

Hovnanian Enterprises, Inc.

1999 Annual Report



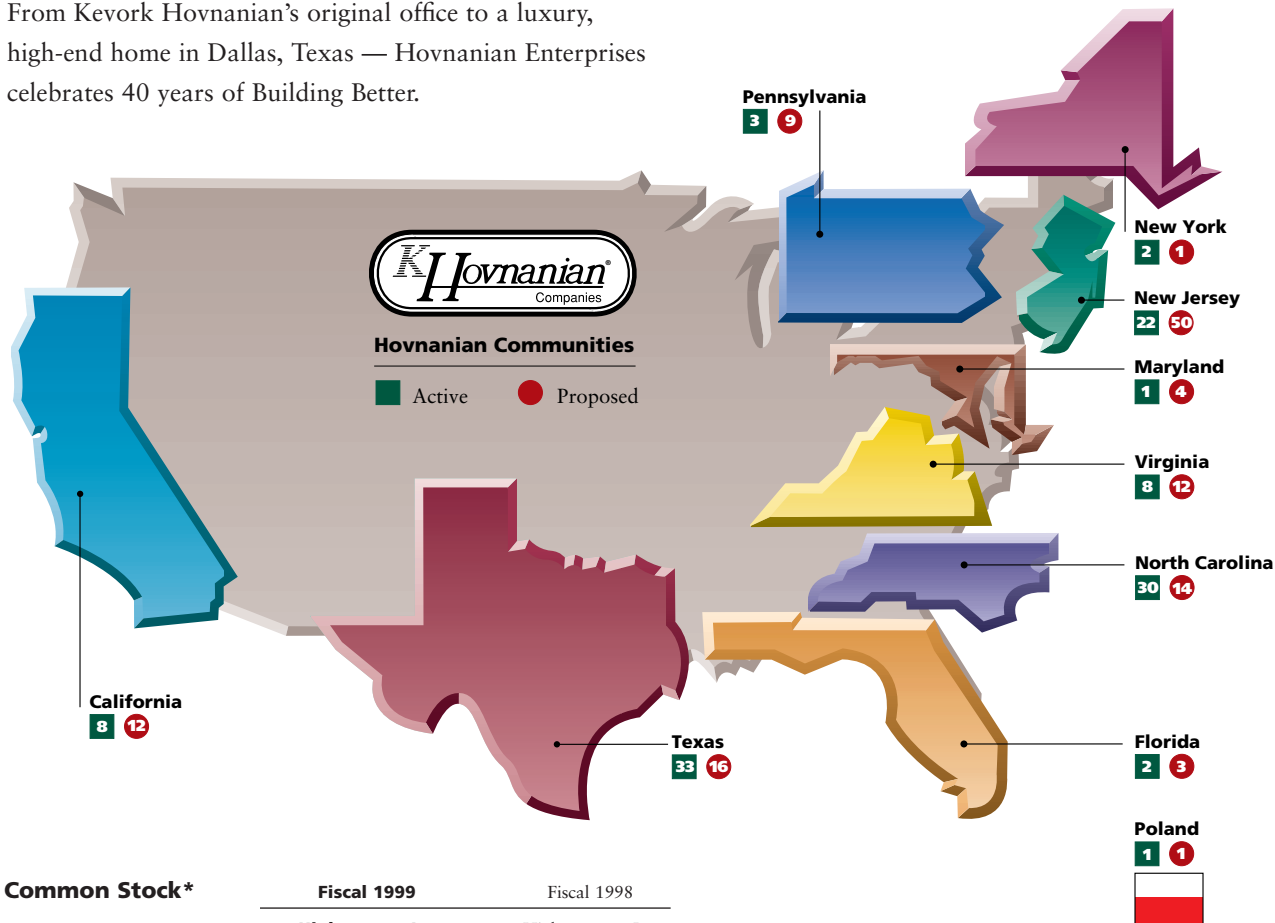
Hovnanian Enterprises, Inc.

Company Profile

As one of America's leading homebuilders, we design, build and sell a wide variety of home designs, from entry-level condominiums to luxury single family homes in planned communities in New Jersey, New York, Pennsylvania, California, Texas, North Carolina, Virginia, Maryland, Florida and Poland. We are proud of our reputation for building homes of superior quality and value. We also provide mortgage financing for our homebuyers. According to *Builder Magazine*, we are the fourteenth largest builder of for-sale housing in the nation. We employ 1,642 Associates.

About the Cover

From Kevork Hovnanian's original office to a luxury, high-end home in Dallas, Texas — Hovnanian Enterprises celebrates 40 years of Building Better.



Common Stock*

	Fiscal 1999		Fiscal 1998	
	High	Low	High	Low
First Quarter	\$9.25	\$7.75	\$ 9.25	\$6.50
Second Quarter	\$8.94	\$6.81	\$11.50	\$8.56
Third Quarter	\$9.50	\$7.88	\$11.19	\$8.50
Fourth Quarter	\$8.88	\$6.00	\$ 9.88	\$6.00

*At October 31, 1999 our Class A Common Stock was held by approximately 730 shareholders of record and our Class B Common Stock was held by approximately 629 shareholders of record.

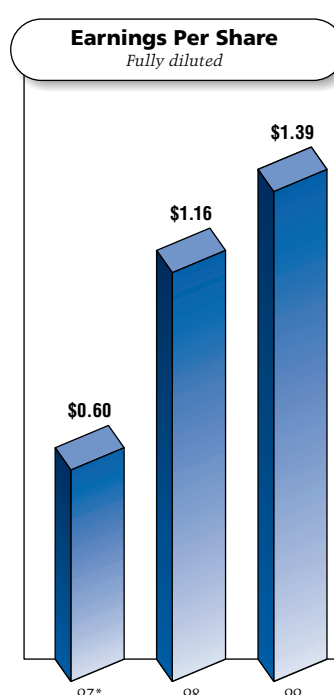
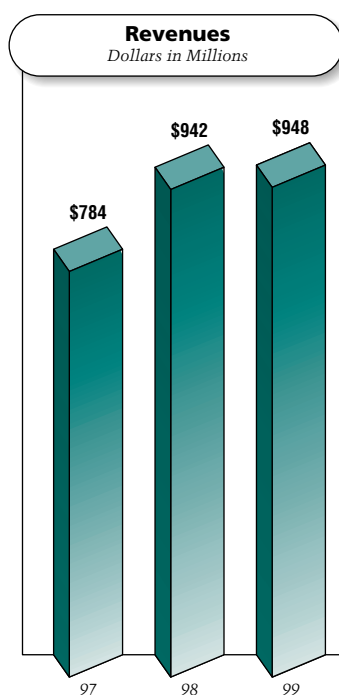
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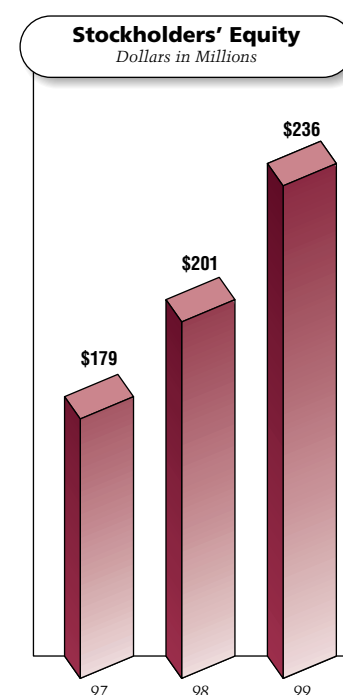
For additional information, visit our website at <http://www.khov.com>

