for the three months ended July 31, 2012. The decreased loss for the three months ended July 31, 2012 was primarily due to the impact of the increase in homebuilding revenue discussed above, a \$3.3 million decrease in inventory impairments and land option write-offs taken and a \$0.6 million decrease in selling, general and administrative costs for the three months ended July 31, 2012 compared to the same period in the prior year. In addition, gross margin percentage before interest expense for the three months ended July 31, 2012 increased compared to the same period of the prior year.

Homebuilding revenues increased 21.9% for the nine months ended July 31, 2012 compared to the same period in the prior year. The increase for the nine months ended July 31, 2012 was attributed to a 4.7% increase in homes delivered, along with a 17.1% increase in average sales price, due to the different mix of communities delivering in the nine months ended July 31, 2012 compared to the same period of the prior year.

Loss before income taxes decreased \$17.9 million to a loss of \$5.3 million for the nine months ended July 31, 2012. The decreased loss for the nine months ended July 31, 2012 was primarily due to an increase in homebuilding revenues discussed above, a \$9.6 million decrease in inventory impairments and land option write-offs taken and a \$3.9 million decrease in selling, general and administrative costs for the nine months ended July 31, 2012 compared to the same period in the prior year. In addition, gross margin percentage before interest expense for the nine months ended July 31, 2012 increased compared to the same period of the prior year.

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. We use mandatory investor commitments and forward sales of mortgage-backed securities ("MBS") to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of nonagency and nongovernmental loans, we no longer originate Alt-A or sub-prime loans. As Alt-A and sub-prime originations were eliminated, we have seen an increase in our level of Federal Housing Administration and Veterans Administration ("FHA/VA") loan origination. FHA/VA loans represented 43.2% and 48.2% for the nine months ended July 31, 2012 and 2011, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

During the three and nine months ended July 31, 2012, financial services provided a \$4.7 million and \$9.3 million pretax profit compared to \$2.3 million and \$4.1 million of pretax profit for the same period of fiscal 2011. Revenues were up 37.4% for the three months ended July 31, 2012 compared to the same period of the prior year and costs were up 10.2% for such period. Mortgage settlements and the average price of loans settled increased for the three months ended July 31, 2012 compared to the same period in the prior year, contributing to the increase in revenues. The increase in costs is attributed to the increase in the number of loans closed during such period. While revenues were up 28.4% for the nine months ended July 31, 2012 compared to the same period of the prior year, costs were up 2.8% for such period. Mortgage settlements and the average price of loans settled increased for the nine months ended July 31, 2012 compared to the same period in the prior year, contributing to the increase in revenues. The increase in costs are due to the increase in costs associated with the increase in the number of loans closed during such period, offset by the decrease in salaries from a reduction in headcount and other overhead cost savings. In the market areas served by our wholly owned mortgage banking subsidiary, approximately 72.9% and 78.0% of our non-cash homebuyers obtained mortgages originated by this subsidiary during the three months ended July 31, 2012 and 2011, respectively, and 75.4% and 77.3% during the nine months ended July 31, 2012 and 2011, respectively. Servicing rights on new mortgages originated by us are sold with the loans.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality and safety. Corporate general and administrative expenses increased to \$11.9 million for the three months ended July 31, 2012 compared to \$11.6 million for the three months ended July 31, 2011, and decreased to \$37.0 million for the nine months ended July 31, 2012 compared to \$38.6 million for the nine months ended July 31, 2011. The minor increase for the three months ended July 31, 2012 from the prior year period is attributed to additional professional services for various corporate operations, while the decrease for the nine months ended July 31, 2012 from the prior year period is primarily due to a reduction in depreciation expense, resulting mainly from capitalized software becoming fully depreciated, coupled with no new significant additions of depreciable assets. Also contributing to the decrease was reduced salaries from headcount reduction and a continued tightening of variable spending.

Other Interest

Other interest decreased \$0.6 million and \$1.4 million for the three and nine months ended July 31, 2012 compared to the three and nine months ended July 31, 2011. Our assets that qualify for interest capitalization (inventory under development) are less than our debt, and therefore a portion of interest not covered by qualifying assets must be directly expensed. For the three and nine months ended July 31, 2012, as our inventory balances for the qualifying assets have increased and our debt has decreased, the amount of interest required to be directly expensed has decreased slightly.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, rent expense for commercial office space, amortization of prepaid bond fees, noncontrolling interest relating to consolidated joint ventures, and corporate owned life insurance. Other operations generated income of \$3.1 million and expenses of \$3.3 million for the three and nine months ended July 31, 2012, respectively, compared to \$0.3 million and \$1.9 million of expenses for the three and nine months ended July 31, 2011, respectively. The decrease in expenses for the three months ended July 31, 2012 was due to the gain recognized from the sale of one of our senior rental residential properties. The increase in expenses for the nine months ended July 31, 2012 was primarily due to \$4.7 million of costs incurred from the debt exchange on November 1, 2011, partially offset by the gain on the sale of the property previously mentioned. This debt exchange was accounted for as troubled debt restructuring, which requires any cost incurred associated with the exchange to be expensed as incurred. See Note 11 to the Condensed Consolidated Financial Statements.

Gain on Extinguishment of Debt

For the three and nine months ended July 31, 2012, our gain on extinguishment of debt was \$6.2 million and \$58.0 million, respectively. During the three months ended January 31, 2012, we repurchased for cash in the open market a total of \$44.0 million principal amount of various issues of our unsecured senior notes due 2016 for an aggregate purchase price of \$19.0 million, plus accrued and unpaid interest. We recognized a gain of \$24.7 million net of the write-off of unamortized discounts and fees related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. During the three months ended April 30, 2012, we repurchased for cash in the open market and privately negotiated transactions a total of \$75.4 million principal amount of various issues of our unsecured notes due 2016 and 2017 for an aggregate purchase price of \$51.7 million, plus accrued and unpaid interest. We recognized a gain of \$23.3 million net of the write-off of unamortized discounts and fees related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. During the three months ended July 31, 2012, we repurchased for cash in the open market \$2.0 million principal amount of our 11.875% Senior Notes due 2015 for an aggregate purchase price of \$1.5 million, plus accrued and unpaid interest. We recognized a gain of \$0.4 million net of the write-off of unamortized discounts and fees related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. During the second quarter of fiscal 2012, we exchanged \$9.1 million aggregate principal amount of our outstanding 8.625% Senior Notes due 2017 and \$3.1 million aggregate principal amount of our 12.072% Senior Subordinated Amortizing Notes for Class A Common Stock, as discussed in Notes 11, 12 and 15 to the Condensed Consolidated Financial Statements. These transactions resulted in a gain on extinguishment of debt of \$3.7 million for the three months ended April 30, 2012. During the third quarter of fiscal 2012, we exchanged \$9.2 million aggregate principal amount of our outstanding 8.625% Senior Notes due 2017, \$7.8 million aggregate principal amount of our 6.25% Senior Notes due 2016 and \$4.0 million aggregate principal amount of our 7.5% Senior Notes due 2016 for Class A Common Stock, as discussed in Notes 11, 12 and 15 to the Condensed Consolidated Financial Statements. These transactions resulted in a gain on extinguishment of debt of \$5.8 million for the three months ended July 31, 2012. In February of 2011, we purchased a portion of our subordinated notes (\$97.9 million face for \$98.6 million cash in a tender offer), and redeemed early the remainder of those notes (\$57.8 million in debt for \$58.1 million cash). In both transactions we paid a premium, incurred fees, and wrote off discounts and prepaid costs that we were amortizing over the term of notes. These transactions resulted in a loss of \$1.6 million. In May of 2011, we issued \$12.0 million of additional 10.625% Senior Secured Notes due 2016 and used the proceeds, together with cash on hand, to fund the redemption, including redemption premiums, of the remaining \$0.5 million outstanding of our 11.5% Senior Secured Notes due 2013 and the remaining \$11.7 million outstanding of our 18.0% Senior Secured Notes due 2017. This transaction resulted in a loss of \$1.4 million for the three months ended July 31, 2011.

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

Income From Unconsolidated Joint Ventures

Income from unconsolidated joint ventures increased \$3.1 million and \$8.8 million, for the three and nine months ended July 31, 2012, respectively. Income was \$0.9 million and \$2.3 million for the three and nine months ended July 31, 2012, compared to a loss of \$2.3 million and \$6.5 million for the three and nine months ended July 31, 2011, respectively. The decrease in the loss for both periods is due to five of our homebuilding joint ventures delivering more homes and reporting profits in the third quarter and year to date for fiscal 2012 that had reported losses in the prior year. In addition, we recognized profit from one of our land development joint ventures during the third quarter of fiscal 2012, which did not have any activity in the same period of the prior year.

Total Taxes

The total income tax benefit was \$35.3 million for the nine months ended July 31, 2012 primarily due to the reversal of reserves for uncertain state tax positions that we have determined have been effectively settled.

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If the combination of future years' income (or loss) and the reversal of the timing differences results in a loss, such losses can be carried forward to future years. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during 2010, 2011, 2012, resulting in additional inventory and intangible asset impairments, we are in a three-year cumulative loss position as of July 31, 2012. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable. Our valuation allowance for deferred taxes amounted to \$909.1 million and \$899.4 million at July 31, 2012 and October 31, 2011, respectively. The valuation allowance increased during the nine months ended July 31, 2012 primarily due to additional reserves recorded for the federal and state tax benefits related to the losses incurred during the period.

Inflation

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

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

Safe Harbor Statement

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

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

Certain risks, uncertainties, and other factors are described in detail in Part I, Item 1 “Business” and Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended October 31, 2011 and in Part II, Item 1A “Risk Factors” in our quarterly report on Form 10-Q for the period ended April 30, 2012. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

(Dollars in thousands)	Long Term Debt as of July 31, 2012 by Fiscal Year of Expected Maturity Date							FV at
	2012	2013	2014	2015	2016	Thereafter	Total	July 31, 2012
Long term debt(1):								
Fixed rate	\$ 45,749	\$ 4,980	\$ 39,916	\$ 86,461	\$1,015,974	\$ 330,190	\$1,523,270	\$1,430,630
Weighted average interest rate	6.55%	7.16%	6.55%	10.22%	9.79%	5.93%	8.79%	

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

During the nine months ended July 31, 2012, we repurchased or otherwise retired certain of our unsecured senior notes and senior subordinated amortizing notes. See Note 11 to our Condensed Consolidated Financial Statements for further information.

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

See the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011 and our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2012. You should carefully consider all of these risk factors in addition to the other information included in this Quarterly Report on Form 10-Q.

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

Recent Sales of Unregistered Securities

Information with respect to unregistered sales of equity securities during the third fiscal quarter of fiscal 2012 is incorporated into this Part II, Item 2 from Note 15 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

None.

Item 6. Exhibits

- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(2)
- 3(c) Restated Bylaws of the Registrant.(3)
- 4(a) Specimen Class A Common Stock Certificate.(6)
- 4(b) Specimen Class B Common Stock Certificate.(6)
- 4(c) Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated January 12, 2005.(4)
- 4(d) Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
- 4(e) Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C.(5)
- 10(a)* Executive Deferred Compensation Plan as amended and restated on May 24, 2012.
- 10(b)* Form of Incentive Stock Option Agreement (2012).
- 10(c)* Form of Restricted Share Unit Agreement (2012).
- 10(d)* Form of Stock Option Agreement (2012) for Directors.
- 10(e)* Form of Restricted Share Unit Agreement (2012) for Directors.
- 10(f)* Form of Non-Qualified Stock Option Agreement (2012) for Ara K. Hovnanian.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32(a) Section 1350 Certification of Chief Executive Officer.
- 32(b) Section 1350 Certification of Chief Financial Officer.
- 101** The following financial information from our Quarterly Report on Form 10-Q for the quarter ended July 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at July 31, 2012 and October 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended July 31, 2012 and 2011, (iii) the Condensed Consolidated Statement of Equity for the nine months ended July 31, 2012, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended July 31, 2012 and 2011, and (v) the Notes to Condensed Consolidated Financial Statements (tagged as blocks of text).

* *Management contracts or compensatory plans or arrangements.*

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

- (1) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended July 31, 2008.
- (2) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed December 9, 2008.
- (3) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed December 21, 2009.
- (4) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on July 13, 2005.
- (5) Incorporated by reference to Exhibits to the Registration Statement on Form 8-A (No. 001-08551) of the Registrant filed August 14, 2008.
- (6) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended January 31, 2009.

SIGNATURES

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

HOVNANIAN ENTERPRISES, INC.
(Registrant)

DATE: September 10, 2012
/S/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and
Chief Financial Officer

DATE: September 10, 2012
/S/Brad G. O'Connor
Brad G. O'Connor
Vice President/Chief Accounting Officer/Corporate Controller

K. HOVNANIAN COMPANIES, LLC

Plan Document

AMENDMENT AND RESTATEMENT

EFFECTIVE MAY 24, 2012

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

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K. HOVNIANIAN COMPANIES, LLC

EXECUTIVE DEFERRED COMPENSATION PLAN

Amendment and Restatement

Effective May 24, 2012

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Associates of Hovnianian Enterprises, Inc., a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. In addition, effective September 15, 2009, selected non-Associate members of the Board of Directors of Hovnianian Enterprises, Inc. shall be eligible to participate in certain features of the Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA. This Plan, as amended and restated herein, is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, as added by the American Jobs Creation Act of 2004 and the final Treasury regulations or any other authoritative guidance issued thereunder ("Section 409A"). In order to facilitate administration and participant communications of certain changes to the Plan becoming effective January 1, 2005 due to Section 409A, certain documents associated with this Plan refer to that portion of this Plan relating to deferrals and credits made on or after January 1, 2005 as the "K. Hovnianian Enterprises, Inc. 2005 Executive Deferred Compensation Plan". Notwithstanding any such references, it is intended that, effective January 1, 2005, the official Plan document governing the terms and conditions of all Plan balances (whether attributable to deferrals/credits made before or after January 1, 2005) shall be this Plan document.