For the Year Ended October 31,

	1999	1998	1997	1996	1995
Contracts, Deliveries and Backlog (Dollars in Millions)					
Net Sales Contracts	\$796.5	\$806.2	\$762.8	\$738.3	\$660.0
Deliveries	\$908.6	\$895.6	\$731.8	\$764.7	\$740.5
Contract Backlog at Year-End	\$460.7	\$381.8	\$374.3	\$292.4	\$275.7
Revenues and Income (Dollars in Millions)					
Total Revenues	\$948.3	\$941.9	\$784.1	\$807.5	\$777.7
Pre-tax Earnings (Loss)	\$ 50.6	\$ 41.3	\$ (12.1)	\$ 25.0	\$ 21.7
Net Income (Loss)	\$ 30.1	\$ 25.4	\$ (7.0)	\$ 17.3	\$ 14.1
EBITDA	\$ 89.4	\$ 85.0	\$ 57.1	\$ 64.0	\$ 59.3
Return on Average Stockholders' Equity	14.0%	13.4%	(3.8)%	9.3%	8.3%
Assets, Debt and Equity (Dollars in Millions)					
Total Assets	\$712.9	\$589.1	\$637.1	\$614.1	\$645.4
Total Recourse Debt	\$320.1	\$213.4	\$285.0	\$230.0	\$280.7
Stockholders' Equity	\$236.4	\$201.4	\$178.8	\$193.6	\$176.3
Earnings and Book Value Per Share (Shares in Thousands)					
Fully Diluted Earnings (Loss) Per Share	\$ 1.39	\$ 1.16	\$ (0.31)	\$ 0.75	\$ 0.61
Fully Diluted Weighted Average Shares Outstanding	21,612	22,016	22,506	23,120	23,032
Book Value Per Outstanding Share at Year-End	\$10.67	\$ 9.34	\$ 8.18	\$ 8.40	\$ 7.66



*Excluding the impact of writedowns and interest policy refinement



To Our Shareholders and Associates

It is appropriate that the millennium — with its promise of change and progress — follows on the heels of our 40th anniversary. Fiscal 1999 was a defining year for us. We have history to celebrate, record profits to announce and progress to report on improvement initiatives that will enable Hovnanian Enterprises to become *THE BEST* homebuilder in the nation. It is not simply growth and selective expansion that we seek, but overall excellence that is recognized by our customers, our Associates, our business partners and our shareholders.

The Best Year Ever

Our entire organization has been sharply focused on enhanced profitability and more intelligent use of resources in every business aspect. As a consequence, profits and margins continued to climb in fiscal 1999; in fact, we achieved the most profitable year in our history. While solid market conditions contributed to this success, we also benefited from many of our improvement initiatives.

For the fiscal year ended October 31, 1999, net income increased 18% to \$30.1 million, or \$1.39 per share, from \$25.4 million or \$1.16 per share in 1998. Total revenues in fiscal 1999 were \$948.3 million versus \$941.9 million in 1998. Homebuilding gross margins, excluding land sales, rose 360 basis points to 20.9% from 17.3% in 1998.

“Fiscal 1999 was a defining year for us. We have history to celebrate, record profits to announce and progress to report.”

These improvements are even more significant, as last year’s results included a \$0.13 per share gain from our exit of the investment properties business.

During 1999, we further strengthened our balance sheet. We ended the year with a strong 1.17:1 average debt to equity ratio despite two significant acquisitions late in the year and the repurchase of 772,900 shares of our Class A common stock. We also issued \$150 million of 9-1/8% Senior Notes due in 2009, and called in the remaining 11-1/4% Subordinated Notes due in 2002.

Reshaping Our Company

Early in fiscal 1999, we completed the divestiture of our commercial investment property business so that we could re-deploy our capital and focus our efforts on our core homebuilding and related financial services business lines.

One of our strategic goals is to become a dominant builder in select markets. During 1999, we forged a strategic alliance and made two key acquisitions that strengthened our position in two of the markets that we serve and added a promising new geographic market to our portfolio.

In our Northeast Region, we acquired The Matzel & Mumford Organization, Inc., a New Jersey-based luxury homebuilder. In the Metro DC market, we allied with Domain Builders, Inc. and thereby established a Metro DC North area. In Texas, we acquired the Goodman Family of Builders L.P., the 8th largest homebuilder in the Dallas/Fort Worth area. These acquisitions are expected to be accretive to our earnings in fiscal 2000.

Operating Highlights

1998

January

Gold Award, “Best Attached Home Community in America,” won by K. Hovnanian’s Jacobs Ferry.

March

Opened our first K. Hovnanian Home Design Gallery in Edison, New Jersey.

1999

December

Completed our exit from the commercial investment properties business.

February

Strategic alliance with Domain Builders, Inc. allows us to establish a Metro DC North area.

Excellence in Building

Recognition of our excellence came from our industry, as the National Association of Home Builders awarded Gold honors to our Jacobs Ferry community in New Jersey, across the Hudson River from Manhattan, naming it “The Best Attached Home Community in America.” Additionally, our Four Seasons at Historic Smithville community, near Atlantic City, New Jersey, won a Silver award as “Detached Community of the Year” and kept alive our remarkable streak of active adult lifestyle honors.

Looking Ahead

In 2000, we will once again focus on growing top line revenue, while continuing the bottom line profit progress we have achieved in recent years. Our growth for fiscal 2000 will come from outside the Northeast Region and includes a delivery forecast of over 700 homes in both California and North Carolina and over 900 homes in Texas. Increased home deliveries are also planned for our Metro DC Division. Over the next few years, we anticipate further expansion in each of our existing markets.

Although our existing communities are achieving evenness in quarterly deliveries, the opening of a record number of communities in fiscal 2000 will result in a significant weighting of fourth quarter deliveries. Opening expenses, combined with more of the deliveries coming later in the year, will push the bulk of our fiscal 2000 profits into our third and fourth quarters. However, we are confident about our financial prospects for the entire year. Following this surge of openings, we will work to balance our quarterly deliveries at higher volumes.

As we enter the 21st century, we will continue to build on the success and momentum that we achieved in 1999. Our Home Design Galleries will serve additional new communities, improving sales and profits. A Product Development Group has been formed and charged with offering standardized lines of value-engineered home designs. Initially, these efficient home designs will be used in our Metro DC, North Carolina and Northeast Region operations. Our first value engineered concepts, tested in two Northeast Region communities this year, yielded significant construction cost savings and were extremely well received by homebuyers. These more efficient home designs will be phased into production over a two-to-three year period as we open future communities.

To enhance productivity and profits, we are making a significant investment to streamline and standardize our processes and deploy a fully integrated enterprise-wide software system. We anticipate rolling our new processes and systems out as we open future communities. We are confident that our continued achievement of specifically-set goals will enable us to become *THE BEST* homebuilder in the nation.

On behalf of our Board of Directors, management and Associates, we thank you for your support and look forward to sharing our continued successes with you. Sincerely,



KEVORK S. HOVNANIAN
Founder and Chairman



ARA K. HOVNANIAN
*President and
Chief Executive Officer*

June

Opened Dominguez Hills in southern Los Angeles, CA, our first urban infill community outside the Northeast Region.

September

Purchased land for our first Four Seasons active adult community in Virginia.

May

Issued \$150 million of 9-1/8 Senior Notes due in 2009.

August

Acquired The Matzel & Mumford Organization, Inc., a builder of luxury homes in New Jersey.

October

Entered the Texas market by acquiring the Goodman Family of Builders L.P., prominent in Dallas/Fort Worth area.

Change and Success

Our vision of becoming *THE BEST* homebuilder in the nation, providing homebuyers with better homes at better prices and our shareholders with superior returns, calls for us to embrace change. We've discussed portions of our "building block" approach toward improvement and change in prior reports. During fiscal 1999, the success of our changes enabled a significant shift in our strategy. For the past few years, our improvement initiatives focused on profit growth, and we increased our margins and earnings despite flat revenues. Now, we are confident that these improvements are sustainable, and that they provide a strong base from which to add revenue growth to our focus. This confidence led to the acquisition of two homebuilders and a strategic alliance during 1999. We are now a billion-dollar company, with specific plans for continued growth to become a dominant, profitable homebuilder in each of the markets that we serve.

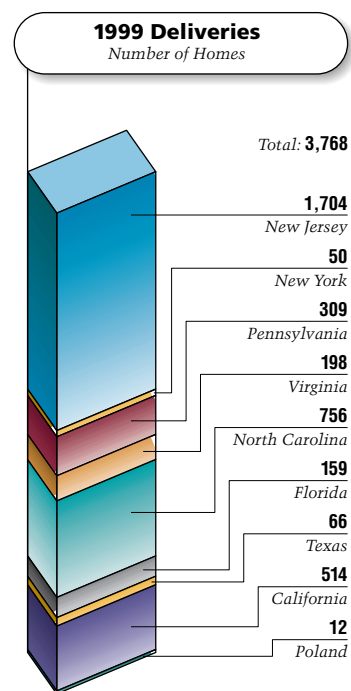
A second significant shift also occurred during 1999: our corporate culture turned a corner; improvement has become our way of business life. The scope of change at our Company is all encompassing. Our Associates participate in this carefully controlled quest, and every homebuilding function, program and technology is an improvement target. During 1999, testing began on our fully integrated enterprise-wide software planning and control system, which will enable us to deploy efficient standardized processes throughout the Company. An analysis of the benefits of such a change shows that our new processes and systems can achieve substantial annual cost savings. More important, however, will be our new way of operating. This will bring us closer to our goals and enable us to profitably grow a geographically diverse company with leading-edge technology into this new century. We have established a "program office" to coordinate our many improvement initiatives as the pieces of our building-block puzzle come together.

Satisfaction From Within

Our Associates are the backbone for our improvement and growth initiatives. We have high expectations for Organizational Development: we hire the best

Progress Report:

Homebuyers utilizing our Home Design Gallery have increased the value of decorator selections purchased by approximately 20%.



Celebrating the first 40 years

1959

Kevork S. Hovnanian emigrates to U.S. from Iraq and starts homebuilding company with three brothers.



First office

1969

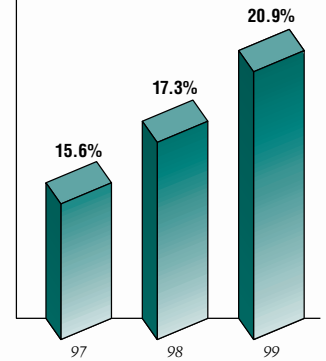
Splits amicably with brothers and founds K. Hovnanian Enterprises. Early products are shown above and at right.





With the assistance of interior design professionals, our homebuyers can personalize their homes at K. Hovnanian's Home Design Gallery, a state-of-the-art interactive decorator selection center. Pictured at left (clockwise from front) is the management team from our Edison, NJ Gallery: Gabe Pasquale, Rose Giles and Jodi Ann Stasse.

Homebuilding Gross Margin*



*excluding land and lot sales

1971

Hovnanian condominium townhouses (below) were advertised in the "Apartment Rental" section of local newspapers instead of "Homes for Sale". Ads (right) stressed the benefits of ownership versus renting.



Don't rent your honeymoon apartment!

Why rent your married life in a rented apartment when you can own a gorgeous townhouse with low, affordable lower monthly payments. The rental apartment offers no others nothing in the way of equity growth or tax advantages, whereas when you own your own Kingsley Square Town House you get every single financial advantage of a homeowner.

What's more at Kingsley Square, a lifetime maintenance care and your own. Shows your issue and takes care of all other maintenance related issues.

So what you have at Kingsley Square. An APARTMENT for 30 months. The care-free life of an apartment greater coupled with the superior financial benefit of a homeowner.

Town Houses at Kingsley Square include 2 and 3 bedrooms, central air conditioning, 1 1/2 and 2 1/2 baths, private fenced in garden. Kitchen with built in oven, sink, refrigerator, dishwasher and more. Recreational room, laundry room with washer and dryer, and lots of valuable storage space.

And it's just for something 120,000 combined from daily work you to mortgage or just on loan. All other transportation and highways are easily accessible.

So don't rent! See Kingsley Square Town House today. You can move at almost any time!

Specialize. Same time. Paying less than 100,000 may seem like a lot. It is. However, think about this. You have 30 months to pay for it. So you can have it for 30 months. It's a lot less than you think. See it all on our Home 2.0 line in Kingsley Square website. See it all and contact us now.

Phone: (800) 483-8972

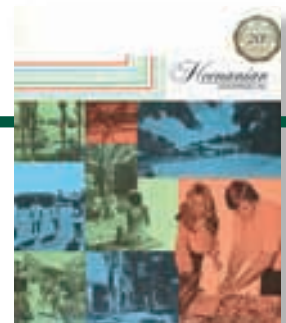
From **\$21,950** per month
From **\$244** per month
per sq ft

KINGSLEY SQUARE

On Route 9
Fleetwood Boca
New Jersey

Hovnanian
CONSTRUCTION

1979
20th Anniversary marketing literature (right) features lifestyle amenities at K. Hovnanian properties.



Associates and provide useful and ongoing training. Within our core homebuilding business line, we offer effective career pathing and have a management development program that identifies deserving candidates and moves them forward so that there truly is the opportunity to advance from within. Our goals include developing tomorrow's leaders, generating superior performance and enhancing Associate satisfaction. We believe we have become our industry's leader in working together with our Associates and allowing them to work with one another both in daily functions and improvement groups. Proof that these programs are working can be found in the following: during 1999, the voluntary turnover rate dropped from 28% in 1997 to 10% in 1999 and 84% of our Associates said they would recommend to a friend that they work for us, compared to a United States industry average of 65%.

Building a Better Home

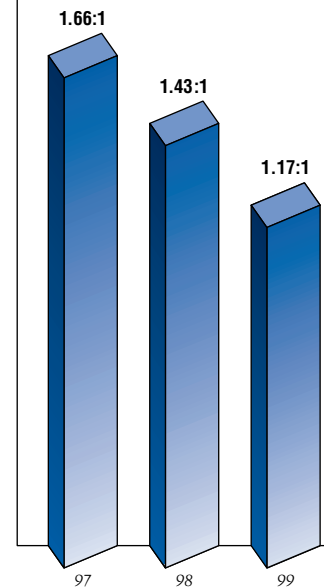
Offering better homes at better prices involves design, construction and marketing, all of which are currently being addressed through our improvement and change process. Market-driven consumer surveys define the type and features of homes we should be building within each sub-market. We are working towards standardizing our home designs: an efficiently designed model home with different finish levels, can gratify many different buyers across multiple geographic markets. Standardized home designs allow us to reduce architectural costs, simplify budgeting and ordering, and shorten the construction cycle time. We are also reducing the number of vendors and subcontractors that we deal with, negotiating national contracts, and improving communications to where we can schedule daily tasks for each individual home and arrange just-in-time materials delivery. To produce zero defect homes, we have improvement teams working to implement new processes which eliminate defects in such construction elements as windows, roofs, ceramic tile and vinyl flooring.

In Edison, New Jersey we have dedicated a sizable indoor facility for the testing of construction methods and materials, and the training of our own construction Associates and subcontractor personnel. We also build "idea houses" at selected communities, where the latest in potential design and features are showcased for consumer comment. Our latest idea home will

Progress Report:

Initial reports indicate that our efficient new home designs are more popular with consumers - compared with traditional designs for similar homes - while saving the Company approximately \$7,000 per home in materials and construction costs.

Average Debt-to-Equity Ratio



1978

Corporate headquarters opened in Red Bank, NJ.

1979

Ara Hovnanian joins management team.



1983

Company goes public and is listed on the American Stock Exchange.



Townhouse lottery draws more than 9,000

By LOIS McDONALD
Courier-News Staff Writer

BERNARDS — More than 9,000 hopeful home buyers have decided the price is right and will head for the Meadowlands tonight in hopes of winning a chance to buy one of 544 townhouses at the Society Hill project in a lottery being held by US Developer.

The lottery involving the first section of the 420-home townhouse and single-family home development will begin at 7 p.m. at

the Brendan Byrne Arena of the Meadowlands Sports Complex.

Applications went out two weeks ago and applicants had the choice of registering by mail or in person. The exact number of entrants has not been tallied yet, but was estimated at about 9,000 by Ed Zindone, a publicist for the developer, K. Hovnanian Inc. of Elid Bank.

Registration for tonight's lottery closed at 6 p.m. Sunday.