ARTICLE 1

Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Account Balance" shall mean, as applicable to a given Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the Company Contribution Account balance, (iii) the Deferred Share/Restricted Share Unit Deferral Account balance, (iv) the LTIP Stock Award Deferral Account balance, (v) the LTIP Cash Award Deferral Account balance, (vi) the Stock Retainer Deferral Account balance, (vii) the Cash Retainer Deferral Account balance (viii) the Cash Meeting Fee Deferral Account balance and (ix) the Pre-2005 Deferred Share Deferral Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.2 "Annual Cash Meeting Fee Amount" shall mean, with respect to a Participant who is an Independent Director, that portion of the Participant's Cash Meeting Fee(s) deferred for any one Fiscal Year in accordance with Section 3.4(c) of this Plan.
- 1.3 "Annual Cash Retainer Amount" shall mean, with respect to a Participant who is an Independent Director, that portion of a Participant's Cash Retainer deferred for any one Fiscal Year in accordance with Section 3.4(b) of this Plan.
- 1.4 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.8 of this Plan, which shall consist of Annual Company Matching Contribution Amounts described in Section 3.8(a) and Annual Company Basic Contribution Amounts described in Section 3.8(b) to the extent the Participant is entitled thereto.
- 1.5 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary and Bonus (including any Matched 401(k) Continuation Deferral Amount, as elected by the Participant) that is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.
- 1.6 "Annual Deferred Share Amount" shall mean, with respect to a Participant for any one Fiscal Year, the value of unvested Stock awarded under any Hovnianian Enterprises, Inc. or Company stock incentive plan, deferred in accordance with Section 3.3(a) of this Plan.
- 1.7 "Annual Installment Method" shall be an annual installment payment over one of the installment payout alternatives selected by the Participant in accordance with this Plan, calculated as follows (subject to Section 3.14): The Account Balance of the Participant shall be calculated as of the close of business on the date of reference (or, if the date of reference is not a business day, on the immediately following business day), and shall be paid during the ninety (90) day period thereafter unless otherwise provided herein. The date of reference with respect to the first annual installment payment shall be as provided in Section 5.2 and the date of reference with respect to subsequent annual installment payments shall be the anniversary of the first annual installment payment.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

The installment payout alternatives available for election by the Participant with respect to his or her Retirement Benefit is substantially equal annual installments between two (2) and fifteen (15) years. The annual installment shall be calculated by multiplying the Account Balance by a fraction, the numerator of which is one (1), and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if a Participant elects a five (5) year Annual Installment Method, the first payout shall be one-fifth (1/5) of the Account Balance (or applicable portion thereof), calculated as described in this definition. Within ninety (90) days after the anniversary of the first annual installment payment, the payment shall be one-fourth (1/4) of the Account Balance (or applicable portion thereof), calculated as described in this definition.

- 1.8 "Annual Stock Retainer Amount" shall mean, with respect to a Participant who is an Independent Director, the value of that portion of a Participant's Stock Retainer deferred for any one Fiscal Year in accordance with Section 3.4(a) of this Plan.
- 1.9 "Associate" shall mean a person who is an employee of any Employer.
- 1.10 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Associate's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), 403(b), or 132(f)(4) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Associate.
- 1.11 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 8, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.12 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.13 "Board" shall mean the board of directors of the Company.
- 1.14 "Bonus" shall mean any compensation, in addition to Base Annual Salary, relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, ordinarily payable in cash to a Participant as an Associate under any Employer's bonus and cash incentive plans, excluding any stock awards.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.15 "Cash Meeting Fee" shall mean cash compensation for services performed by an Independent Director at a meeting (whether in person or telephonic) of the Board of Directors of Hovnanian Enterprises, Inc. or a committee thereof.
- 1.16 "Cash Meeting Fee Deferral Account" shall mean (i) the sum of the Participant's Cash Meeting Fee deferrals, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Cash Meeting Fee Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Cash Meeting Fee Deferral Account.
- 1.17 "Cash Retainer" shall mean that portion of an Independent Director's annual Fiscal Year retainer for services on the Board of Directors on Hovnanian Enterprises, Inc. or a committee thereof which is payable in cash under any Hovnanian Enterprises, Inc. or Company non-employee director compensation plan. An Independent Director's Cash Retainer is generally payable during the January of the Fiscal Year in which the related service on the Board of Directors of Hovnanian Enterprises, Inc. is performed (e.g., a Cash Retainer for services performed during the November 1, 2011 – October 31, 2012 Fiscal Year is generally payable during January 2012).
- 1.18 "Cash Retainer Deferral Account" shall mean (i) the sum of the Participant's Cash Retainer deferrals, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Cash Retainer Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Cash Retainer Deferral Account.
- 1.19 "Claimant" shall have the meaning set forth in Section 12.2 of this Plan.
- 1.20 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.21 "Committee" shall mean the committee described in Article 10 of this Plan.
- 1.22 "Company" shall mean K. Hovnanian Companies, LLC, a California corporation, and any successor to all or substantially all of the Company's assets or business.
- 1.23 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts credited on or after January 1, 2005, plus (ii) amounts credited or debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.24 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer reasonably anticipates that, if any distribution hereunder were made as scheduled, the Employer's deduction with respect to that distribution would not be permitted by reason of the limitation under Code Section 162(m), then the Employer may defer that distribution, provided that all distributions that could be deferred in accordance with this Section 1.24 are so deferred, and provided further that the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.12 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the distribution is made during such year, the deduction of such payment will not be limited by Code Section 162(m). To the extent required under Section 409A, where payment to a Specified Employee is delayed pursuant to the preceding to a date on or after the Specified Employee's Separation from Service, the payment will be considered a payment upon a Separation from Service for purposes of the rules under Section 409A(a)(2)(B)(i) (generally requiring a six (6) month delay on distributions upon a Specified Employee's Separation from Service). In no event shall an election be provided to the Participant with respect to the timing of the payment under the preceding. Notwithstanding the foregoing, this Section 1.24 shall apply only to the extent permitted by Section 409A.
- 1.25 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts deferred on or after January 1, 2005, plus (ii) amounts credited or debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.26 "Deferred Share/Restricted Share Unit Deferral Account" shall mean (i) the sum of the Participant's Annual Deferred Share Amount and/or Restricted Share Unit deferrals deferred on or after January 1, 2005, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Deferred Share/Restricted Share Unit Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Deferred Share/Restricted Share Unit Deferral Account.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.27 "Deferred Share Award" shall mean unvested shares of Stock selected by the Committee in its sole discretion and awarded (currently, or on a deferred basis) to the Participant under any stock incentive plan of Hovnanian Enterprises, Inc. or the Company.
- 1.28 "Deferred Shares" shall mean, for any Deferred Share Award, the amount of such Deferred Share Award deferred in accordance with Section 3.3(a) of this Plan.
- 1.29 "Election Form" shall mean the form or forms established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan (which form or forms may take the form of an electronic transmission, if required or permitted by the Committee).
- 1.30 "Employer(s)" shall mean Hovnanian Enterprises, Inc. and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor. For purposes of this Plan, "subsidiary" shall include entities required to be aggregated pursuant to Section 14.20.
- 1.31 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.32 "Fiscal Year" shall mean a period beginning on November 1 of each calendar year and continuing through October 31 of the following calendar year.
- 1.33 "401(k) Plan" shall mean the Hovnanian Savings and Investment Retirement Plan, as it may be amended from time to time.
- 1.34 "Independent Director" shall mean a member of the Board of Directors of Hovnanian Enterprises, Inc. who is not an Associate.
- 1.35 "LTIP Cash Award" shall mean performance-based compensation relating to services performed over an LTIP Performance Period, payable as an award in cash under any Hovnanian Enterprises, Inc. or Company long term incentive plan.
- 1.36 "LTIP Cash Award Deferral Account" shall mean (i) the sum of the Participant's LTIP Cash Award deferrals, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of the Plan that relate to the Participant's LTIP Cash Award Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's LTIP Cash Award Deferral Account.
- 1.37 "LTIP Performance Period" shall mean the performance period of no less than twelve (12) months for which a Participant's LTIP Cash Award and/or LTIP Stock Award is awarded in accordance with the terms and conditions of the applicable Hovnanian Enterprises, Inc. or Company long term incentive plan.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.38 "LTIP Stock Award" shall mean performance-based compensation relating to services performed over an LTIP Performance Period, payable as an award in shares of Stock under any Hovnianian Enterprises, Inc. or Company long term incentive plan.
- 1.39 "LTIP Stock Award Deferral Account" mean (i) the sum of the Participant's LTIP Stock Award deferrals, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of the Plan that relate to the Participant's LTIP Stock Award Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's LTIP Stock Award Deferral Account.
- 1.40 "Matched 401(k) Continuation Deferral Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.1 of the Plan.
- 1.41 "Participant" shall mean any Associate (i) who is determined by the Committee to be a member of a select group of management or highly compensated employees (within the meaning of ERISA), (ii) who is selected to participate in the Plan, and (iii)(A) who elects to participate in the Plan, (B) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (C) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (D) who commences participation in the Plan, and (E) whose Plan Agreement has not terminated. In addition, effective September 15, 2009, the term "Participant" shall also include any Independent Director who is selected to participate in the Plan and who satisfies the requirements of (iii)(A)-(E), above. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an Account Balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.
- 1.42 "Performance-Based Compensation" shall mean that portion of a Participant's Bonus, the amount of which, or the entitlement to which, is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve (12) consecutive months, and which qualifies as "performance-based compensation" under Section 409A including the requirement that the performance criteria be established in writing by not later than (i) ninety (90) days after the commencement of the period of service to which the criteria relates and (ii) the date the outcome ceases to be substantially uncertain.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.43 "Plan" shall mean the Company's Executive Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.
- 1.44 "Plan Agreement" shall mean a written agreement (which may take the form of an electronic transmission, if required or permitted by the Committee), as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must, unless otherwise provided by the Plan Agreement, be agreed to by both the Employer and the Participant. In the Plan Agreement, each Participant shall acknowledge that he or she accepts all of the terms of the Plan, including the discretionary authority of the Committee as set forth in Article 10.
- 1.45 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.46 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6 of this Plan.
- 1.47 "Pre-2005 Deferred Share Deferral Account" shall mean (i) the sum of the Participant's Annual Deferred Share Amounts deferred prior to January 1, 2005, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Pre-2005 Deferred Share Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Pre-2005 Deferred Share Deferral Account.
- 1.48 "Restricted Share Units" shall mean awards for the future delivery of Stock granted under any stock incentive plan of Hovnianian Enterprises, Inc. or the Company pursuant to a "Restricted Share Unit Agreement" between Hovnianian Enterprises, Inc. and the Participant.
- 1.49 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Associate or Independent Director, a Separation from Service for any reason other than a leave of absence or death on or after the earlier of the attainment of (a) age sixty-five (65) or (b) age fifty-five (55) with ten (10) Years of Service.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.50 "Retirement Benefit" shall mean the benefit set forth in Article 5.
- 1.51 "Section 409A" shall mean Code Section 409A and the Treasury regulations or other authoritative guidance issued thereunder. Whenever the terms "subject to Section 409A" or "to the extent permitted by Section 409A" (or any such similar reference so as to indicate that a Plan provision is subject to Section 409A) are used, such terms shall be interpreted to mean that the applicable Plan provision shall be effective only if and to the extent such provision would not trigger penalty taxes or interest under Section 409A; except to the extent that Section 409A requires that such terms be disregarded because they purport to nullify Plan terms that are not in compliance with Section 409A.
- 1.52 "Separation from Service" shall mean, with respect to a Participant who is an Associate, the Participant's separation from service within the meaning of Section 409A, treating as a Separation from Service an anticipated permanent reduction in the level of bona fide services to twenty percent (20%) or less of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period during which the Participant performed services for the Employer, if that is less than thirty-six (36) months). For this purpose, upon a sale or other disposition of the assets of the Employer to an unrelated purchaser, the Employer reserves the right to the extent permitted by Section 409A to determine whether Participants providing services to the purchaser after and in connection with the purchase transaction have experienced a Separation from Service. With respect to a Participant who is an Independent Director, the term "Separation from Service" shall mean that the Participant ceases to be a member of the Board of Directors of Hovnianian Enterprises, Inc.; provided, however, that such cessation of membership shall constitute a Separation from Service only if it qualifies as a separation from service within the meaning of Section 409A.
- 1.53 "Short-Term Payout" shall mean the payout set forth in Section 4.1 of this Plan.
- 1.54 "Specified Employee" shall mean, with respect to an Employer corporation any stock of which is publicly traded on an established securities market or otherwise, an individual who, as of the date of his or her Separation from Service, is a Key Employee, as currently defined in Code Section 416(i) (without regard to paragraph (5) thereof) to mean, as of the Effective Date, an employee of the corporation who, at any time during the twelve (12) month period ending on a Specified Employee identification date, is (a) an officer of the corporation having an annual compensation greater than one hundred thirty-five thousand dollars (\$160,000) for 2011 (indexed for inflation in future years), (b) a five-percent (5%) owner of the corporation, or (c) a one-percent (1%) owner of the corporation having an annual compensation from the corporation of more than one hundred fifty thousand dollars (\$150,000).

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.55 "Stock" shall mean Hovnianian Enterprises, Inc. Class A or Class B common stock, \$.01 par value, or any other equity securities of Hovnianian Enterprises, Inc. or of the Company designated by the Committee.
- 1.56 "Stock Bonus" shall mean any compensation, in addition to Base Annual Salary and cash Bonus, relating to services performed during any calendar year, whether or not paid in such calendar year, payable as a bonus in shares of Stock under any Hovnianian Enterprises, Inc. or Company stock incentive plan.
- 1.57 "Stock Retainer" shall mean that portion of an Independent Director's annual Fiscal Year retainer for services on the Board of Directors on Hovnianian Enterprises, Inc. or a committee thereof which is payable in shares of Stock under any Hovnianian Enterprises, Inc. or Company non-employee director compensation plan. An Independent Director's Stock Retainer is generally payable during the January of the Fiscal Year in which the related service on the Board of Directors of Hovnianian Enterprises, Inc. is performed (e.g., a Stock Retainer for services performed during the November 1, 2011 – October 31, 2012 Fiscal Year is generally payable during January 2012).
- 1.58 "Stock Retainer Deferral Account" shall mean (i) the sum of the Participant's Stock Retainer deferrals, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Stock Retainer Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Stock Retainer Deferral Account.
- 1.59 "Termination Benefit" shall mean the benefit set forth in Article 7 of this Plan.
- 1.60 "Termination of Employment" shall mean the Separation from Service with all Employers, voluntarily or involuntarily, for any reason other than Retirement, death or an authorized leave of absence.
- 1.61 "Trust" shall mean the trust, if any, established and maintained pursuant to this Plan, as amended from time to time. The assets of the Trust, if any, shall be the property of the Employer.
- 1.62 "Unforeseeable Financial Emergency" shall mean a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined in Code Section 152 without regard to Code Section 152(b)(1), (b)(2) and (d)(1)(B)) or the Participant's beneficiary, (ii) a loss of the Participant's property due to casualty (including the need to rebuild a home following damage not otherwise covered by insurance, for example, not as a result of a natural disaster), or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant (e.g., imminent foreclosure or eviction from the Participant's primary residence, the need to pay for medical expenses, including non-refundable deductibles and prescription drugs, the need to pay funeral expenses of a spouse, dependent or beneficiary), all as determined in the sole discretion of the Committee (which discretion the Committee is bound to exercise, however, within the limits of Section 409A).

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 1.63 "Years of Service" shall mean, if the Participant is an Associate, the total number of full years in which the Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Associate's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. Any partial year of employment shall not be counted. If the Participant is an Independent Director, the term "Years of Service" shall mean the total number of full years in which the Participant performs services as an Independent Director. For purposes of this definition, a year of service as an Independent Director shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of service as an Independent Director, commences on the date the Participant becomes an Independent Director and that, for any subsequent year, commences on an anniversary of that date. Any partial year of service as an Independent Director shall not be counted.