Hovnanian also has booked the New Jersey News cheerleaders and Dunkin', the New

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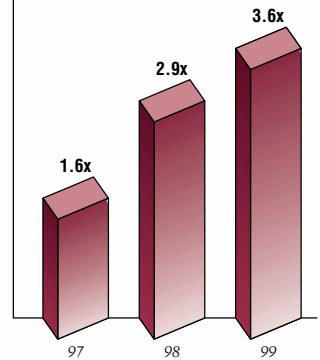
Jersey News cheerleaders and Dunkin', the New

Jersey News cheerleaders and Dunkin', the New



This home, at K. Hovnanian's Four Seasons at Mapleton (NJ) is one example of why Four Seasons has been honored as "America's Best Active Adult Lifestyle". Four Seasons communities are planned for each of our geographic markets. Associates who will help make this happen include: (clockwise from the front) Ara Hovnanian; Joe Riggs, Northeast Region President; Bob Karen, Southeast Region President and Nick Pappas, California Division President.

Interest Coverage
EBITDA/Interest incurred



1985
Crowds form at sales office and K. Hovnanian communities sell out on first day!

1986
Acquires New Fortis Corporation of North Carolina

NEWS BULLETIN

From: *The Financial Relations Board, Inc.*

FOR FURTHER INFORMATION:
AT THE COMPANY:
John A. Seltrop,
Senior Vice President



655 Third Avenue
New York, NY 10017
(212) 661-8030

FOR IMMEDIATE RELEASE
November 11, 1986

HOVNANIAN ENTERPRISES ACQUIRES 49% OF THE NEW FORTIS CORPORATION COMMON STOCK

Red Bank, New Jersey - November 11, 1986 - Kevork S. Hovnanian, Chairman and President of Hovnanian Enterprises, Inc. ("Hovnanian") (NYSE:HDV) and Marvin B. Gentry, Chairman and President of The New Fortis Corporation ("Fortis"), jointly announced that K. Hovnanian Companies of North Carolina, Inc. ("Hovnanian, North Carolina"), a wholly owned subsidiary of Hovnanian Enterprises, Inc., yesterday completed the purchase of 134,750 shares of Fortis Common Stock (approximately 49% of the total outstanding shares of Fortis from several Fortis shareholders, including its officers/principal shareholders). The total purchase price paid for the 134,750 shares was \$1,500,000 (\$11.13 per share).

BUSINESS

The Condo King
After developers miss profits, Hovnanian has built out major real estate portfolios nationwide. By Thomas Hovnanian

THE HOVNANIAN GROUP HAS BEEN A MAJOR FORCE IN THE DEVELOPMENT OF CONDOMINIUMS AND APARTMENTS THROUGHOUT THE UNITED STATES SINCE 1970. THE GROUP HAS DEVELOPED OVER 10 MILLION SQUARE FEET OF RESIDENTIAL SPACE IN 15 STATES AND 10 COUNTRIES. THE GROUP'S CONDO AND APARTMENT DEVELOPMENT HAS BEEN A MAJOR CONTRIBUTOR TO THE GROWTH OF THE HOVNANIAN GROUP SINCE 1970. THE GROUP HAS DEVELOPED OVER 10 MILLION SQUARE FEET OF RESIDENTIAL SPACE IN 15 STATES AND 10 COUNTRIES. THE GROUP'S CONDO AND APARTMENT DEVELOPMENT HAS BEEN A MAJOR CONTRIBUTOR TO THE GROWTH OF THE HOVNANIAN GROUP SINCE 1970.

test 150 new elements, from substantive construction materials to trendy decorative items. Those that “work,” from comfort, safety, cost and consumer desirability standpoints, can appear in our new communities within the year.

Our first Home Design Gallery, in Edison, New Jersey was opened during 1999 and has become an absolute success: Northeast Region customers tell us that it simplifies and enhances their homebuying experience. The Gallery, a national leader in its content and comprehensiveness, is a state-of-the-art interactive decorator selection center showcasing an extensive variety of both interior and exterior home features. Here, with assistance from interior design professionals, consumers can see and integrate their colors and textures, kitchen cabinetry, flooring, bathroom accessories, appliances and a wide variety of additional features that make a new home their own. Evidence that they are endorsing this concept can be seen by the increasing value of their purchases. Homes are sent to construction only after their new owners have completed Gallery selection: this greatly reduces the likelihood of change-caused construction delays.

Each of the above steps addresses better quality, lower costs, enhanced profitability and most importantly, a more delighted homebuyer.

Acquisitions

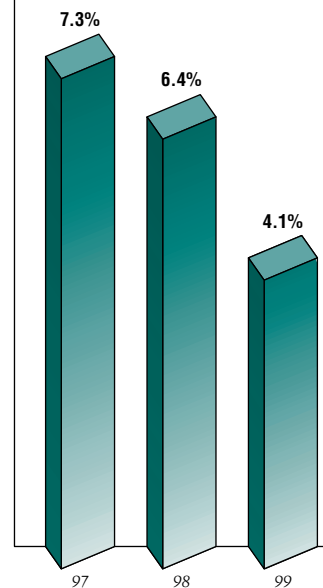
In February 1999, in keeping with our goal of becoming a dominant builder in each of the markets that we serve, we formed our Metro DC North area through a strategic alliance with the highly experienced management team of Domain Builders, Inc. This operation will complement and build on our existing presence in the Metro DC market. Domain, which profitably delivered 196 homes valued at \$28 million during 1998, will develop our Metro DC North area. Combined with our Metro DC South area, we anticipate deliveries of over 250 homes in Metro DC during 2000.

In August 1999, to strengthen our dominant position in our core Northeast Region, we acquired The Matzel & Mumford Organization, Inc., a luxury-market homebuilder based in Hazlet, New Jersey. This organization shares a similar culture to our own, with a focus on quality. It profitably delivered 287 homes, valued at \$117 million, during 1998, and it controls 2,500 prime home sites in New Jersey. Following the roll out of our new

Progress Report:

90% of K. Hovnanian homebuyers would recommend that their friends and family purchase our homes. This satisfaction translates into nationwide leadership, as approximately 21% of our buyers purchase a K. Hovnanian home based on the recommendation of family or friends.

Capitalized Interest as a % of Inventory



1988

Ara Hovnanian becomes President



The Record
SUNDAY, JUNE 11, 1989
NJ/NY
THE RECORD A-8

'Campers' finally get their condos

By Ruth Padover

After three days of standing, sitting, and waiting in the sun, two buildings finally got the stamped permits to get a deposit on the construction under the ground.

"I'll be all in living quarters," Santiago said in a burst of excitement, when he made a circle in another part of the drawing, and he couldn't wait to see the first deposit for one month.

The buildings — one is 10 and 1 to the other is 10 and 2 — are the first of 100 planned construction and low houses that will be built on the site of the former World II barracks.

People began queuing up Tuesday for the \$100,000 to \$150,000 and they had their money ready to go. The buildings are expected to be completed in 1990.

But when they signed, they were on the way of the park, to the new town described by the city as a "new town" with a mix of amenities and a mix of housing. The buildings are expected to be completed in 1990.

When the buildings are completed, they will be a mix of housing. The buildings are expected to be completed in 1990.

When the buildings are completed, they will be a mix of housing. The buildings are expected to be completed in 1990.

1989

Hovnanian builds housing for Armenian earthquake relief

The Record
SUNDAY, JUNE 11, 1989
NJ/NY
THE RECORD A-8

Builder supplies aid for Armenia

By Ruth Padover

New Jersey's largest homebuilder, K. Hovnanian Enterprises, Inc., has donated \$1 million to help build housing for Armenian earthquake victims.

The donation is the largest ever made by a private company to help build housing for earthquake victims.

The money will be used to build 100 units of housing in Armenia.

The units will be built in the earthquake zone of Armenia.

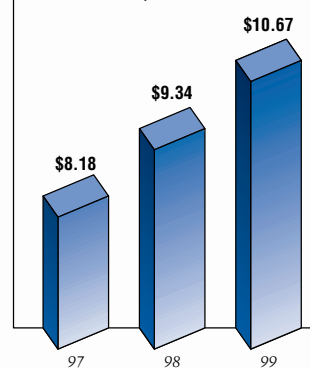
The units will be built in the earthquake zone of Armenia.

The units will be built in the earthquake zone of Armenia.