ARTICLE 2

Selection, Enrollment, Eligibility

- 2.1 **Selection by Committee.** Participation in the Plan shall be limited to a select group of management and highly compensated Associates of the Employers and/or Independent Directors, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Associates to participate in any given feature(s) of the Plan for any given period(s).
- 2.2 **Enrollment Requirements.** The Committee may require that as a condition to participation, each selected Associate or Independent Director shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form (or to enroll using the Internet enrollment procedures established by the Committee, if any), all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

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- 2.3 **Eligibility; Commencement of Participation.** Provided an Associate or Independent Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and/or required by the Committee, including returning all required documents to the Committee (or enrolling using the Internet enrollment procedures established by the Committee, if any) within the specified time period, that Associate or Independent Director shall commence participation in the Plan on the first day of the month following the month in which the Associate or Independent Director completes all enrollment requirements. If an Associate or Independent Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Associate or Independent Director shall not be eligible to participate in the Plan until the first day of the Plan Year (or Fiscal Year, as applicable in respect of the given Plan deferral feature) following the delivery to and acceptance by the Committee of the required documents. Notwithstanding anything in the Plan to the contrary, a Participant's eligibility to participate in any given feature of the Plan for any given period shall be in the sole discretion of the Committee. As part of its authority to select those Associates and/or Independent Directors who are eligible to participate in any given feature of the Plan for any given period, the Committee may document such selection through the provision (for eligible Associates/Independent Directors) or the lack of provision (for ineligible Associates/Independent Directors) of the applicable enrollment materials for a given enrollment period.
- 2.4 **Termination of Participation and/or Deferrals.** If the Committee determines in good faith that a Participant who is an Associate no longer qualifies as a member of a select group of management or highly compensated Associates, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to prevent the Participant from making future deferral elections and/or from being credited with any further contribution amounts. If the Committee determines that a Participant who is an Independent Director is no longer eligible to participate in the Plan, the Committee shall have the right, in its sole discretion, to prevent the Participant from making future deferral elections and/or from being credited with any further contribution amounts.

ARTICLE 3

Deferral Commitments/Company Contributions/Crediting/Taxes

- 3.1 **Matched 401(k) Continuation Deferral Amount.** For each Plan Year, any Participant whose Total Compensation (as defined below) is expected to exceed the limit imposed under Code Section 401(a)(17) on the amount of compensation recognizable under the 401(k) Plan (i.e., \$250,000 for 2012) and whom the Committee designates, in its sole discretion, as eligible to make deferrals of Matched 401(k) Continuation Deferral Amounts under this Section for the Plan Year, may elect to defer to this Plan as the Participant's "Matched 401(k) Continuation Deferral Amount" six percent (6%) of that portion of the Participant's Base Annual Salary and/or Bonus exceeding the Code Section 401(a)(17) limit (i.e., \$250,000 for 2012). Notwithstanding anything in the Plan or the 401(k) Plan to the contrary, the level of a Participant's Matched 401(k) Contribution Deferral Amount, if any, for a given Plan Year shall be fixed as of the applicable deferral deadline described in Section 3.6(a)(i) for the Plan Year (i.e., generally the last day of the Plan Year prior to the Plan Year in which the Matched 401(k) Contribution Deferral Amount will be earned). For purposes of this Section, Total Compensation shall mean the aggregate of the Participant's Base Annual Salary amount for the Plan Year and the Participant's Bonus amounts during the Plan Year, disregarding any reductions to the same due to deferral elections to this Plan and determined without regard to any limitations imposed under the 401(k) Plan as to the amount of compensation recognizable thereunder.

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3.2 Annual Deferral Amount Deferrals.

- (a) **Minimum and Maximum Deferrals.** For each Plan Year, in addition to or instead of any Matched 401(k) Continuation Deferral Amount which an eligible Participant elects to defer to the Plan for the Plan Year, a Participant whom the Committee designates, in its sole discretion, as eligible to make additional Annual Deferral Amount deferrals for the Plan Year may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary and Bonus in the following minimum and maximum amounts/percentages:

Deferral	Minimum Amount	Maximum Percentage
Base Annual Salary	\$2,000	75%
Bonus	\$2,000	100%

Notwithstanding the foregoing, the Committee may, in its sole discretion, establish for any Plan Year minimum(s) and/or maximum(s) which differ from those set forth above.

Subject to Section 409A, if an election is made for less than the stated minimum amounts (except for any Matched 401(k) Continuation Deferral Amount), or if no election is made, the amount deferred shall be zero.

- (b) **Short Plan Year.** Notwithstanding the foregoing, if a Participant whom the Committee designates, in its sole discretion, as eligible to make additional Annual Deferral Amount deferrals for a given Plan Year first becomes a Participant after the first day of the Plan Year, the minimum Base Annual Salary deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12. Also notwithstanding the foregoing, if a Participant whom the Committee designates, in its sole discretion, as eligible to make additional Annual Deferral Amount deferrals for the Plan Year first becomes a Participant after the first day of the Plan Year, the maximum Annual Deferral Amount, with respect to Base Annual Salary and Bonus, shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance. Finally, any Bonus deferral election made by a new Participant after the beginning of the performance period to which the Bonus relates shall be subject to the pro-ratio provisions of Section 3.6(a)(i) describing that portion of the Bonus amounts which are considered as applying to services performed after the deferral election.

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3.3 Annual Deferred Share Amount/Restricted Share Unit Deferrals.

- (a) **Annual Deferred Share Amount Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant whom the Committee designates, in its sole discretion, as eligible to make Annual Deferred Share Amount deferrals for a given Fiscal Year may elect to defer under the Plan an Annual Deferred Share Amount for the Fiscal Year. A Participant may elect to defer, as his or her Annual Deferred Share Amount, up to 100% of his or her Deferred Share Award. Annual Deferred Share Amounts shall be credited (or continue to be credited) to the Participant on the books of the Company or the Employer in connection with such an election. An Annual Deferred Share Amount shall consist of all Deferred Shares deferred pursuant to this Section 3.3 in any one Fiscal Year.
- (b) **Restricted Share Unit Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant whom the Committee designates, in its sole discretion, as eligible to make Restricted Share Unit deferrals for a given Restricted Share Unit deferral enrollment period (as established by the Committee) may elect to defer under the Plan Restricted Share Units for such period. Restricted Share Unit deferrals shall be credited (or continue to be credited) to the Participant on the books of the Company or the Employer in connection with such an election.

3.4 Annual Stock Retainer Amount, Annual Cash Retainer Amount and Annual Cash Meeting Fee Amount Deferrals.

- (a) **Annual Stock Retainer Amount Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant who is an Independent Director whom the Committee designates, in its sole discretion, as eligible to make Annual Stock Retainer Amount deferrals for a given Fiscal Year may elect to defer under the Plan Annual Stock Retainer Amounts for the Fiscal Year. A Participant who is an Independent Director may elect to defer, as his or her Annual Stock Retainer Amount for a given Fiscal Year, up to 100% of his or her Stock Retainer attributable to service as an Independent Director performed during the Fiscal Year. Annual Stock Retainer Amounts shall be credited to the Participant on the books of the Company or the Employer in connection with such an election on the date the Stock Retainer would, but for the election, have been paid to the Participant. An Annual Stock Retainer Amount for a given Fiscal Year shall consist of all Stock Retainer shares deferred pursuant to this Section 3.4(a) attributable to services performed by the Independent Director on the Board of Directors of Hovnianian Enterprises, Inc. during the Fiscal Year.

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PLAN DOCUMENT *continued...*

- (b) **Annual Cash Retainer Amount Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant who is an Independent Director whom the Committee designates, in its sole discretion, as eligible to make Annual Cash Retainer Amount deferrals for a given Fiscal Year may elect to defer under the Plan Annual Cash Retainer Amounts for the Fiscal Year. A Participant who is an Independent Director may elect to defer, as his or her Annual Cash Retainer Amount for a given Fiscal Year, up to 100% of his or her Cash Retainer attributable to service as an Independent Director performed during the Fiscal Year. Annual Cash Retainer Amounts shall be credited to the Participant on the books of the Company or the Employer in connection with such an election on the date the Cash Retainer would, but for the election, have been paid to the Participant. An Annual Cash Retainer Amount for a given Fiscal Year shall consist of all cash deferred pursuant to this Section 3.4(b) attributable to services performed by the Independent Director on the Board of Directors of Hovnanian Enterprises, Inc. during the Fiscal Year.
- (c) **Annual Cash Meeting Fee Amount Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant who is an Independent Director whom the Committee designates, in its sole discretion, as eligible to make Annual Cash Meeting Fee Amount deferrals for a given Fiscal Year may elect to defer under the Plan Annual Cash Meeting Fee Amounts for the Fiscal Year. A Participant who is an Independent Director may elect to defer, as his or her Annual Cash Meeting Fee Amount for a given Fiscal Year, up to 100% of his or her Cash Meeting Fee(s) attributable to service as an Independent Director performed during the Fiscal Year. Annual Cash Meeting Fee Amounts shall be credited to the Participant on the books of the Company or the Employer in connection with such an election on the date the Cash Meeting Fee would, but for the election, have been paid to the Participant. An Annual Cash Meeting Fee Amount for a given Fiscal Year shall consist of all Cash Meeting Fee(s) deferred pursuant to this Section 3.4(c) attributable to services performed by the Independent Director on the Board of Directors of Hovnanian Enterprises, Inc. during the Fiscal Year.

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3.5 **LTIP Stock Award and LTIP Cash Award Deferrals.**

- (a) **LTIP Stock Award Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant whom the Committee designates, in its sole discretion, as eligible to make LTIP Stock Award deferrals for a given LTIP Performance Period may elect to defer under the Plan all or a portion of his or her LTIP Stock Award for the LTIP Performance Period. A Participant may elect to defer, for any given LTIP Performance Period for which he or she is eligible to make LTIP Stock Award deferrals, up to 100% of his or her LTIP Stock Award attributable to service performed during the LTIP Performance Period. Each portion of an LTIP Stock Award deferred hereunder shall be credited to the Participant on the books of the Company or the Employer in connection with such an election on the date the portion would, but for the election, have been paid to the Participant in Stock.
- (b) **LTIP Cash Award Deferrals.** Subject to any terms and conditions imposed by the Committee, a Participant whom the Committee designates, in its sole discretion, as eligible to make LTIP Cash Award deferrals for a given LTIP Performance Period may elect to defer under the Plan all or a portion of his or her LTIP Cash Award for the LTIP Performance Period. A Participant may elect to defer, for any given LTIP Performance Period for which he or she is eligible to make LTIP Cash Award deferrals, up to 100% of his or her LTIP Cash Award attributable to service performed during the LTIP Performance Period. Each portion of an LTIP Cash Award deferred hereunder shall be credited to the Participant on the books of the Company or the Employer in connection with such an election on the date the portion would, but for the election, have been paid to the Participant in cash.

3.6 **Election to Defer; Effect of Election Form.**

- (a) **Timing of Election.**
- (i) **Base Annual Salary and Bonus Deferrals.** Except as provided below, a Participant shall make a deferral election with respect to Base Annual Salary and/or Bonus amounts to be earned for services performed during an upcoming twelve (12) month Plan Year. To the extent permitted by the Committee, a Participant may make a unique Base Annual Salary deferral election for the six (6) month period beginning January 1 and ending June 30 of a given Plan Year and for the six (6) month period beginning July 1 and ending December 31 of a given Plan Year. Except as provided below, any Base Annual Salary and/or Bonus deferral election must be made during such period as shall be established by the Committee which ends no later than the last day of the Plan Year preceding the Plan Year in which the services giving rise to the Base Annual Salary and/or Bonus amounts, as applicable, to be deferred are to be performed. For these purposes, Base Annual Salary payable after the last day of the Plan Year for services performed during the final payroll period containing the last day of the Plan Year shall be treated as Base Annual Salary for services performed in the subsequent Plan Year.

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Also, notwithstanding the preceding, if and to the extent permitted by the Committee, a Participant may make an election to defer that portion (if any) of his or her Bonus which qualifies as Performance-Based Compensation no later than six (6) months prior to the last day of the period over which the services giving rise to the Performance-Based Compensation are performed, provided that the Participant performs services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date of the deferral election, and provided further that in no event may such deferral election be made with respect to any portion of the Performance-Based Compensation that has become reasonably ascertainable prior to the making of the deferral election, within the meaning of Section 409A.

In addition, notwithstanding the preceding, but subject to Section 14.21, in the case of the first Plan Year in which an Associate first becomes eligible to become a Participant (or again becomes eligible after having been ineligible for at least twenty four (24) months), if and to the extent permitted by the Committee, the individual may make an election no later than thirty (30) days after the date he or she becomes eligible to become a Participant to defer Base Salary and/or Bonus amounts (as applicable) for services to be performed after the election. For this purpose, an election will be deemed to apply to Bonus amounts for services performed after the election if the election applies to no more than an amount equal to the total Bonus for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period.

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Notwithstanding the preceding, the Committee shall, in its discretion, be permitted to cause to be paid to the Participant Base Annual Salary and/or Bonus amounts, as applicable, rather than being deferred under the Plan if, under Section 409A, an earlier election was required in order to properly defer tax with respect to such amount(s). In addition, the Committee, in its discretion, shall be permitted to allow a Participant to revoke or modify a Base Annual Salary and/or Bonus deferral election he or she has made if Section 409A provides an opportunity to later modify a deferral election with respect to such amount(s); provided, however, that no such revocation or modification will be effective or available if and to the extent Section 409A provides that such revocation or modification, or the availability thereof, prevents the proper deferral of tax with respect to such amount(s).

- (ii) **Annual Deferred Share Amount/Restricted Share Unit Deferrals.** Except as otherwise provided below, a Participant wishing to defer Deferred Shares and/or Restricted Share Units must make such a deferral election during such period as shall be established by the Committee which ends no later than twelve (12) months prior to the date on which the Deferred Shares/Restricted Share Units are scheduled to vest (e.g., an election to defer Deferred Shares scheduled to vest November 1, 2013 must be made no later than October 31, 2012; an election to defer Restricted Share Units scheduled to vest June 8, 2013 must be made no later than June 7, 2012; and so forth), or any earlier deadline established by the Committee.

Notwithstanding the preceding, with respect to deferrals of Deferred Shares scheduled to vest prior to November 1, 2010, Section 409A transition rules and the Plan document in effect at the time of the deferrals permitted later deferral elections; the deferral election deadlines in respect of such Deferred Share deferrals are as reflected in the Plan document in effect at the time of the deferrals.

Notwithstanding anything above or elsewhere in the Plan to the contrary, to the extent Section 409A requires that an Annual Deferred Share Amount/Restricted Share Unit deferral election satisfy the rules under Section 409A applicable to changes to form and timing of distribution elections in order for such Annual Deferred Share Amount/Restricted Share Unit deferral election to effectively defer tax with respect to the Annual Deferred Share Amounts/Restricted Share Units, the deferral election shall not be accepted by the Committee to the extent it would violate the rules under Section 409A applicable to changes to form and timing of distribution elections.