In two years, we have acquired three homebuilding companies and formed one strategic alliance. Our Matzel & Mumford division built this luxury home. Pictured clockwise from the front are the principals of these organizations: Bobby Ray of Goodman Family of Builders, LP; Prem Puri of PC Homes; Michael Reiser and Mark Stemen of Domain Builders; Chaman Puri, also of PC Homes; and Roger Mumford (center) of The Matzel & Mumford Organization, Inc.

Book Value Per Share
Fully diluted



1990
Hovnanian's Society Hill in Newark — a model for urban renewal



Hovnanian Enters Metro Washington D.C. Market

By John Scherff

In May of this year our Company opened a new homebuilding division in the Metro Washington, D.C. area (Virginia and Maryland). The area represents a market of significant depth and long-term potential. Washington, D.C. is a world class city of national and international politics, business and high technology.

Our new president is Brian McCreegan. Brian has several years of experience in the Maryland and Virginia markets. He also has had senior operating responsibilities for large national homebuilding companies Ryland, Pulte and L.J. Hooker.

About eighteen months ago Brian started up his own homebuilding company known as the Waterford Group. Waterford is currently completing three communities in suburban Virginia. As these communities close out, Waterford employees will join in our new division's activities.

The division's main office is in Fairfax, Virginia, although a move to larger space in a nearby office complex is anticipated. We are also pleased to report that Alan Rosen and John Ewing of the New Jersey North Division have decided to join in on the "ground floor" of our Metro Washington venture.

1992
Hovnanian enters Washington D.C. market

standardized processes and systems, Matzel & Mumford will be merged into our Northeast Region.

In October 1999, in keeping with our stated goal of entering one additional geographic market, we acquired Dallas, Texas-based Goodman Family of Builders L.P. Goodman is ranked as America's 87th-largest homebuilder by *Builder Magazine*, and is the 8th largest homebuilder in the promising Dallas/Ft. Worth market. In 1999, it expects to deliver 735 upscale entry and move-up homes valued at \$137 million; during fiscal 2000, delivery plans climb to 900 homes.

Managing Our Finances

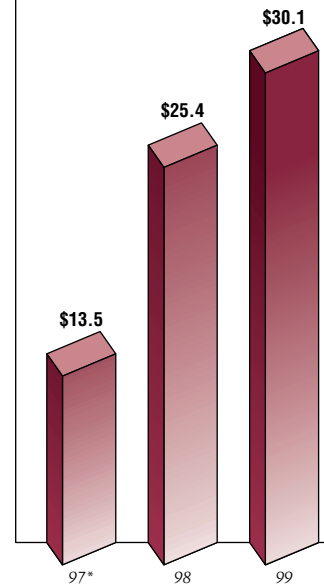
During 1999, we improved our credit statistics and strengthened our capital structure as we strive to improve our credit rating. In May, \$150 million of 9-1/8% Senior Notes due in 2009 were issued, and the remaining \$45.4 million principal amount of 11-1/4% Subordinated Notes due in 2002 were retired. We lowered our reliance on leverage and reduced our average debt-to-equity ratio to 1.17:1 in 1999, compared to ratios of 1.43:1 in 1998 and 1.66:1 in 1997. We increased our interest coverage from 1.6 times in 1997 to 3.6 times in 1999. Average homebuilding gross margins continued to rise, both on a quarter-to-quarter and year-to-year basis. Stockholders equity also climbed to \$236.4 million, or \$10.67 a share in 1999, versus 1998's \$201.4 million or \$9.34 a share and 1997's \$178.8 million or \$8.18 a share.

We feel confident that our shares are undervalued at the time of this writing. During 1999, we repurchased 772,900 shares of common stock at an average cost of \$8.19 per share. We were able to use some of these repurchased shares in the acquisitions we made during the year. Perhaps the duration of the strong market for housing, or the perception in some quarters that interest rates will rise and negatively impact the homebuilding industry, contribute to our weak share price. We have a book value of \$10.67 per share, improving margins, growing revenues and profits, a creative and dedicated group of Associates and a rigorous, focused plan for the future. We believe that there are good and profitable times ahead. We are confident that as the ambitious goals we have set for every operating group within our enterprise are achieved, our stock price will reflect our position as a growing leader in our industry.

Progress Report:

We are striving to improve our credit ratings. This quest has led to steadily improving financial ratios. Debt-to-Equity ratio has decreased from 1.66:1 in 1997 to 1.17:1 in 1999. In addition, Interest Coverage Ratio has improved from 1.6x in 1997 to 3.6x in 1999.

Net Income Dollars in Millions



*Excluding the impact of writedowns and interest policy refinement



1996 Starts 60 home townhouse project in Maly Kack, Poland

K. Hovnanian now building in Poland

What's it like bringing American home-building know-how to the market in Poland? For K. Hovnanian Companies - New Jersey's leading home builder and one of America's largest - the answer spelled success in its very first venture there. K. Hovnanian Poland, Inc.'s first community in Maly Kack, within the Baltic Sea coastal city of Gdynia, has already sold 60 townhomes. "We believe substantial economic growth lies ahead for Poland and for much of Central Europe," said Kevork S. Hovnanian, chairman and CEO. "Our Maly Kack community has allowed us to get an early start in this marketplace. All of our associates are Polish except for our division president, and they're helping us to gain a wealth of useful experience." He adds, "K. Hovnanian Poland has learned that most local home builders are smaller companies with limited capital.

K. Hovnanian Poland expects to build 107 townhomes at Maly Kack, all with an attached one-car garage. Two home designs reflect a blend of Polish tradition with American expertise. They include 1,200-square-foot models and one with about 1,400 square feet. A variety of options include a finished third floor that adds 300-400 square feet to the home, for a total of 1,500 to 1,800 square feet. Prices range, in dollar equivalents, from the mid-\$70,000s to the mid-\$90,000s, with the larger homes being more popular, said Mr. Hovnanian. Mortgages are available through the Polish-American Bank (PAB) or other lenders, but a high percentage of local buyers have chosen to pay in cash, Hovnanian said. For further information, call Hovnanian in the United States at 1-888-8HOVHOME, or in Poland, at 011-48-58.

BUILDER 100

Companies that have been among the 100 biggest volume home builders in the country since BUILDER started keeping track in 1994. See story on page 184.

Company	Highest rank
Carver	1
Pulte	1
Tremell Crow	1
Plyler	2
NVR	2
Houlihan and Broad	3
U.S. Home	4
an Water Homes	4
Weyerhaeuser	5
Lennar	7
A.G. Spawes	7
Hougejian	10
Lewis Homes	10
M.D.C.	12
Hansen Builders	14
LUCI Homes	15
Continental Homes	16
Edward Rose	21
Steward Pacific	41

Builder

Hovnanian is awarded NJIT medal

More than 400 people attended the New Jersey Institute of Technology's Celebration '98 Black Tie Benefit Dinner at the Harkness Plaza Hotel in Jersey City. The Nov. 3 dinner, which supports the university's Robert R. McCormick College, honored Kevork S. Hovnanian, founder and chairman of K. Hovnanian Enterprises. He is the first recipient of the NJIT President's Medal.



Kevork S. Hovnanian receives the first NJIT President's Medal from NJIT President Saeed K. Farooq.

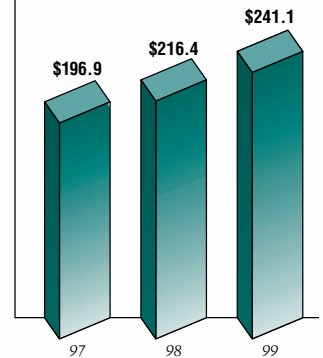
Hovnanian, chairman and CEO of Hovnanian Enterprises, and a member of the board of directors of Hovnanian Properties, Inc., is also chairman of Hovnanian International Properties, and a member of the board of directors of Hovnanian Tech Leasing Corp.

1996 Kevork S. Hovnanian is recipient of first NJIT President's Medal



Our California Division is now able to serve all types of local homebuyers, including active adult and families seeking luxury homes such as the design above at our Winchester community in Murrieta. Pictured clockwise from the front is a group of Company Construction Associates from our Northeast Region: Linda Ferraro, Glenn Cottrell, Dennis Gottstein and Keith Voetsch.