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Notwithstanding the preceding, the Committee shall, in its discretion, be permitted to disregard any Annual Deferred Share Amount/Restricted Share Unit deferral election if, under Section 409A, an earlier election was required in order to properly defer tax with respect to such Annual Deferred Share Amounts/Restricted Share Units. In addition, the Committee, in its discretion, shall be permitted to allow a Participant to revoke or modify an Annual Deferred Share Amount/Restricted Share Unit deferral election he or she has made if Section 409A provides an opportunity to later modify a deferral election with respect to such Annual Deferred Share Amounts/Restricted Share Units; provided, however, that no such revocation or modification will be effective or available if and to the extent Section 409A provides that such revocation or modification, or the availability thereof, prevents the proper deferral of tax with respect to such Annual Deferred Share Amounts/Restricted Share Units.

- (iii) **Annual Stock Retainer Amount, Annual Cash Retainer Amount and Annual Cash Meeting Fee Amount Deferrals.** Except as provided below, a Participant who is an Independent Director shall make a deferral election with respect to Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts relating to services to be performed during a given Fiscal Year during such period as shall be established by the Committee which ends no later than the December 31st preceding the beginning of such Fiscal Year. By way of example, an Independent Director Participant must generally elect on or before December 31, 2012 (or any earlier deadline established by the Committee) to defer Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts relating to Independent Director services to be performed during the November 1, 2013 – October 31, 2014 Fiscal Year.

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Notwithstanding the preceding, but subject to Section 14.21, in the case of the first year in which an Independent Director first becomes eligible to become a Participant (or again becomes eligible after having been ineligible for at least twenty four (24) months), if and to the extent permitted by the Committee, the individual may make an election no later than thirty (30) days after the date he or she becomes eligible to become a Participant to defer Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts for services to be performed after the election. By way of example, an Independent Director who first becomes eligible to participate as of September 15, 2012 shall, if and to the extent permitted by the Committee, have until October 15, 2012 to defer Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts relating to Independent Director services to be performed during the November 1, 2012 – October 31, 2013 Fiscal Year.

Notwithstanding the preceding, the Committee shall, in its discretion, be permitted to cause to be paid to the Participant Stock Retainer amounts, Cash Retainer and/or Cash Meeting Fee amounts (as applicable) rather than being deferred under the Plan if, under Section 409A, an earlier election was required in order to properly defer tax with respect to such amounts. In addition, the Committee, in its discretion, shall be permitted to allow a Participant to revoke or modify an Annual Stock Retainer Amount, Annual Cash Retainer Amount and/or Annual Cash Meeting Fee Amount deferral election he or she has made if Section 409A provides an opportunity to later modify a deferral election with respect to such amount(s); provided, however, that no such revocation or modification will be effective or available if and to the extent Section 409A provides that such revocation or modification, or the availability thereof, prevents the proper deferral of tax with respect to such amount.

- (iv) **LTIP Stock Award and LTIP Cash Award Deferrals.** Except as provided below, a Participant shall make a deferral election with respect to an LTIP Stock Award and/or an LTIP Cash Award relating to services performed during a given LTIP Performance Period during such period as shall be established by the Committee which ends no later than six (6) months preceding the end of the LTIP Performance Period; provided, however, if and to the extent required under Section 409A in respect of any portion of the LTIP Stock Award and/or LTIP Cash Award which is readily ascertainable and substantially certain to occur prior to six (6) months preceding the end of the LTIP Performance Period, the deferral election must be made no later than the day before the amount is readily ascertainable and substantially certain to occur. By way of example, a Participant must generally elect on or before April 30, 2013 (or any earlier deadline established by the Committee) to defer LTIP Stock Award and/or LTIP Cash Award amounts relating to services performed during the November 1, 2010 – October 31, 2013 LTIP Performance Period; provided, however, if a minimum LTIP Stock Award and/or LTIP Cash Award amount is readily ascertainable and substantially certain to occur on October 31, 2012, the Participant must generally elect on or before October 30, 2012 (or any earlier deadline established by the Committee) to defer such all or any portion of such amount.

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PLAN DOCUMENT *continued...*

Notwithstanding the preceding, the Committee shall, in its discretion, be permitted to cause to be paid to the Participant LTIP Stock Award amounts and/or LTIP Cash Award amounts (as applicable) rather than being deferred under the Plan if, under Section 409A, an earlier election was required in order to properly defer tax with respect to such amounts. In addition, the Committee, in its discretion, shall be permitted to allow a Participant to revoke or modify an LTIP Stock Award and/or LTIP Cash Award deferral election he or she has made if Section 409A provides an opportunity to later modify a deferral election with respect to such amount(s); provided, however, that no such revocation or modification will be effective or available if and to the extent Section 409A provides that such revocation or modification, or the availability thereof, prevents the proper deferral of tax with respect to such amount.

- (b) **Manner of Election.** For any given deferral period (e.g., Plan Year, Fiscal Year or other period, as applicable for a given type of Plan deferral), a deferral election, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, by the deadline(s) set forth above, an Election Form, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form and any other required election materials must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee. If no such Election Form and any other required election materials are timely delivered and accepted, the Plan deferral type(s) available for the deferral period shall be zero (0) for such period.
- (c) **Change in Election.** For any given type of Plan deferral, once the applicable deferral election deadline (as described in (a), above)) has occurred, a Participant may not elect to change his or her deferral election (or absence of a deferral election) that is subject to such deadline, except if and to the extent permitted by the Committee and made in accordance with the provisions of Section 409A specifically relating to the change and/or revocation of deferral elections (such as, for example, following an Unforeseeable Financial Emergency).

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- 3.7 **Withholding of Annual Deferral Amounts.** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, except as otherwise provided in Section 3.8, as adjusted from time to time for increases and decreases in Base Annual Salary. The Bonus portion of the Annual Deferral Amount shall be withheld at the time the Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.
- 3.8 **Annual Company Contribution Amount.**
- (a) **Annual Company Matching Contribution Amount.** The Company may, but is not required to, credit to the Company Contribution Account of one or more Participants an amount (an "Annual Company Matching Contribution Amount") for any one or more Plan Years. The Company shall credit such Annual Company Matching Contribution Amounts, if any, for such Participants, with such frequency, and in such amounts, as the Company determines in its sole discretion, including, for example, by crediting to the Participant's Company Contribution Account of an eligible Participant an amount equal to: (i) the percentage match to which the Participant is entitled under the 401(k) Plan based on the Participant's years of service determined under the 401(k) Plan (or any other percentage match rate applicable to the Participant, as determined by the Committee in its discretion) multiplied by (ii) the Participant's Matched 401(k) Continuation Deferral Amount hereunder. The Annual Company Matching Contribution Amounts, if any, shall be withheld by the Company pending the Participant's satisfaction of the 401(k) Plan's vesting schedule, but such withheld Annual Company Matching Contribution Amounts shall be made in full (with or without credited interest in the sole and absolute discretion of the Committee) upon satisfaction of the 401(k) Plan's vesting schedule.
- (b) **Annual Company Basic Contribution Amount.** The Company may, but is not required to, make a contribution to each Participant's Company Contribution Account, if the Participant is eligible to receive a basic profit sharing contribution under the 401(k) Plan for the Plan Year, as soon as practicable after the close of each Plan Year, in an amount (an "Annual Company Basic Contribution Amount") equal to (i) minus (ii), where (i) is equal to (A) the percentage basic profit sharing contribution to which the Participant is entitled under the 401(k) Plan, times (B) the Participant's Total Compensation, and (ii) is equal to the basic profit sharing contributions made for the Plan Year to the 401(k) Plan on behalf of the Participant. The Annual Company Basic Contribution Amounts, if any, shall be withheld by the Company pending the Participant's satisfaction of the 401(k) Plan vesting schedule, but such withheld Annual Company Basic Contribution Amounts shall be made in full (with or without credited interest in the sole and absolute discretion of the Committee) upon satisfaction of the 401(k) Plan's vesting schedule.

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- 3.9 **Investment of Trust Assets.** If and to the extent a Trust is maintained under the Plan, the Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust agreement, including the disposition of investment vehicles and reinvestment of the proceeds in one or more other investment vehicles designated by the Committee.
- 3.10 **Sources of Stock.** If Stock is credited under the Plan on the books of the Company or the Employer, or in the Trust (if any), in connection with a deferral of an Annual Deferred Share Amount, Restricted Share Unit, Annual Stock Retainer Amount or LTIP Stock Award, the shares so credited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement.
- 3.11 **Vesting.** Unless otherwise provided in the Plan Agreement, a Participant shall at all times be 100% vested in his or her Account Balance under the Plan. Notwithstanding anything to the contrary in any Plan Agreement, in the event of a Change in Control, a Participant's Account Balance, to the extent not then vested, shall immediately become 100% vested. For purposes of this Section 3.11, a "Change in Control" shall mean the first to occur of any of the following events:
- (a) Any "person" (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act")) becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of Hovnianian Enterprises, Inc. Stock entitled to vote in the election of directors;
 - (b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who at the beginning of such period constitute the board of directors of Hovnianian Enterprises, Inc., and any new director (other than a director designated by a person who has entered into an agreement with Hovnianian Enterprises, Inc. to effect a transaction described in clause (a), (c), (d) or (e) of this Section 3.11) whose election by the board of directors or nomination for election by Hovnianian Enterprises, Inc.'s stockholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

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- (c) The shareholders of Hovnianian Enterprises, Inc. approve any consolidation or merger of Hovnianian Enterprises, Inc., other than a consolidation or merger of the Company in which the holders of the Stock of Hovnianian Enterprises, Inc. immediately prior to the consolidation or merger hold more than 50% of the common stock of the surviving corporation immediately after the consolidation or merger;
- (d) The shareholders of Hovnianian Enterprises, Inc. approve any plan or proposal for the liquidation or dissolution of Hovnianian Enterprises, Inc.; or
- (e) The shareholders of Hovnianian Enterprises, Inc. approve the sale or transfer of all or substantially all of the assets of Hovnianian Enterprises, Inc. to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which Hovnianian Enterprises, Inc. is a member.

3.12 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) **Sub-Accounts.** Separate sub-accounts shall be established and maintained with respect to each Participant's Account Balance (together, the "Sub-Accounts"), each attributable to the portion of the Participant's Account Balance representing the same type of credited deferral or contribution.
- (b) **Election of Measurement Funds.** Except as otherwise provided in Section 3.12(f) below, if and to the extent the Committee makes available more than one Measurement Fund in respect of amounts credited to a given Participant's Sub-Account, a Participant, in connection with his or her initial deferral election in accordance with Section 3.6(a) above, shall elect, on the Election Form(s), one or more "Measurement Fund(s)" (as described in this Section, and as may be established from time to time by the Committee without the need to formally amend this Plan) to be used to determine the additional amounts to be credited or debited to the Sub-Account for the first business day of the Plan Year, continuing thereafter unless changed in accordance with the next sentence. Commencing with the first business day of the Plan Year, and continuing thereafter for the remainder of the Participant's participation in the Plan, if and to the extent the Committee makes available more than one Measurement Fund in respect of amounts credited to a given Participant's Sub-Account, the Participant may (but is not required to) elect daily, by submitting an Election Form(s) to the Committee that is accepted by the Committee (which submission may take the form of an electronic transmission, if required or permitted by the Committee), to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited or debited to such Sub-Account, or to change the portion of the Sub-Account allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next business day and continue thereafter for the remainder of the Participant's participation in the Plan, unless changed in accordance with the previous sentence. Notwithstanding anything in the Plan to the contrary, the Committee has the absolute discretion to determine the Measurement Fund(s) available for election in respect of a given Sub-Account, including the discretion to require that all amounts credited to the Sub-Account be measured by reference to a single prescribed Measurement Fund (e.g., the Stock fund).

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PLAN DOCUMENT *continued...*

- (c) **Proportionate Allocation**. In making any election described in Section 3.12(b) above, the Participant shall specify on the Election Form, in increments of one percentage point (1%), the percentage of each of his or her Sub-Accounts to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Sub-Account).
- (d) **Measurement Funds**. Except as otherwise provided in Section 3.12(f) below, if and to the extent the Committee makes available more than one Measurement Fund in respect of amounts credited to a given Participant's Sub-Account, a Participant, in connection with his or her initial deferral election in accordance with Section 3.6(a) above, shall elect, on the Election Form(s), one or more Measurement Fund(s) for the purpose of crediting or debiting additional amounts to his or her Sub-Account. The Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund without the need to formally amend this Plan; such Committee authority shall include the discretion to limit all or a part of a Participant's Sub-Account or Account Balance to a single Measurement Fund (e.g., the Stock fund). Each such action will take effect as of the first business day that follows by thirty (30) days the day on which the Committee gives Participants advanced written notice of such change. If the Committee receives an initial or revised Measurement Fund(s) election which it deems to be incomplete, unclear or improper, the Participant's Measurement Fund(s) election then in effect shall remain in effect (or, in the case of a deficiency in an initial Measurement Fund(s) election, the Participant shall be deemed to have filed no deemed investment direction). If and to the extent the Committee makes available more than one Measurement Fund in respect of amounts credited to all or a portion of the Participant's Account Balance, if the Committee possesses (or is deemed to possess as provided in the previous sentence) at any time directions as to Measurement Funds of less than all of such portion of the Participant's Account Balance, the Participant shall be deemed to have directed that the undesignated portion of the Account Balance be deemed to be invested in the default Measurement Fund established the Committee. Each Participant hereunder, as a condition to his or her participation hereunder, agrees to indemnify and hold harmless the Committee, the Company and the Employer, and their agents and representatives, from any losses or damages of any kind relating to (i) the Measurement Funds made available hereunder and (ii) any discrepancy between the credits and debits to the Participant's Account Balance based on the performance of the Measurement Funds and what the credits and debits otherwise might be in the case of an actual investment in the Measurement Funds.

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PLAN DOCUMENT *continued...*

- (e) **Crediting or Debiting Method.** The performance of each Measurement Fund (either positive or negative) associated with all or a portion of the Participant's Account Balance will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund associated with the Participant's Account Balance, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) associated with the Participant's Account Balance, in the percentages applicable to each portion of the Account Balance as of such date, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred was invested in the Measurement Fund(s) associated with the Annual Deferral Amount, in the percentages applicable to each portion of the Annual Deferral Amount, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary and/or Bonus through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to each portion of the Account Balance, no earlier than three business days prior to the distribution, at the closing price on such date. The Participant's Annual Company Contribution Amount shall be credited to his or her Company Contribution Account for purposes of this Section 3.12(e) as soon as administratively practicable following the date such amount(s) were credited to the Participant's Account Balance. The Participant's Annual Deferred Share Amount, Restricted Share Unit, Annual Stock Retainer Amount, Annual Cash Retainer Amount, Annual Cash Meeting Fee Amount, LTIP Stock Award and LTIP Cash Award deferral(s) shall be credited to the applicable Sub-Account no later than the close of business on the third business day after the date of the deferral(s).

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PLAN DOCUMENT *continued...*

- (f) **No Actual Investment.** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and any Participant election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), if any, in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company, the Employer or the Trust (if any); the Participant shall at all times remain an unsecured creditor of the Employer.
- (g) **Committee Discretion to Limit One or More Sub-Account(s) to the Stock Fund.** Notwithstanding anything in this Plan to the contrary, the Committee has the sole and absolute discretion to require that one or more Sub-Account(s) of a Participant's Account Balance be allocated exclusively to the Stock fund and to no other Measurement Fund until such time, if any, as the Committee, in its sole and absolute discretion, makes available additional Measurement Fund(s) for such Sub-Account(s).
- (h) **Beneficiary Elections.** Each reference in this Section 3.12 to a Participant shall be deemed to include, where applicable, a reference to a Beneficiary.

3.13 **FICA and Other Taxes.**

- (a) **Annual Deferral Amounts.** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount, and any other applicable deductions. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.13(a).

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PLAN DOCUMENT *continued...*

- (b) **Annual Company Contribution Amounts.** When an Annual Company Contribution Amount is credited to a Participant's Company Contribution Account (or, if later, when a Participant becomes vested in his or her Company Contribution Account), the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes, and any other applicable deductions. If necessary, the Committee may reduce the Participant's Annual Company Contribution Amount in order to comply with this Section 3.13(b).
- (c) **Annual Deferred Share Amounts/Restricted Share Units/LTIP Stock Award/LTIP Cash Award.** For each Fiscal Year in which an Annual Deferred Share Amount/Restricted Share Unit/LTIP Stock Award/LTIP Cash Award is being first withheld from a Participant, or at such other time as FICA taxes are due, the Participant's Employer(s) shall withhold from that portion of the Participant's compensation that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferred Share Amount/Restricted Share Unit/LTIP Stock Award/LTIP Cash Award, and any other applicable deductions. If necessary, the Committee may reduce the Participant's Annual Deferred Share Amount/Restricted Share Unit/LTIP Stock Award/LTIP Cash Award deferral in order to comply with this Section 3.13(c).

3.14 **Distributions.** Notwithstanding anything herein to the contrary, the Employer, or the trustee of the Trust (if any), shall withhold from any payments made under this Plan all Federal, state and local income, employment and other taxes required to be withheld by the Employer, or the trustee of the Trust (if any), in connection with such payments, and any indebtedness of the Participant to the Employer as of the date(s) of distribution, in amounts and in a manner to be determined in the reasonable discretion of the Employer and the trustee of the Trust (if any). Any payment made to a Participant or Beneficiary under this Plan shall be made on or during the period after the payment date or event specified herein; provided, however, such payment shall not be made later than the later of (i) the last day of the calendar year in which the payment date or event occurs, or, if later, the fifteenth (15th) day of the third (3rd) calendar month following the date of the payment date or event, or (ii) the last day of such other, extended period as the IRS may prescribe, such as in the case of disputed payments or refusals to pay, provided the conditions of such extension have been satisfied. If a Participant who experiences a Separation from Service is rehired (or, in the case of an Independent Director Participant, again becomes an Independent Director following a Separation from Service), his or her distributions hereunder may not be suspended.

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PLAN DOCUMENT *continued...*

ARTICLE 4

Short-Term Payout; Unforeseeable Financial Emergencies; Withdrawal Election

4.1 Short-Term Payout.

- (a) **Short-Term Payouts of Annual Deferral Amounts and Vested Annual Company Contribution Amounts .** At the same time that a Participant elects to defer an Annual Deferral Amount for a given Plan Year, the Participant may irrevocably elect to receive a future “Short-Term Payout” from the Plan. Except as provided in Section 4.3, any Short-Term Payout election must be made by the deadline(s) set forth in Section 3.6(a) for making a deferral election in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount to which it relates, and is irrevocable after that deadline has passed. Subject to such requirements as may be imposed by the Committee, a Participant may make separate Short-Term Payout elections in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount portions of his or her Annual Deferral Amount for a given Plan Year, in respect of any vested Annual Company Matching Contribution Amounts credited for the Plan Year and in respect of any vested Annual Company Basic Contribution Amounts credited for the Plan Year. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount (or applicable portion thereof), vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, as applicable, and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, Section 3.14 and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years (or such longer period established by the Committee and reflected on the applicable Short-Term Payout election materials) after the Plan Year of the Annual Deferral Amount (or applicable portion thereof), vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, as applicable, as specifically elected by the Participant. By way of example, if a two (2) year Short-Term Payout is elected for 2009 Plan Year Annual Deferral Amounts, vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, the two (2) year Short-Term Payout would become payable during a sixty (60) day period commencing January 1, 2012.

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PLAN DOCUMENT *continued...*

- (b) **Short-Term Payouts of Annual Deferred Share Amounts/Restricted Share Units.** At the same time that a Participant elects to defer an Annual Deferred Share Amount and/or Restricted Share Unit, the Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferred Share Amount/Restricted Share Unit and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, to Section 3.14 and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that results in the Annual Deferred Share Amount/Restricted Share Unit deferral remaining in the Plan for at least five (5) full calendar years (i.e., the earliest Short-Term Payout available in respect of deferrals of Deferred Shares otherwise scheduled to vest on November 1, 2013 and/or Restricted Share Units otherwise scheduled to vest on June 8, 2013 is the sixty (60) day period commencing January 1, 2019).

Notwithstanding the preceding, with respect to deferrals of Deferred Shares scheduled to vest prior to November 1, 2010, Section 409A transition rules and the Plan document in effect at the time of the deferrals permitted earlier Short-Term Payout dates; the Short-Term Payment dates permitted in respect of such Deferred Share deferrals are as reflected in the Plan document in effect at the time of the deferrals.

Notwithstanding anything above or elsewhere in the Plan to the contrary, to the extent Section 409A requires that an Annual Deferred Share Amount/Restricted Share Unit deferral election satisfy the rules under Section 409A applicable to changes to form and timing of distribution elections in order for such Annual Deferred Share Amount/Restricted Share Unit deferral election to effectively defer tax with respect to the Annual Deferred Share Amounts/Restricted Share Units, that portion of the Participant's Deferred Share/Restricted Share Unit Deferral Account attributable to such Annual Deferred Share Amount/Restricted Share Unit deferral election shall be distributable as a Short-Term Payout solely at such time(s) and in such manner as the Short-Term Payout does not violate the rules under Section 409A applicable to changes to form and timing of distribution elections.

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PLAN DOCUMENT *continued...*

- (c) **Short-Term Payouts of Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts.** At the same time that a Participant who is an Independent Director elects to defer an Annual Stock Retainer Amount, Annual Cash Retainer Amount or Annual Cash Meeting Fee Amount for a given Fiscal Year, the Participant may irrevocably elect to receive a future “Short-Term Payout” from the Plan. Any Short-Term Payout election must be made by the deadline(s) set forth in Section 3.6(a) for making a deferral election in respect of the Annual Stock Retainer Amount, Annual Cash Retainer Amount or Annual Cash Meeting Fee Amount to which it relates, and is irrevocable after that deadline has passed. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Stock Retainer Amount, Annual Cash Retainer Amount or Annual Cash Meeting Fee Amount, and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, Section 3.14, and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a period one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years (or such longer period established by the Committee and reflected on the applicable Short-Term Payout election materials) after the Fiscal Year for which the Annual Stock Retainer Amount deferral, Annual Cash Retainer Amount deferral or Annual Cash Meeting Fee Amount deferral is credited. By way of example, if a two (2) year Short-Term Payout is elected for 2013 Fiscal Year Annual Stock Retainer Amount, Annual Cash Retainer Amount or Annual Cash Meeting Fee Amount, the two (2) year Short-Term Payout would become payable during a sixty (60) day period commencing January 1, 2016.
- (d) **Short-Term Payouts of LTIP Stock Award and/or LTIP Cash Award Deferrals.** At the same time that a Participant elects to defer an LTIP Stock Award or LTIP Cash Award for a given LTIP Performance Period, the Participant may irrevocably elect to receive a future “Short-Term Payout” from the Plan. Any Short-Term Payout election must be made by the deadline(s) set forth in Section 3.6(a) for making a deferral election in respect of the LTIP Stock Award or LTIP Cash Award to which it relates, and is irrevocable after that deadline has passed. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the LTIP Stock Award deferral amount or LTIP Cash Award deferral amount, and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, Section 3.14, and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a period one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years (or such longer period established by the Committee and reflected on the applicable Short-Term Payout election materials) after the calendar year in which the LTIP Stock Award or LTIP Cash Award is credited. By way of example, if a two (2) year Short-Term Payout is elected for an LTIP Stock Award (or portion thereof) deferred in January 2014 (i.e., the date the LTIP Stock Award, or portion thereof, would, but for the deferral election, otherwise have been payable), the two (2) year Short-Term Payout would become payable during a sixty (60) day period commencing January 1, 2017.

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PLAN DOCUMENT *continued...*

- (e) **Postponements of Previously Elected Short-Term Payouts.** Notwithstanding the preceding paragraphs or any other provision of this Plan that may be construed to the contrary, a Participant who is in active service with the Employer (including, for Independent Director Participants, in active service as an Independent Director) may, with respect to each Short-Term Payout, on a form determined by the Committee, make one (1) or more additional deferral elections (a "Subsequent Election") to defer payment of all or a portion of such Short-Term Payout to a Plan Year subsequent to the Plan Year originally (or subsequently) elected; provided, however, that, except as provided elsewhere in this Plan, such Subsequent Election will be null and void unless accepted by the Committee no later than one (1) year prior to the first day of the Plan Year in which, but for the Subsequent Election, such Short-Term Payout would be paid, and such Subsequent Election provides for the deferral of at least five (5) Plan Years following the Plan Year in which the Short-Term Payout, but for the Subsequent Election, would be paid. By way of example, if a two (2) year Short-Term Payout is elected for 2013 Fiscal Year Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts (resulting, as described above, in a Short-Term Payout payable during the sixty (60) day period commencing January 1, 2016), the Participant shall be entitled to make a Subsequent Election prior to the time designated by the Committee (e.g., September 2014 or any such other time designated by the Committee which is no later than December 31, 2014) to have the Short-Term Payout instead paid during the sixty (60) day period commencing January 1, 2021 (or January 1 of any later Plan Year).
- 4.2 **Other Benefits Take Precedence Over Short-Term Payout.** Should an event occur that triggers a benefit under Article 5, 6 or 7, all Account Balances (or portions thereof) that are subject to Short-Term Payout elections under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.
- 4.3 **Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.** If a Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) halt any deferrals required to be made by the Participant and (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the payouts, after taking into account the extent to which the Unforeseeable Financial Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of assets would not itself cause severe financial hardship) or by termination of deferrals hereunder. If, subject to the sole discretion of the Committee (which discretion the Committee is bound to exercise, however, within the limitations of Section 409A), the petition for a termination of deferrals and payout is approved, cessation shall take effect upon the date of approval and any payout shall be made within sixty (60) days of the date of approval. The payment of any amount under this Section 4.3 shall be subject to Section 3.14, but shall not be subject to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, Stock Retainer Deferral Account or LTIP Stock Award Deferral Account under this Section 4.3 shall be in the form of Stock.

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ARTICLE 5 Retirement Benefit

5.1 **Retirement Benefit.** Subject to the Deduction Limitation and to Section 3.14, and any other conditions imposed by the Committee, a Participant who Retires shall receive, as a Retirement Benefit, his or her vested Account Balance (or applicable portion thereof).

5.2 **Payment of Retirement Benefit.**

- (a) **Retirement Benefit Payments of Annual Deferral Amounts and Vested Annual Company Contribution Amounts .** At the same time that a Participant elects to defer an Annual Deferral Amount for a given Plan Year, the Participant may elect to receive that portion of his or her Retirement Benefit attributable to the Annual Deferral Amount (and/or that portion of his or her Retirement Benefit attributable to any vested Annual Company Matching Contribution Amounts credited for the Plan Year and/or that portion of his or her Retirement Benefit attributable to any vested Annual Company Basic Contribution Amounts credited for the Plan Year) in a lump sum, or pursuant to one of the available Annual Installment Methods. At such time, the Participant may also elect to have any such lump sum payment paid, or installments commence, during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires or, alternatively, during the sixty (60) day period immediately following the close of the Plan Year in which the Participant Retires; provided, however, that, to the extent required under Section 409A, Retirement Benefit distributions to an individual who is a Specified Employee as of the date of his or her Separation from Service shall commence no earlier than six (6) months after the date of his or her Retirement (or, if earlier, his or her death). If a Participant does not make any election with respect to the form of distribution of any portion of his or her Retirement Benefit, such portion shall be distributable in the form of a lump sum. In addition, subject to the preceding limitation on Retirement Benefit distributions to Specified Employees, if a Participant does not make any election with respect to when any portion of his or her Retirement Benefit shall be made or begin, such portion shall be made or begin during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires. Any payment made shall be subject to Section 3.14 and the Deduction Limitation. Subject to such requirements as may be imposed by the Committee, a Participant may make separate Retirement Benefit distribution elections in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount portions of his or her Annual Deferral Amount for a given Plan Year, in respect of any vested Annual Company Matching Contribution Amounts credited for the Plan Year and in respect of any vested Annual Company Basic Contribution Amount credited for the Plan Year. The preceding applies only to Annual Deferral Amounts, Annual Company Matching Contribution Amounts and Annual Company Basic contribution Amounts deferred/credited on or after January 1, 2005.

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PLAN DOCUMENT *continued...*

- (b) **Retirement Benefit Payments of Annual Deferred Share Amounts/Restricted Share Units.** At the same time that a Participant elects to defer an Annual Deferred Share Amount/Restricted Share Unit for a given Fiscal Year (or portion thereof), the Participant may elect to receive that portion of his or her Retirement Benefit attributable to the Annual Deferred Share Amount/Restricted Share Unit in a lump sum, or pursuant to one of the available Annual Installment Methods. At such time, the Participant may also elect to have any such lump sum payment paid, or installments commence, during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires or, alternatively, during the sixty (60) day period immediately following the close of the Plan Year in which the Participant Retires; provided, however, that, to the extent required under Section 409A, Retirement Benefit distributions to a Specified Employee shall commence no earlier than six (6) months after the date of his or her Retirement (or, if earlier, his or her death). If a Participant does not make any election with respect to the form of distribution of any portion of his or her Retirement Benefit, such portion shall be distributable in the form of a lump sum. In addition, subject to the preceding limitation on Retirement Benefit distributions to Specified Employees, if a Participant does not make any election with respect to when any portion of his or her Retirement Benefit shall be made or begin, such portion shall be made or begin during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires. Any payment made shall be subject to Section 3.14 and the Deduction Limitation.