Average Sales Price
Dollars in Thousands



1997

Hovnanian launches website



1997

Recipient of prestigious National Housing Quality Award

1998

Hovnanian acquires P.C. Homes of Virginia strengthening operations in metro D.C.



Board of Directors



KEVORK S. HOVNANIAN (76) is the founder of the Company and has served as Chairman of the Board since its original incorporation in 1967. He served as Chief Executive Officer from 1967 through 1997. In 1996, the New Jersey Institute of Technology awarded Mr. Hovnanian a President's Medal for "Distinguished Achievement to an Outstanding Entrepreneur". In 1992, Mr. Hovnanian was granted one of five nationwide Harvard Dively Awards for Leadership in Corporate Public Initiatives.



ARA K. HOVNANIAN (42) has been Chief Executive Officer since 1997 after being appointed President in 1988 and Executive Vice President in 1983; joining the Company in 1979. In 1985, Governor Kean appointed Mr. Hovnanian to The Council on Affordable Housing and was reappointed to the Council in 1990 by Governor Florio. In 1994, Governor Whitman appointed him as member of the Governor's Economic Master Plan Commission. Mr. Hovnanian serves as a Member of the Advisory Council of PNC Bank, The Monmouth Real Estate Investment Corporation and is on the Boards of a variety of charitable organizations.



ARTHUR M. GREENBAUM, ESQ. (74) has been a senior partner of Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, a law firm since 1950.



DESMOND P. McDONALD* (72) was a Director of Midlantic Bank, N.A. from 1976 to December 1995, Executive Committee Chairman of Midlantic Bank, N.A. from August 1992 to December 1995 and was President of Midlantic Bank, N.A. from 1976 to June 1992. He was also a Director of Midlantic Corporation to December 1995 and was Vice Chairman of Midlantic Corporation from June 1990 to July 1992.



STEPHEN D. WEINROTH* (61) is Chairman of the Board of Core Laboratories N.V. He is also a senior partner in Andersen, Weinroth & Co. L.P., a merchant banking firm. He has held such positions since 1994 and the beginning of 1996 respectively. From November 1993 until December 1995 he was Co-Chairman and Co-Chief Executive Officer of VETTA Sports, Inc. From 1989 to the present, Mr. Weinroth has been Co-Chairman of the Board of Directors and Chairman of the Investment Committee of First Britannia N.V.



PAUL W. BUCHANAN (49) has been Senior Vice President and Corporate Controller since May 1990. Mr. Buchanan was elected a Director of the Company in March 1982. Mr. Buchanan is a CPA and prior to joining the Company, he was employed by Deloitte, Haskins & Sells.



PETER S. REINHART* (49) has been Senior Vice President and General Counsel since April 1985 and was elected Secretary of the Company in February 1997. Mr. Reinhart was elected a Director of the Company in December 1981.



J. LARRY SORSBY (44) has been Chief Financial Officer of the Company since 1996 and Senior Vice President and Treasurer since March 1991. He became a member of the Board in 1997. Prior to joining the Company in 1988, Mr. Sorsby was President and CEO of The MortgageBanque Inc., a wholly owned subsidiary of Gemcraft Inc. since 1985.

**Member of the Audit Committee*

Communities Under Development

Net Sales Contracts	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 1999	October 31, 1998	Percent Change	October 31, 1999	October 31, 1998	Percent Change
Northeast Region.....	1,885	2,375	(20.6)%	\$451,684	\$525,184	(14.0)%
North Carolina	728	690	5.5 %	140,619	130,280	7.9 %
Florida	123	164	(25.0)%	27,583	31,321	(11.9)%
Metro D.C.	232	170	36.5 %	53,862	40,548	32.8 %
California.....	524	439	19.4 %	115,937	75,031	54.5 %
Texas	25	N/A	N/A	5,416	N/A	N/A
Poland.....	18	39	(53.8)%	1,352	3,883	(65.2)%
Total	3,535	3,877	(8.8)%	\$796,453	\$806,247	(1.2)%

Contract Backlog	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 1999	October 31, 1998	Percent Change	October 31, 1999	October 31, 1998	Percent Change
Northeast Region.....	1,125	1,132	(0.6)%	\$286,149	\$270,753	5.7 %
North Carolina	207	235	(11.9)%	44,534	48,713	(8.6)%
Florida	37	73	(49.3)%	8,705	14,800	(41.2)%
Metro D.C.	149	115	29.6 %	34,484	26,083	32.2 %
California.....	129	119	8.4 %	34,313	20,721	65.6 %
Texas	261	N/A	N/A	51,610	N/A	N/A
Poland.....	13	7	85.7 %	865	746	16.0 %
Total	1,921	1,681	14.3 %	\$460,660	\$381,816	20.6 %

Deliveries	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 1999	October 31, 1998	Percent Change	October 31, 1999	October 31, 1998	Percent Change
Northeast Region.....	2,063	2,530	(18.5)%	\$560,586	\$595,873	(5.9)%
North Carolina	756	687	10.0 %	145,153	127,592	13.8 %
Florida	159	241	(34.0)%	36,566	44,168	(17.2)%
Metro D.C.	198	152	30.3 %	45,493	38,904	16.9 %
California.....	514	457	12.5 %	105,941	82,546	28.3 %
Texas	66	N/A	N/A	13,184	N/A	N/A
Poland.....	12	71	(83.1)%	1,630	6,561	(75.2)%
Total	3,768	4,138	(8.9)%	\$908,553	\$895,644	1.4 %

All statements in this Annual Report that are not historical facts should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to, changes in general economic conditions, fluctuations in interest rates, increases in raw materials and labor costs, levels of competition and other factors described in detail in the Company's Form 10-K for the year ended October 31, 1999.

Ten Year Financial Review

Years Ended October 31,

(In Thousands Except Number of Homes and Per Share Data)

	1999	1998	1997	1996
Statement of Operations Data:				
Total Revenue.....	\$948,287	\$941,947	\$784,136	\$807,464
Writedown of Inventory & Investment Properties..	\$ 2,091	\$ 5,032	\$ 28,465	\$ 1,608
Pre-Tax Income.....	\$ 50,617	\$ 41,292	\$ (12,124)	\$25,006
Net Income.....	\$ 30,075	\$ 25,403	\$ (6,970)	\$ 17,287
Net Income per common share				
Diluted.....	\$ 1.39	\$ 1.16	\$ (0.31)	\$ 0.75
Weighted Average Shares Outstanding ⁽²⁾	21,612	22,016	22,506	23,120
Balance Sheet Data:				
Cash	\$ 19,365	\$ 14,792	\$ 10,550	\$ 20,731
Inventory	\$527,121	\$375,733	\$410,393	\$376,307
Total Assets	\$712,861	\$589,102	\$637,082	\$614,111
Total Recourse Debt.....	\$320,125	\$213,449	\$285,000	\$230,000
Total Non-Recourse Debt.....	\$ 10,069	\$ 15,616	\$ 24,455	\$ 29,069
Stockholders' Equity.....	\$236,426	\$201,392	\$178,762	\$193,622
Supplemental Financial Data:				
EBIT	\$ 83,051	\$ 80,747	\$ 52,116	\$ 58,771
EBITDA.....	\$ 89,365	\$ 85,040	\$ 57,148	\$ 64,017
Cash Flow From Operating Activities	\$ 35,479	\$ 65,054	\$ (30,708)	\$ 45,797
Interest Incurred	\$ 24,594	\$ 28,947	\$ 34,777	\$ 35,551
EBIT/Interest Incurred	3.4x	2.8x	1.5x	1.7x
EBITDA/Interest Incurred.....	3.6x	2.9x	1.6x	1.8x
Financial Statistics:				
Average Recourse Debt/Average Equity	1.17:1	1.43:1	1.66:1	1.71:1
Homebuilding Inventory Turnover ⁽³⁾	2.2x	2.2x	1.8x	1.8x
Homebuilding Gross Margin.....	20.9%	17.3%	15.6%	16.4%
EBIT Margin	8.8%	8.6%	6.6%	7.3%
Return on Average Equity	14.0%	13.4%	(3.8)%	9.5%
Operating Statistics:				
Net Sales Contracts - Homes.....	3,535	3,877	4,073	4,175
Net Sales Contracts - Dollars	\$796,453	\$806,247	\$762,750	\$738,331
Deliveries - Homes	3,768	4,138	3,717	4,134
Deliveries - Dollars.....	\$908,553	\$895,644	\$731,807	\$764,682
Backlog - Homes	1,921	1,681	1,872	1,516
Backlog - Dollars.....	\$460,660	\$381,816	\$374,314	\$292,376

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

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

⁽³⁾ Derived by dividing total home and land sales by average homebuilding inventory.