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PLAN DOCUMENT *continued...*

Notwithstanding anything above or elsewhere in the Plan to the contrary, to the extent Section 409A requires that an Annual Deferred Share Amount/Restricted Share Unit deferral election satisfy the rules under Section 409A applicable to changes to form and timing of distribution elections in order for such Annual Deferred Share Amount/Restricted Share Unit deferral election to effectively defer tax with respect to the Annual Deferred Share Amounts/Restricted Share Units, that portion of the Participant's Deferred Share/Restricted Share Unit Deferral Account attributable to such Annual Deferred Share Amount/Restricted Share Unit deferral election shall be distributable as a Retirement Benefit solely at such time(s) and in such manner as the Retirement Benefit distribution does not violate the rules under Section 409A applicable to changes to form and timing of distribution elections.

Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account under this Section 5.2 shall be in the form of Stock.

The preceding applies only to Annual Deferred Share Amounts/Restricted Share Units deferred on or after January 1, 2005.

- (c) **Retirement Benefit Payments Relating to Pre-2005 Deferrals/Credits**. A Participant who entered the Plan prior to January 1, 2005 was permitted, in connection with his or her commencement of participation in the Plan, to elect on an Election Form to receive the Retirement Benefit relating to his or her pre-2005 deferrals/credits in a lump sum or pursuant to an Annual Installment Method of 5, 10 or 15 years. The Participant was also permitted to elect on the Election Form to have his or her Retirement Benefit relating to his or her pre-2005 deferrals/credits made or begin as soon as administratively practicable following the close of the calendar quarter in which the Participant Retires or, alternatively, as soon as administratively practicable following the close of the Plan Year in which the Participant Retires. Notwithstanding such elections, effective January 1, 2005, in no event shall Retirement Benefit distributions relating to a Specified Employee's pre-2005 deferrals/credits commence earlier than six (6) months after the date of his or her Retirement (or, if earlier, his or death). If a Participant does not make any election with respect to the payment of the Retirement Benefit relating to his or her pre-2005 deferrals/credits, then such benefit shall be payable in a lump sum. If a Participant does not make any election with respect to when his or her Retirement Benefit relating to his or her pre-2005 deferrals/credits shall be made or begin, such Retirement Benefit shall be made or begin as soon as administratively practicable following the close of the calendar quarter in which the Participant Retires. Any payment made shall be subject to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Pre-2005 Deferred Share Deferral Account under this paragraph shall be in the form of Stock.

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PLAN DOCUMENT *continued...*

- (d) **Retirement Benefit Payments of Annual Stock Retainer Amounts, Annual Cash Retainer Amounts and/or Annual Cash Meeting Fee Amounts.** At the same time that a Participant who is an Independent Director elects to defer an Annual Stock Retainer Amount, Annual Cash Retainer Amount and/or Annual Cash Meeting Fee Amount for a given Fiscal Year, the Participant may elect to receive that portion of his or her Retirement Benefit attributable to the Annual Stock Retainer Amount, Annual Cash Retainer Amount and/or Annual Cash Meeting Fee Amount in a lump sum, or pursuant to one of the available Annual Installment Methods. At such time, the Participant may also elect to have any such lump sum payment paid, or installments commence, during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires or, alternatively, during the sixty (60) day period immediately following the close of the Plan Year in which the Participant Retires. If a Participant does not make any election with respect to the form of distribution of any portion of his or her Retirement Benefit, such portion shall be distributable in the form of a lump sum. Any payment made shall be subject to Section 3.14 and the Deduction Limitation.

Notwithstanding anything in this Plan to the contrary, any distribution from the Stock Retainer Deferral Account under this Section 5.2 shall be in the form of Stock.

- (e) **Retirement Benefit Payments of LTIP Stock Award and/or LTIP Cash Award Deferral Amounts.** At the same time that a Participant elects to defer an LTIP Stock Award or LTIP Cash Award for an LTIP Performance Period, the Participant may elect to receive that portion of his or her Retirement Benefit attributable to the LTIP Stock Award and/or LTIP Cash Award in a lump sum, or pursuant to one of the available Annual Installment Methods. At such time, the Participant may also elect to have any such lump sum payment paid, or installments commence, during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant Retires or, alternatively, during the sixty (60) day period immediately following the close of the Plan Year in which the Participant Retires. If a Participant does not make any election with respect to the form of distribution of any portion of his or her Retirement Benefit, such portion shall be distributable in the form of a lump sum. Any payment made shall be subject to Section 3.14 and the Deduction Limitation.

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PLAN DOCUMENT *continued...*

Notwithstanding anything in this Plan to the contrary, any distribution from the LTIP Stock Award Deferral Account under this Section 5.2 shall be in the form of Stock.

- (f) **Changes to Retirement Benefit Distribution Elections.** The Participant may change his or her election(s) to an allowable alternative payout period date by submitting a new Election Form to the Committee, provided that, effective January 1, 2005, and except as provided elsewhere in the Plan, any such Election Form is submitted at least one (1) year prior to the distribution date then in effect and, if required by Section 409A, provides for a distribution (or commencement of distributions) date which is at least five (5) years from the distribution date then in effect. Subject to the foregoing, the Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit with respect to the portion of the Participant's Account Balance to which it pertains.

Effective January 1, 2005, no change submitted on an Election Form shall be accepted by the Committee if the change accelerates the time over which distributions shall be made to the Participant (except as otherwise permitted under Section 409A) and the Committee shall deny any change made to an election if the Committee determines that the change violates the requirement under Section 409A that the first payment with respect to which such election is made be deferred for a period of not less than five (5) years from the date the payment would otherwise have been made. For these purposes, installment payments shall be treated as a single payment, with the result that an election to change from installments to a lump sum (or to a different Annual Installment Method) will require that the lump sum be postponed until a date which is at least five (5) years from the previously scheduled payment date of the first installment.

ARTICLE 6

Pre-Retirement Survivor Benefit

- 6.1 **Pre-Retirement Survivor Benefit.** Subject to the Deduction Limitation, and any other conditions imposed by the Committee, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance if the Participant dies before he or she Retires or experiences a Termination of Employment.

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PLAN DOCUMENT *continued...*

- 6.2 **Payment of Pre-Retirement Survivor Benefit.** The Participant's Beneficiary shall receive the Pre-Retirement Survivor Benefit in a lump sum during the sixty (60) day period immediately following the close of the calendar quarter in which the Committee receives proof that is satisfactory to the Committee of the Participant's death, in accordance with the procedures established by the Committee. Any payment made shall be subject to Section 3.14 and to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, the Pre-2005 Deferred Share Deferral Account, the Stock Retainer Deferral Account and/or the LTIP Stock Award Deferral Account under this Section 6.2 shall be in the form of Stock.
- 6.3 **Death Prior to Completion of Termination Benefit or Retirement Benefit.** If a Participant dies after Termination of Employment or Retirement but before the Termination Benefit or Retirement Benefit is paid in full, the Participant's unpaid Termination Benefit or Retirement Benefit shall be paid to the Participant's Beneficiary in a lump sum during the sixty (60) day period immediately following the close of the calendar quarter in which the Committee receives proof that is satisfactory to the Committee of the Participant's death, in accordance with the procedures established by the Committee. Any payment made hereunder shall be subject to Section 3.14, but shall not be subject to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, the Pre-2005 Deferred Share Deferral Account, the Stock Retainer Deferral Account and/or the LTIP Stock Award Deferral Account under this Section 6.3 shall be in the form of Stock.

ARTICLE 7 **Termination Benefit**

- 7.1 **Termination Benefit.** Subject to the Deduction Limitation and to Section 3.14, and any other conditions imposed by the Committee, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement or death.
- 7.2 **Payment of Termination Benefit.** A Participant's Termination Benefit shall be paid in a lump sum during the sixty (60) day period immediately following the close of the calendar quarter in which the Participant experiences a Termination of Employment, in accordance with the procedures established by the Committee; provided, however, that, to the extent required under Section 409A, Termination Benefit distributions to an individual who is a Specified Employee as of the date of his or her Separation from Service shall commence no earlier than six (6) months after the date of his or her Termination of Employment (or, if earlier, his or her death).

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PLAN DOCUMENT *continued...*

Notwithstanding anything above or elsewhere in the Plan to the contrary, to the extent Section 409A requires that an Annual Deferred Share Amount/Restricted Share Unit deferral election satisfy the rules under Section 409A applicable to changes to form and timing of distribution elections in order for such Annual Deferred Share Amount/Restricted Share Unit deferral election to effectively defer tax with respect to the Annual Deferred Share Amounts, that portion of the Participant's Deferred Share/Restricted Share Unit Deferral Account attributable to such Annual Deferred Share Amount/Restricted Share Unit deferral election shall be distributable as a Termination Benefit solely at such time(s) and in such manner as the Termination Benefit distribution does not violate the rules under Section 409A applicable to changes to form and timing of distribution elections.

Any payment made shall be subject to the Deduction Limitation and to Section 3.14. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, the Pre-2005 Deferred Share Deferral Account, the Stock Retainer Deferral Account and/or the LTIP Stock Award Deferral Account under this Section 7.2 shall be in the form of Stock.

ARTICLE 8

Beneficiary Designation

- 8.1 **Beneficiary.** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a Beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 8.2 **Beneficiary Designation; Change.** A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee or its designated agent of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee or its designated agent prior to his or her death.

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PLAN DOCUMENT *continued...*

- 8.3 **Acceptance.** No designation or change in designation of a Beneficiary shall be effective until received and accepted by the Committee or its designated agent.
- 8.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in Sections 8.1, 8.2 and 8.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 8.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 8.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

Neither the Committee nor the Employer shall be obliged to search for any Participant or Beneficiary beyond the sending of a registered letter to such person's last known address. If the Committee notifies any Participant or Beneficiary that he or she is entitled to an amount under the Plan and the Participant or Beneficiary fails to claim such amount or make his or her location known to the Committee within three (3) years thereafter, then, except as otherwise required by law, if the location of one or more of the next of kin of the Participant is known to the Committee, the Committee may direct distribution of such amount to any one or more or all of such next of kin, and in such proportions as the Committee determines. If the location of none of the foregoing persons can be determined, the Committee shall have the right to direct that the amount payable shall be deemed to be a forfeiture, except that the dollar amount of the forfeiture, unadjusted for deemed gains or losses in the interim, shall be paid by the Employer if a claim for the benefit subsequently is made by the Participant or the Beneficiary to whom it was payable. If a benefit payable to an unlocated Participant or Beneficiary is subject to escheat and/or unclaimed property laws pursuant to applicable law, neither the Committee nor the Employer shall be liable to any person for any payment made in accordance with such law.

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PLAN DOCUMENT *continued...*

ARTICLE 9

Termination, Amendment or Modification

- 9.1 **Termination.** Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Associates (and/or, with respect to Hovnianian Enterprises, Inc., Independent Directors), by action of its board of directors. In addition, the Committee may terminate the Plan with respect to one or more Employers and/or with respect to the right of Independent Directors to participate. Upon a termination of the Plan in accordance with the requirements, restrictions and limitations of Section 1.409A-3(j)(4)(ix) of the Treasury regulations, the Plan Agreements of the affected Participants shall terminate and they shall be paid in a single lump sum distribution their vested Account Balances (but not to commence before or end after any distribution period required by Section 409A). If, due to the circumstances surrounding the Plan termination, a distribution of a Participant's vested Account Balance upon Plan termination is not permitted by Section 409A, the payment of the Account Balance shall be made only after Plan benefits otherwise become due hereunder. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination.

Without limiting the generality of the foregoing, the Employer specifically reserves the right to terminate and liquidate the Plan with respect to all of its participating Associates (and, with respect to Hovnianian Enterprises, Inc., Independent Directors), in its discretion and by action of the Committee, within the thirty (30) days preceding or the twelve (12) months following a "change in control event" (as defined in Section 409A); provided, however, that such termination and liquidation must be irrevocable and shall be permitted only if all arrangements sponsored by the Employer that are required to be aggregated with the Plan pursuant to Section 14.21 are also irrevocably terminated and liquidated with respect to each participant therein that has experienced a change in control event, so that Associates and Independent Directors participating under the Plan and all participants under those other arrangements that have experienced a change in control event are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date the Employer takes irrevocable action to terminate and liquidate the arrangements.

Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, the Pre-2005 Deferred Share Deferral Account, the Stock Retainer Deferral Account and/or the LTIP Stock Award Deferral Account under this Section 9.1 shall be in the form of Stock.

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- 9.2 **Amendment.** Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors and the Committee may, at any time, amend or modify the Plan in whole or in part with respect to one or more Employers; provided, however, that no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.
- 9.3 **Plan Agreement.** Despite the provisions of Sections 9.1 and 9.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer or the Committee may only amend or terminate such provisions with the consent of the Participant, unless otherwise provided in the Plan Agreement.
- 9.4 **Effect of Payment.** The full payment of the applicable benefit under Articles 4, 5, 6 or 7 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.
- 9.5 **Amendment to Ensure Proper Characterization of the Plan.** Notwithstanding the previous Sections of this Article 9, the Plan may be amended at any time, retroactively if required, if found necessary, in the opinion of the Committee, in order to ensure that the Plan is characterized as a non-tax-qualified "top hat" plan of deferred compensation maintained for a select group of management or highly compensated employees, as described under ERISA Sections 201(2), 301(a)(3) and 401(a)(1), to conform the Plan to the provisions of Section 409A, to ensure that amounts under the Plan are not considered to be taxed to a Participant under the Federal income tax laws prior to the Participant's receipt of the amounts or to conform the Plan and the Trust to the provisions and requirements of any applicable law (including ERISA and the Code).

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PLAN DOCUMENT *continued...*

ARTICLE 10 Administration

- 10.1 **Committee Duties.** This Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.
- 10.2 **Agents.** In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.
- 10.3 **Binding Effect of Decisions.** The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 10.4 **Indemnity of Committee.** All Employers shall indemnify and hold harmless the members of the Committee, and any Associate to whom the duties of the Committee may be delegated, against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, or any such Associate.
- 10.5 **Employer Information.** To enable the Committee to perform its functions, the Company and each Employer shall supply full and timely information to the Committee on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, death or Termination of Employment of its Participants, and such other pertinent information as the Committee may reasonably require.