Years Ended October 31,		Years Ended February 28,			
1995	1994 ⁽¹⁾	1994	1993	1992	1991
\$777,745	\$ 704,443	\$587,010	\$429,315	\$318,527	\$275,428
\$ 2,780	\$ 6,357	\$ 0	\$ 3,100	\$ 0	\$ 13,271
\$ 21,654	\$ 16,531	\$ 29,151	\$ 14,525	\$ 1,894	\$ (21,182)
\$ 14,128	\$ 11,477	\$ 18,645	\$ 9,790	\$ 2,478	\$ (15,245)
\$ 0.61	\$ 0.50	\$ 0.82	\$ 0.43	\$ 0.11	\$ (0.74)
23,032	22,906	22,821	22,775	21,988	20,695
\$ 15,453	\$ 17,437	\$ 28,094	\$ 17,065	\$ 15,889	\$ 15,793
\$404,413	\$ 386,540	\$278,738	\$243,391	\$194,306	\$206,941
\$645,378	\$ 612,925	\$539,602	\$465,029	\$399,455	\$437,930
\$280,650	\$ 299,200	\$200,000	\$167,157	\$134,873	\$188,169
\$ 29,049	\$ 29,884	\$ 28,941	\$ 35,008	\$ 28,569	\$ 27,752
\$176,335	\$ 162,130	\$171,001	\$151,937	\$141,989	\$125,421
\$ 55,178	\$ 48,247	\$ 51,681	\$ 39,894	\$ 24,351	\$ 15,587
\$ 59,273	\$ 51,906	\$ 54,716	\$ 42,818	\$ 27,239	\$ 18,539
\$ (3,358)	\$ (50,109)	\$ (13,293)	\$ (29,934)	\$ 37,816	\$ (15,742)
\$ 37,828	\$28,353	\$ 25,968	\$ 22,155	\$ 20,463	\$ 23,091
1.5x	1.7x	2.0x	1.8x	1.2x	0.7x
1.6x	1.8x	2.1x	1.9x	1.3x	0.8x
2.02:1	1.62:1	1.34:1	1.21:1	1.32:1	1.43:1
1.7x	2.0x	1.9x	1.7x	1.4x	1.1x
21.1%	20.7%	22.0%	22.8%	21.1%	15.0%
7.1%	6.8%	8.8%	9.3%	7.6%	5.7%
8.5%	6.9%	11.8%	6.8%	1.9%	(11.3)%
3,910	3,546	4,305	3,331	2,832	1,828
\$660,033	\$ 546,185	\$606,601	\$436,848	\$366,089	\$206,079
4,244	4,352	3,828	2,999	2,383	1,999
\$740,481	\$ 670,870	\$557,489	\$397,306	\$291,755	\$250,732
1,476	1,810	1,926	1,449	1,114	741
\$275,701	\$ 310,455	\$278,127	\$199,751	\$145,261	\$ 82,414

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

Capital Resources and Liquidity

Our cash uses during the twelve months ended October 31, 1999 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, the redemption of subordinated indebtedness, and the acquisition of two homebuilding companies. We provided for our cash requirements from housing and land sales, the issuance of \$150,000,000 Senior Notes, the revolving credit facility, the sale of commercial facilities, financial service income, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

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

In December 1998 the Board of Directors increased the stock repurchase program to purchase up to 3 million shares of Class A Common Stock. This authorization expires on December 31, 2000. As of October 31, 1999, 2,364,400 shares were repurchased under this program of which 772,900 were repurchased during the year ended October 31, 1999.

Our bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") which provides a revolving credit line and letter of credit line of up to \$275,000,000 through July 2002. Interest is payable monthly and at various rates of either the prime rate or Libor plus 1.45%. We believe that we will be able either to extend the Agreement beyond July 2002 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. As of October 31, 1999, borrowings under the Agreement were \$70,125,000.

The subordinated indebtedness issued by us and outstanding as of October 31, 1999 was \$100,000,000 9 3/4% Subordinated Notes due June 2005. On May 4, 1999, we issued \$150,000,000 9 1/8% Senior Notes due in April 2009. On June 7, 1999, we redeemed the remaining \$45,449,000 principal amount 11 1/4% Subordinated Notes due April 2002. The early retirement of these notes resulted in an extraordinary loss of \$868,000 net of income taxes of \$468,000. The remaining proceeds were used to reduce the outstanding balance on our "Revolving Credit Facility" to zero at that time and for general corporate purposes.

Our mortgage banking subsidiary borrows under a \$100,000,000 bank warehousing arrangement which expires in June 2000. Other finance subsidiaries formerly borrowed from a multi-builder owned financial corporation and a builder owned financial corporation to finance mortgage backed securities but in fiscal 1988 decided to cease further borrowing from multi-builder and builder owned financial corporations. These non-recourse borrowings have been generally secured by mortgage loans originated by one of our subsidiaries. As of October 31, 1999, the aggregate outstanding principal amount of such borrowings was \$33,733,000.

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

	October 31, 1999	October 31, 1998
Residential real estate inventory	\$527,121,000	\$375,733,000
Senior residential rental property	10,650,000	10,794,000
Total residential real estate	537,771,000	386,527,000
Commercial properties	109,000	17,832,000
Combined Total	\$537,880,000	\$404,359,000

Total residential real estate increased \$151,244,000 from October 31, 1998 to October 31, 1999 as a result of an inventory increase of \$151,388,000 less depreciation of senior residential rental property. The increase in residential real estate inventory was primarily due to the acquisition of two homebuilding companies during the quarter ended October 31, 1999 and increases in California where we expect to significantly grow our business in fiscal 2000. These increases were offset by a decrease in our Northeast Region where delivery of homes is expected to decrease in fiscal 2000. Residential homes under construction or completed and included in residential real estate inventory at October 31, 1999 are expected to be closed during the next twelve months. Most residential real estate, completed or under development, is financed through our line of credit, senior notes and subordinated indebtedness.

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

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

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
October 31, 1999:			
Owned	9,730	1,825	7,905
Optioned.....	17,078	96	16,982
Total.....	26,808	1,921	24,887
October 31, 1998:			
Owned	8,054	1,673	6,381
Optioned.....	13,668	8	13,660
Total	21,722	1,681	20,041

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

	October 31, 1999			October 31, 1998		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region ⁽¹⁾	114	31	145	180	16	196
North Carolina	129	—	129	93	—	93
Florida	5	—	5	24	6	30
Metro D.C.	13	9	22	23	11	34
California.....	53	10	63	78	21	99
Texas.....	225	28	253	—	—	—
Poland.....	14	—	14	11	—	11
Total.....	553	78	631	409	54	463

⁽¹⁾ Includes 6 unsold homes and 2 model homes from a New Jersey homebuilder acquired on August 7, 1999.

Prior to the second quarter of fiscal 1997, our commercial properties represented long-term investments in commercial and retail facilities completed or under development. At the end of the second quarter of fiscal 1997, we announced we were planning an orderly exit from the business of owning investment properties. During fiscal 1997 and 1998, we sold all our commercial facilities and a 50% owned partnership sold its retail center. During fiscal 1999 we sold three land parcels. See “Results of Operations - Investment Properties.”

Collateral Mortgage Financing - collateral for bonds payable consists of collateralized mortgages receivable which are pledged against non-recourse collateralized mortgage obligations. Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$32,844,000 and \$71,002,000 at October 31, 1999 and October 31, 1998, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale are being held as an investment. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

Results of Operations

Our operations consist primarily of residential housing development and sales in our Northeast Region (comprised primarily of New Jersey, southern New York state, and eastern Pennsylvania), in southeastern Florida, North Carolina, Metro D. C. (northern Virginia), southern California, Texas and Poland. Our Texas operations are the result of the acquisition of a Texas homebuilder on October 1, 1999. In addition, we had developed and operated commercial properties as long-term investments in New Jersey, and, to a lesser extent, Florida, but have exited this business (see “Investment Properties” below).