ARTICLE 11 Other Benefits and Agreements

- 11.1 **Coordination with Other Benefits.** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for Associates (and/or, with respect to Hovnianian Enterprises, Inc., Independent Directors) of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

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PLAN DOCUMENT *continued...*

ARTICLE 12 Claims Procedures

- 12.1 **Scope of Claims Procedures.** This Article is based on final regulations issued by the Department of Labor and published in the Federal Register on November 21, 2000 and codified at 29 C.F.R. section 2560.503-1. If any provision of this Article conflicts with the requirements of those regulations, the requirements of those regulations will prevail.
- 12.2 **Initial Claim.** A Participant or Beneficiary who believes he or she is entitled to any benefit under the Plan (a "Claimant") may file a claim with the Committee. The Committee shall review the claim itself or appoint an individual or an entity to review the claim.
- (a) **Decision on Initial Claim.** The Claimant shall be notified within ninety (90) days after the claim is filed whether the claim is allowed or denied, unless the Claimant receives written notice from the Committee or appointee of the Committee prior to the end of the ninety (90) day period stating that special circumstances require an extension of the time for decision, such extension not to extend beyond the day which is one hundred eighty (180) days after the day the claim is filed.
- (b) **Manner and Content of Denial of Initial Claims.** If the Committee denies a claim, it must provide to the Claimant, in writing or by electronic communication:
- (i) The specific reasons for the denial;
 - (ii) A reference to the Plan provision or insurance contract provision upon which the denial is based;
 - (iii) A description of any additional information or material that the Claimant must provide in order to perfect the claim;
 - (iv) An explanation of why such additional material or information is necessary;
 - (v) Notice that the Claimant has a right to request a review of the claim denial and information on the steps to be taken if the Claimant wishes to request a review of the claim denial; and

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PLAN DOCUMENT *continued...*

- (vi) A statement of the Participant's right to bring a civil action under ERISA Section 502(a) following a denial on review of the initial denial.

12.3 **Review Procedures.**

- (a) **Request for Review of Denied Claim.** A request for review of a denied claim must be made in writing to the Committee within sixty (60) days after receiving notice of denial. The decision upon review will be made within sixty (60) days after the Committee's receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision will be rendered not later than one hundred twenty (120) days after receipt of a request for review. A notice of such an extension must be provided to the Claimant within the initial sixty (60) day period and must explain the special circumstances and provide an expected date of decision.

The reviewer shall afford the Claimant an opportunity to review and receive, without charge, all relevant documents, information and records and to submit issues and comments in writing to the Committee. The reviewer shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim regardless of whether the information was submitted or considered in the initial benefit determination.

- (b) **Manner and Content of Notice of Decision on Review.** Upon completion of its review of an adverse initial claim determination, the Committee will give the Claimant, in writing or by electronic notification, a notice containing:
 - (i) its decision;
 - (ii) the specific reasons for the decision;
 - (iii) the relevant Plan provisions or insurance contract provisions on which its decision is based;
 - (iv) a statement that the Claimant is entitled to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information in the Plan's files which is relevant to the Claimant's claim for benefits;
 - (v) a statement describing the Claimant's right to bring an action for judicial review under ERISA Section 502(a); and
 - (vi) if an internal rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination on review, a statement that a copy of the rule, guideline, protocol or other similar criterion will be provided without charge to the Claimant upon request.

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- 12.4 **Calculation of Time Periods.** For purposes of the time periods specified in this Article, the period of time during which a benefit determination is required to be made begins at the time a claim is filed in accordance with the Plan procedures without regard to whether all the information necessary to make a decision accompanies the claim. If a period of time is extended due to a Claimant's failure to submit all information necessary, the period for making the determination shall be tolled from the date the notification is sent to the Claimant until the date the Claimant responds.
- 12.5 **Legal Action.** If the Plan fails to follow the claims procedures required by this Article, a Claimant shall be deemed to have exhausted the administrative remedies available under the Plan and shall be entitled to pursue any available remedy under ERISA Section 502(a) on the basis that the Plan has failed to provide a reasonable claims procedure that would yield a decision on the merits of the claim. A Claimant's compliance with the foregoing provisions of this Article is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claims for benefits under the Plan. However, notwithstanding anything herein that may suggest otherwise, with respect to any claim pertaining to a Participant who is not subject to ERISA, following the Claimant's exhaustion of the foregoing provisions of this Article, all disputes in connection with such claim shall be resolved by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association.

ARTICLE 13

Trust

- 13.1 **Establishment of the Trust.** As of the execution of this amended and restated Plan, the Trust previously established under the Plan has been discontinued. The Company reserves the right at any time to establish another Trust, in which event each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide for its respective future liabilities created with respect to those amounts deferred under the Plan for such Employer's Participants which are to be held under the Trust.
- 13.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- 13.3 **Distributions From the Trust.** Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

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PLAN DOCUMENT *continued...*

ARTICLE 14

Miscellaneous

- 14.1 **Status of Plan.** The Plan is not qualified within the meaning of Code Section 401(a) and "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.
- 14.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 14.3 **Employer's Liability.** An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.
- 14.4 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. Subject to Section 14.15, no part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.
- 14.5 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer or to interfere with the right of any Employer to discipline or discharge the Participant at any time. In addition, nothing in the Plan shall be deemed to give an Independent Director Participant the right to continue in the position of an Independent Director.

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PLAN DOCUMENT *continued...*

- 14.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 14.7 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 14.8 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 14.9 **Governing Law.** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Delaware without regard to its conflicts of laws principles.
- 14.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if it is in accordance with the procedures established by the Committee for notice or filing delivery via electronic transmission or if it is in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Treasurer
K. Hovnianian Companies, LLC
110 West Front Street
Red Bank, New Jersey 07701
(732) 747-7800

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 14.11 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer (Hovnianian Enterprises, Inc. in respect of Independent Director Participants) and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

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PLAN DOCUMENT *continued...*

- 14.12 **Spouse's Interest.** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 14.13 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein; except to the extent that Section 409A requires that this Section 14.13 be disregarded because it purports to nullify Plan terms that are not in compliance with Section 409A.
- 14.14 **Incompetent.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 14.15 **Court Order.** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion but solely if and to the extent permitted by Section 409A, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.
- 14.16 **Acceleration of Distribution.**
- (a) **In General.** The Employer may, in its discretion, accelerate the date of distribution or commencement of distributions hereunder, or accelerate installment payments by paying the vesting Account Balance in a lump sum or pursuant to a Annual Installment Method using fewer years, to the extent permitted under Section 409A (such as, for example, as provided in Section 1.409A-3(j)(4) of the Treasury regulations to comply with domestic relations orders or certain conflict of interest rules, to pay employment taxes, or to pay certain de minimus amount, or to make payments upon income inclusion under Section 409A). Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share/Restricted Share Unit Deferral Account, Stock Retainer Deferral Account and/or LTIP Stock Award Deferral Account under this Section 14.16 shall be in the form of Stock.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- (b) **Trust.** If the Trust, if any, terminates in accordance with the provisions of the Trust and benefits are distributed from the Trust to a Participant in accordance with such provisions, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.
- 14.17 **Delay in Payment.** If the Employer reasonably anticipates that any payment scheduled to be made hereunder would violate securities laws (or other applicable laws) or jeopardize the ability of the Employer to continue as a going concern if paid as scheduled, then the Employer may defer that payment, provided the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. In addition, the Employer may, in its discretion, delay a payment upon such other events and conditions as the IRS may prescribe, provided the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. Any amounts deferred pursuant to this Section shall continue to be credited or debited with additional amounts in accordance with Section 3.132 above, even if such amount is being paid out in installments. The amounts so deferred and amounts credited or debited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date on which the Employer reasonably anticipates that such violation or material harm would be avoided or as otherwise prescribed by the IRS.
- 14.18 **Prohibited Acceleration/Distribution Timing.** This Section shall take precedence over any other provision of the Plan or this Article 14 to the contrary. If the timing of any deferral or distribution election would result in any tax or other penalty (other than ordinarily payable Federal, state or local income or payroll taxes), which tax or penalty can be avoided by payment of the distribution at a later time, then the distribution shall be made (or commence, as the case may be) on the first date on which such distributions can be made (or commence) without such tax or penalty; except to the extent that Section 409A requires that this Section 14.18 be disregarded because it purports to nullify Plan terms that are not in compliance with Section 409A.
- 14.19 **Insurance.** The Employers, on their own behalf or on behalf of the Trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the Trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

K. HOVNIANIAN COMPANIES, LLC

PLAN DOCUMENT *continued...*

- 14.20 **Aggregation of Employers.** If the Employer is a member of a controlled group of corporations or a group of trades or business under common control (as described in Code §414(b) or (c)), but substituting a twenty-five percent (25%) ownership level for the eighty percent (80%) level set forth in those Code Sections, all members of the group shall be treated as a single Employer for purposes of whether there has occurred a Separation from Service and for any other purposes under the Plan as Section 409A shall require. For purposes of Section 9.1, in the case of a change in control event, the entities to be treated as a single Employer shall be determined immediately following the change in control event.
- 14.21 **Aggregation of Plans.** If the Employer offers other account balance deferred compensation plans in addition to the Plan, those plans together with the Plan shall be treated as a single plan to the extent required under Section 409A for purposes of determining whether an Employee may make a deferral election pursuant to Section 3.6(a) within thirty (30) days of becoming eligible to participate in the Plan and for any other purposes under the Plan as Section 409A shall require.
- 14.22 **USERRA.** Notwithstanding anything herein to the contrary, any election provided to a Participant as necessary to satisfy the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended, shall be permissible hereunder.
- 14.23 **Legal Fees To Enforce Rights After Change in Control.** Hovnianian Enterprises, Inc. and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of Hovnianian Enterprises, Inc. or the Participant's Employer, or of any successor corporation might then cause or attempt to cause Hovnianian Enterprises, Inc., the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause Hovnianian Enterprises, Inc. or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that Hovnianian Enterprises, Inc., the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if Hovnianian Enterprises, Inc., such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then Hovnianian Enterprises, Inc. and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of Hovnianian Enterprises, Inc. and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against Hovnianian Enterprises, Inc., the Participant's Employer or any director, officer, shareholder or other person affiliated with Hovnianian Enterprises, Inc., the Participant's Employer or any successor thereto in any jurisdiction.

K. HOVNIANIAN COMPANIES, LLC
PLAN DOCUMENT *continued...*

IN WITNESS WHEREOF, the Company has signed this Plan document as of May 24, 2012.

K. HOVNIANIAN COMPANIES, LLC,
a California corporation

By: _____
J. Larry Sorsby

Title: Committee Representative

2012 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT

Participant:

Date of Grant:

Number of Class A Shares:

Grant Price:

Vesting Schedule:

Date

Number of Shares

Option Termination Date:

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (The "Company"), hereby grants the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class A Shares set forth above. This grant is made subject to the terms and conditions of the 2012 Company Stock Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and subject to amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code") to the extent possible under Section 422 of the Code. Any portion of the Option which is ineligible to be treated as an Incentive Stock Option (due to Section 422(d) of the Code or otherwise) shall be treated as a nonqualified option.

2. Vesting. This Option will vest in accordance with the schedule set forth above, subject to Section 3 of this Agreement.

3. Exercise of Option.

(a) Period of Exercise.

(i) In General. The Option must be exercised before the Option Termination Date set forth above (the "Option Termination Date"). The Participant may exercise less than the full installment available to him or her under this Option, but the Participant must exercise this Option in full shares of the Common Stock of the Company. The Participant is limited to ten exercises during the term of this Option.

(ii) Termination of Employment Other Than Due to Death, Disability or Retirement. If, prior to the Option Termination Date, the Participant ceases to be employed by the Company or a subsidiary thereof (otherwise than by reason of death, Disability or Retirement), the nonvested portion of the Option shall be canceled and the vested portion of the Option, to the extent not previously exercised, shall remain exercisable until the earlier of (a) the Option Termination Date and (b) the sixtieth (60th) day after the date of cessation of employment, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. This Option shall be wholly void and of no effect after the Option Termination Date. For purposes of this Agreement, "Disability" shall mean disability within the meaning of Section 22(e)(3) of the Code, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(iii) Termination of Employment Due to Death. If, prior to the Option Termination Date, the Participant ceases to be employed by the Company or a subsidiary thereof due to the Participant's death, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the Option Termination Date, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. During such time, the Option will be exercisable by the person or persons to whom the Participant's rights under the Option shall pass by will or by the applicable laws of descent and distribution.

(iv) Termination of Employment Due to Disability. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof by reason of Disability, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and shall remain exercisable until the Option Termination Date by the Participant or his or her designated personal representative on the Participant's behalf, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

(v) Termination of Employment Due to Retirement. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof due to Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. Notwithstanding the preceding sentence (and without limiting the Participant's rights in connection with a Retirement), in the event of the Participant's Qualified Retirement, the Option, to the extent not previously exercised, shall remain exercisable until the Option Termination Date and shall then terminate together with all other rights under this Agreement. As used herein, the term "Qualified Retirement" means the Participant's termination of employment with the Company and its Subsidiaries at or after reaching age 65 with at least 10 years of Service.

(b) Method of Exercise. Subject to the provisions of the Plan, this Option may be exercised by written notice to the Company stating the number of shares with respect to which it is being exercised and accompanied by payment of the Option Price (a) by certified or bank cashier's check payable to the order of the Company in New York Clearing House Funds, (b) by surrender or delivery to the Company of shares of its Common Stock that have been held by the Participant for at least six months (or such other period of time as may be determined by the Board of Directors), or (c) in any other form acceptable to the Company together with payment or arrangement for payment of any federal income or other tax required to be withheld by the Company. As soon as practical after receipt of such notice and payment, the Company, shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant at the offices of the Company at 110 West Front Street, Red Bank, New Jersey, or such other place as may be mutually acceptable, or, at the election of the Company, by first-class insured mail addressed to the Participant at his or her address shown in the employment records of the Company or at the location at which he or she is employed by the Company or a subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery.

(i) The Company may postpone the time of delivery of certificates for shares of its Common Stock for such additional time as the Company shall deem necessary or desirable to enable it to comply with the listing requirements of any securities exchange upon which the Common Stock of the Company may be listed, or the requirements of the Securities Act of 1933 or the Securities Exchange Act of 1934 or any Rules or Regulations of the Securities and Exchange Commission promulgates thereunder or the requirements of applicable state laws relating to authorization, issuance or sale of securities.

(ii) If the Participant fails to accept delivery of the shares of Common Stock of the Company upon tender of delivery thereof, his or her right to exercise this Option with respect to such undelivered shares may be terminated by the Company.

4. Notification of Disposition. Participant agrees to notify the Company in writing, within thirty days, of any disposition (whether by sale, exchange, gift, or otherwise) of shares of Common Stock acquired by the Participant pursuant to the exercise of this Option within one year of the transfer of such shares to the Participant.

5. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of Shares subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

6. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

7. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

8. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

9. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 3 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

10. Transferability. The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution. Any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 10 shall be void and unenforceable against the Company or any Affiliate.

11. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

12. Non-Solicitation Covenants.

(a) **The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:**

(i) **solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;**

(ii) **solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;**

(iii) **directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.**

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 12 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

13. **Specific Performance.** The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 12 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

14. **Choice of Law.** THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

15. **Option Subject to Plan.** By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

16. **Signature in Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNIANIAN ENTERPRISES, INC.

By: _____
Ara K. Hovnanian
President, Chief Executive Officer and Chairman of the Board

PARTICIPANT

By: _____

2012 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

RESTRICTED SHARE UNIT AGREEMENT

Participant:

Date of Grant:

Number of RSUs:

Dates of Vesting of Class A Shares:

Date

Number of RSUs

1. Grant of RSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the number of restricted share units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2012 Company Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the RSUs in accordance with the schedule set forth above.

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable vesting date, a number of Class A Shares equal to the number of RSUs that became vested on that vesting date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, but only if such Retirement occurs on or after the first anniversary of the Date of Grant indicated above, the Company shall cause there to be transferred to the Participant, as soon as practicable but not later than 60 days after such termination, but subject to Section 16 of this Agreement, a number of Shares equal to the aggregate number of then unvested RSUs granted to the Participant under this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of RSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than death, Disability or Retirement occurring on or after the first anniversary of the Date of Grant indicated above, any unvested RSUs shall immediately terminate for no further consideration.

3. Dividends. If on any date while RSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of RSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of RSUs equal to: (a) the product of (x) the number of RSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of RSUs granted to the Participant shall be increased by a number equal to the product of (a) the RSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any RSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of RSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

9. Transferability. RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

(a) The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All RSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

16. 409A. Notwithstanding any other provisions of this Agreement or the Plan, this RSU shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class A Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.

By: _____
Ara K. Hovnanian
President, Chief Executive Officer and Chairman of the Board

PARTICIPANT

By: _____

2012 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
(Directors)

Participant:

Date of Grant:

Number of Class A Shares:

Grant Price:

Vesting Schedule:
Date

Number of Shares

Option Termination Date:

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the right to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class A Shares set forth above. This grant is made subject to the terms and conditions of the 2012 Company Stock Incentive Plan, (the "Plan"), which Plan is incorporated herein by reference and subject to the amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is not an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

2. Vesting. The Option will vest in accordance with the schedule set forth above, subject to Section 3 of this Agreement.

3. Exercise of Option.

(a) Period of Exercise.

(i) In General. The Options must be exercised before the Option Termination Date (the "Option Termination Date"). The Participant may exercise less than the full installment available to him under the Options, but he must exercise the Options in full shares of the Common Stock of the Company. The Participant is limited to ten exercises of the Options prior to the Option Termination Date.

(ii) Termination of Board of Directors Membership Other than Due to Death, Disability or Retirement. If, prior to the Option Termination Date, the Participant ceases to be a member of the Board of Directors (otherwise than by reason of death, Disability or Retirement), the nonvested portion of the Option shall be canceled and the vested portion of the Option, to the extent not previously exercised, shall remain exercisable until the earlier of (a) the Option Termination Date and (b) the sixtieth (60th) day after the date the Participant ceases to be a member of the Board of Directors, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. This Option shall be wholly void and of no effect after the Option Termination Date. For purposes of this Agreement, "Disability" shall mean disability within the meaning of Section 22(e)(3) of the Code, and "Retirement" shall mean termination as a member of the Board of Directors on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company immediately preceding such termination. For this purpose, "Service" means the period of service as a member of the Board of Directors immediately preceding Retirement, plus any prior periods of service as a member of the Board of Directors of one or more years' duration, unless they were succeeded by a period of non-service as a member of the Board of Directors of at least three years' duration.

(iii) Termination of Board of Directors Membership Due to Death. If, prior to the Option Termination Date, the Participant ceases to be a member of the Board of Directors due to the Participant's death, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and shall remain exercisable until the Option Termination Date, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. During such time, the Option will be exercisable by the person or persons to whom the Participant's rights under the Option shall pass by will or by the applicable laws of descent and distribution.

(iv) Termination of Board of Directors Membership Due to Disability. If prior to the Option Termination Date the Participant ceases to be a member of the Board of Directors due to the Participant's Disability, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and shall remain exercisable until the Option Termination Date by the Participant or his or her designated personal representative on the Participant's behalf, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

(v) Termination of Board of Directors Membership Due to Retirement. If prior to the Option Termination Date the Participant ceases to be a member of the Board of Directors due to the Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. Notwithstanding the preceding sentence (and without limiting the Participant's rights in connection with a Retirement), in the event of the Participant's Qualified Retirement, the Option, to the extent not previously exercised, shall remain exercisable until the Option Termination Date and shall then terminate together with all other rights under this Agreement. As used herein, the term "Qualified Retirement" means the Participant's termination as a member of the Board of Directors at or after reaching age 65 with at least 10 years of Service.

(b) Method of Exercise. Subject to the provisions of the Plan, the Options may be exercised by written notice to the Company stating the number of shares with respect to which it is being exercised and accompanied by payment of the Option Price (a) by certified or bank cashier's check payable to the order of the Company in New York Clearing House Funds, (b) by surrender or delivery to the Company of shares of its Common Stock that have been held by the Participant for at least six months (or such other period of time as may be determined by the Board of Directors), or (c) in any other form acceptable to the Company, together with payment or arrangement for payment of any minimum federal income or other tax required to be withheld by the Company. As soon as practical after receipt of such notice and payment, the Company shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant at the offices of the Company at 110 West Front Street, Red Bank, New Jersey, or such other place as may be mutually acceptable, or, at the election of the Company, by first class insured mail addressed to the Participant at his address shown in the employment records of the Company or at the location at which he is employed by the Company or subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery of Shares.

(i) The Company may postpone the time of delivery of certificates for shares of its Common Stock for such additional time as the Company shall deem necessary or desirable to enable it to comply with the listing requirements of any securities exchange upon which the Common Stock of the Company may be listed, or the requirements of the Securities Act of 1933 or the Securities Exchange Act of 1934 or any Rules or Regulations of the Securities and Exchange Commission promulgates thereunder or the requirements of applicable state laws relating to authorization, issuance or sales of securities.

(ii) If the Participant fails to accept delivery of the shares of Common Stock of the Company upon tender of delivery thereof, his or her right to exercise the Options with respect to such undelivered shares may be terminated by the Company

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of Shares subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Board and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms).

6. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

7. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 8 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

8. Transferability. The Options shall, during the Participant's lifetime, be exercisable only by the Participant, and neither it nor any right hereunder shall be transferable otherwise than by will or the laws of descent and distribution or be subject to attachment, execution or other similar process. Notwithstanding the foregoing, an Participant may transfer the Options in whole or in part by gift or domestic relations order to a family member of the Participant (a "Permitted Transferee") and, following any such transfer, such Options or portion thereof shall be exercisable only by the Permitted Transferee, provided that no such Options or portion thereof is transferred for value, and provided further that, following any such transfer, neither such Options or any portion thereof nor any right hereunder shall be transferable other than to the Participant or otherwise than by will or the laws of descent and distribution or be subject to attachment, execution or other similar process. For purposes of this paragraph, "family member" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate or otherwise dispose of his or her Options or of any right hereunder, except as provided for herein, or in the event of any levy or any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate his Options by notice to the Participant and it shall thereupon become null and void.

9. Choice of Law. **THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.**

10. Option Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

11. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNIANIAN ENTERPRISES, INC.

Ara K. Hovnanian
President, Chief Executive Officer and Chairman of the
Board

PARTICIPANT:

**2012 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN**

**RESTRICTED SHARE UNIT AGREEMENT
(Directors)**

Participant: _____ *Date of Grant:* _____

Number of RSUs: _____

Dates of Vesting of Class A Shares:

<u>Date</u>	<u>Number of RSUs</u>
_____	_____
_____	_____
_____	_____

1. Grant of RSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the number of restricted share units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2012 Company Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the RSUs in accordance with the schedule set forth above.

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable vesting date, a number of Class A Shares equal to the number of RSUs that became vested on that vesting date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant ceases to be a member of the Board of Directors due to (i) death, (ii) Disability or (iii) Retirement, but only if such Retirement occurs on or after the first anniversary of the Date of Grant indicated above, the Company shall cause there to be transferred to the Participant, as soon as practicable but not later than 60 days after such cessation, but subject to Section 13 of this Agreement, a number of Shares equal to the aggregate number of then unvested RSUs granted to the Participant under this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean disability within the meaning of Section 22(e)(3) of the Code, and "Retirement" shall mean termination as a member of the Board of Directors on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company immediately preceding such termination. For this purpose, "Service" means the period of service as a member of the Board of Directors immediately preceding Retirement, plus any prior periods of service as a member of the Board of Directors of one or more years' duration, unless they were succeeded by a period of non-service as a member of the Board of Directors of at least three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of RSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the date that the Participant ceases to be a member of the Board of Directors for any reason other than death, Disability or Retirement occurring on or after the first anniversary of the Date of Grant indicated above, any unvested RSUs shall immediately terminate for no further consideration.

3. Dividends. If on any date while RSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of RSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of RSUs equal to: (a) the product of (x) the number of RSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of RSUs granted to the Participant shall be increased by a number equal to the product of (a) the RSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any RSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an “Adjustment Event”), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of RSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Board and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms).

6. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company’s register of shareholders.

7. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

8. Transferability. RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 8 shall be void and unenforceable against the Company or any Affiliate.

9. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant ceases to be a member of the Board of Directors prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

10. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

11. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All RSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

12. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. 409A. Notwithstanding any other provisions of this Agreement or the Plan, this RSU shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class A Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.

Ara K. Hovnanian
President, Chief Executive Officer and Chairman of the
Board

PARTICIPANT:

2012 HOVNIANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

Participant:

Date of Grant:

Number of Class B Shares:

Grant Price:

Vesting Schedule:

Date

Number of Shares

Option Termination Date:

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnianian Enterprises, Inc., a Delaware Corporation (The "Company"), hereby grants the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class B Shares set forth above. This grant is made subject to the terms and conditions of the 2012 Company Stock Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and subject to amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is not an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

2. Vesting. This Option will vest in accordance with the schedule set forth above, subject to Section 3 of this Agreement.

3. Exercise of Option.

(a) Period of Exercise.

(i) In General. The Option must be exercised before the Option Termination Date set forth above (the "Option Termination Date"). The Participant may exercise less than the full installment available to him or her under this Option, but the Participant must exercise this Option in full shares of the Common Stock of the Company. The Participant is limited to ten exercises during the term of this Option.

(ii) Termination of Employment Other Than Due to Death, Disability or Retirement. If, prior to the Option Termination Date, the Participant ceases to be employed by the Company or a subsidiary thereof (otherwise than by reason of death, Disability or Retirement, the nonvested portion of the Option shall be canceled and the vested portion of the Option, to the extent not previously exercised, shall remain exercisable until the earlier of (a) the Option Termination Date and (b) the sixtieth (60th) day after the date of cessation of employment, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. This Option shall be wholly void and of no effect after the Option Termination Date. For purposes of this Agreement, "Disability" shall mean disability within the meaning of Section 22(e)(3) of the Code, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(iii) Termination of Employment Due to Death. If, prior to the Option Termination Date, the Participant ceases to be employed by the Company or a subsidiary thereof due to the Participant's death, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the Option Termination Date, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. During such time, the Option will be exercisable by the person or persons to whom the Participant's rights under the Option shall pass by will or by the applicable laws of descent and distribution.

(iv) Termination of Employment Due to Disability. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof by reason of Disability, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and shall remain exercisable until the Option Termination Date by the Participant or his or her designated personal representative on the Participant's behalf, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

(v) Termination of Employment Due to Retirement. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof due to Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder. Notwithstanding the preceding sentence (and without limiting the Participant's rights in connection with a Retirement), in the event of the Participant's Qualified Retirement, the Option, to the extent not previously exercised, shall remain exercisable until the Option Termination Date and shall then terminate together with all other rights under this Agreement. As used herein, the term "Qualified Retirement" means the Participant's termination of employment with the Company and its Subsidiaries at or after reaching age 65 with at least 10 years of Service.

(b) Method of Exercise. Subject to the provisions of the Plan, this Option may be exercised by written notice to the Company stating the number of shares with respect to which it is being exercised and accompanied by payment of the Option Price (a) by certified or bank cashier's check payable to the order of the Company in New York Clearing House Funds, (b) by surrender or delivery to the Company of shares of its Common Stock that have been held by the Participant for at least six months (or such other period of time as may be determined by the Board of Directors), or (c) in any other form acceptable to the Company together with payment or arrangement for payment of any federal income or other tax required to be withheld by the Company. As soon as practical after receipt of such notice and payment, the Company, shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant at the offices of the Company at 110 West Front Street, Red Bank, New Jersey, or such other place as may be mutually acceptable, or, at the election of the Company, by first-class insured mail addressed to the Participant at his or her address shown in the employment records of the Company or at the location at which he or she is employed by the Company or a subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery.

(i) The Company may postpone the time of delivery of certificates for shares of its Common Stock for such additional time as the Company shall deem necessary or desirable to enable it to comply with the listing requirements of any securities exchange upon which the Common Stock of the Company may be listed, or the requirements of the Securities Act of 1933 or the Securities Exchange Act of 1934 or any Rules or Regulations of the Securities and Exchange Commission promulgates thereunder or the requirements of applicable state laws relating to authorization, issuance or sale of securities.

(ii) If the Participant fails to accept delivery of the shares of Common Stock of the Company upon tender of delivery thereof, his or her right to exercise this Option with respect to such undelivered shares may be terminated by the Company.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of Shares subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 3 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

9. Transferability. The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution. Notwithstanding the foregoing, a Participant may transfer this option in whole or in part by gift or domestic relations order to a family member of the Participant (a "Permitted Transferee") and, following any such transfer such option or portion thereof shall be exercisable only by the Permitted Transferee, provided that no such option or portion thereof is transferred for value, and provided further that, following any such transfer, neither such option or any portion thereof nor any right hereunder shall be transferable other than to the Participant or otherwise than by will or the laws of descent and distribution or be subject to attachment, execution or other similar process. For purposes of this paragraph, "family member" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. Any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

(a) **The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:**

(i) **solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;**

(ii) **solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;**

(iii) **directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.**

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. **Specific Performance.** The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. **Choice of Law.** THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14. **Option Subject to Plan.** By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. **Signature in Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.

By: _____
Stephen D. Weinroth, Chair
Compensation Committee

PARTICIPANT

By: _____
Ara K. Hovnanian
President, Chief Executive Officer and Chairman of the
Board

CERTIFICATIONS
Exhibit 31(a)

I, Ara K. Hovnanian, certify that:

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

Date: September 10, 2012

/s/ Ara K. Hovnanian
Ara K. Hovnanian
Chairman, President and Chief Executive Officer

CERTIFICATIONS
Exhibit 31(b)

I, J. Larry Sorsby, certify that:

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

Date: September 10, 2012

/s/ J. Larry Sorsby

J. Larry Sorsby
Executive Vice President and Chief Financial Officer

Exhibit 32(a)

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

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

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

Date: September 10, 2012

/s/ Ara K. Hovnanian
Ara K. Hovnanian
Chairman, President and Chief Executive Officer

Exhibit 32(b)

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

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

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

Date: September 10, 2012

/s/ J. Larry Sorsby
J. Larry Sorsby
Executive Vice President and Chief Financial Officer