During the years ended October 31, 1999, 1998, and 1997, our Northeast Region, California Division and North Carolina Division housing operations consistently produced operating profits. In fiscal 1999, our Metro D.C. Division and Texas acquisition also produced profits. In 1999 and 1998, financial services operations were profitable. In addition, in 1998 and 1997 we earned profits from the liquidation of commercial properties. These profits have been reduced by net losses from our other housing divisions, corporate overhead, the writedown of certain residential inventories and commercial properties to their estimated fair value and the write-off of optioned properties and related approval, engineering and capitalized interest costs. See “Notes to Consolidated Financial Statements - Note 11”.

Prior to fiscal 1998, our first two quarters produced the least amount of deliveries for the year and the fourth quarter produced the most deliveries for the year, sometimes in excess of 40% of total homes delivered. In fiscal 1998 management made a concerted effort to change this trend using new management tools to focus on delivery evenness and through a new quarterly bonus incentive plan. The percentage distribution of deliveries for the last three years is as follows:

	Quarter Ended				Total
	January 31	April 30	July 31	October 31	
1999	22%	22%	25%	31%	100%
1998	24%	23%	26%	27%	100%
1997	16%	19%	25%	40%	100%

During the year ended October 31, 1999 a higher percentage was delivered in the fourth quarter due to the acquisition of two homebuilding companies. In fiscal 2000 we expect a higher percentage of deliveries later in the fiscal year resulting from the projected flow of deliveries from recent homebuilding company acquisitions and the timing of community grand openings in our Northeast Region and California Division.

Total Revenues

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Homebuilding:			
Sale of homes.....	\$12,909	\$163,837	\$(32,875)
Land sales and other revenues	1,998	(11,572)	8,371
Financial services	1,141	8,363	(481)
Investment properties.....	(9,544)	(2,646)	2,838
Collateralized mortgage financing.....	(164)	(171)	(1,181)
Total change	\$ 6,340	\$157,811	\$(23,328)
Percent change.....	0.7%	20.1%	(2.9%)

Homebuilding

Compared to the same prior period, housing revenues increased \$12.9 million or 1.4% for the year ended October 31, 1999, after increasing \$163.8 million or 22.4% for the year ended October 31, 1998, and decreasing \$32.9 million or 4.3% for the year ended October 31, 1997. Housing revenues are recorded at the time each home is delivered and title and possession have been transferred to the buyer.

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Northeast Region⁽¹⁾:			
Housing Revenues.....	\$560,586	\$595,873	\$445,817
Homes Delivered.....	2,063	2,530	2,128
North Carolina:			
Housing Revenues.....	\$145,153	\$127,592	\$125,242
Homes Delivered.....	756	687	695
Florida:			
Housing Revenues.....	\$ 36,566	\$ 44,168	\$ 74,146
Homes Delivered.....	159	241	418
Metro D.C.:			
Housing Revenues.....	\$ 45,493	\$ 38,904	\$ 14,398
Homes Delivered.....	198	152	70
California:			
Housing Revenues.....	\$105,941	\$ 82,546	\$ 69,252
Homes Delivered.....	514	457	365
Texas:			
Housing Revenues.....	\$ 13,184	—	—
Homes Delivered.....	66	—	—
Poland:			
Housing Revenues.....	\$ 1,630	\$ 6,561	\$ 2,952
Homes Delivered.....	12	71	41
Totals:			
Housing Revenues.....	\$908,553	\$895,644	\$731,807
Homes Delivered.....	3,768	4,138	3,717

⁽¹⁾ Fiscal 1999 includes \$31,961,000 housing revenues and 88 homes from a New Jersey homebuilder acquired on August 7, 1999.

The overall increase in housing revenues was the net result of increases in average sales prices offset by decreased deliveries. The increase in average sales prices during the year ended October 31, 1999 is primarily due to the increases in all markets except Metro D.C. The increased average sales prices in the Northeast Region and North Carolina were primarily attributed to the rise in base home prices and the sale of more decorator and structural options. In Florida, average sales prices increased as a result of fewer communities, all of which are higher priced single family developments. In Metro D.C., average sales prices decreased because of a change in product mix to smaller single family homes. In California, sales prices increased due to a change in product mix to larger, more expensive homes.

The decrease in homes delivered was primarily due to significant decreases in the Northeast Region and Florida while the other divisions increased deliveries slightly. The decrease in the Northeast Region was attributable to fewer communities open for sale. We expect the Northeast Region to stay at roughly the 2,000 home level in fiscal 2000 and then increase in fiscal 2001 due to an increase of active selling communities. In Florida, due to operating losses we decided to cut back operations in fiscal 1997 and have only one active community delivering homes in fiscal 2000. All other divisions increased home deliveries in 1999 due to the increase in the number of active selling communities. In fiscal 2000 we expect a significant home delivery increase in California. In addition, consolidated home deliveries will increase in fiscal 2000 due to a full year of operations in Texas.

Unaudited quarterly housing revenues and net sales contracts using base sales prices by market area for the years ending October 31, 1999, 1998, and 1997 are set forth below:

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

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

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 1998	July 31, 1998	April 30, 1998	January 31, 1998
Housing Revenues:				
Northeast Region.....	\$157,882	\$162,847	\$136,133	\$139,011
North Carolina	38,997	34,655	28,264	25,676
Florida	11,291	8,111	15,254	9,512
Metro D.C.	16,687	11,256	4,843	6,118
California.....	22,980	18,832	17,613	23,121
Poland.....	2,283	2,199	1,460	619
Total.....	\$250,120	\$237,900	\$203,567	\$204,057

Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$114,144	\$124,144	\$188,082	\$98,814
North Carolina	37,085	33,302	35,990	23,903
Florida	5,385	9,503	8,631	7,802
Metro D.C.	11,834	15,265	9,583	3,866
California.....	21,325	25,402	9,535	18,769
Poland.....	1,758	516	332	1,277
Total.....	\$191,531	\$208,132	\$252,153	\$154,431

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

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

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

<i>(Dollars in Thousands)</i>	October 31, 1999	October 31, 1998	October 31, 1997
Northeast Region ⁽¹⁾ :			
Total Contract Backlog	\$286,149	\$270,753	\$266,889
Number of Homes	1,125	1,132	1,287
North Carolina:			
Total Contract Backlog	\$ 44,534	\$ 48,713	\$ 45,879
Number of Homes	207	235	232
Florida:			
Total Contract Backlog	\$ 8,705	\$ 14,800	\$ 25,315
Number of Homes	37	73	150
Metro D.C.:			
Total Contract Backlog	\$ 34,484	\$ 26,083	\$ 7,621
Number of Homes	149	115	27
California:			
Total Contract Backlog	\$ 34,313	\$ 20,721	\$ 25,636
Number of Homes	129	119	137
Texas:			
Total Contract Backlog	\$ 51,610	—	—
Number of Homes	261	—	—
Poland:			
Total Contract Backlog	\$ 865	\$ 746	\$ 2,974
Number of Homes	13	7	39
Totals:			
Total Contract Backlog	\$460,660	\$381,816	\$374,314
Number of Homes	1,921	1,681	1,872

⁽¹⁾ Fiscal 1999 includes \$38,832,000 total contract backlog and 123 number of homes from a New Jersey home-builder acquired on August 7, 1999.

We have written down or written off certain residential inventories \$2.1, \$4.0 million, and \$14.0 million during the years ended October 31, 1999, 1998, and 1997, respectively, to their estimated fair value. See “Notes to Consolidated Financial Statements - Note 11” for additional explanation. These writedowns and writeoffs were incurred primarily because of lower property values, a change in the marketing strategy to liquidate a particular property, or the decision not to exercise an option.

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

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

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

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

	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
<i>(Dollars In Thousands)</i>			
Sale of homes	\$908,553	\$895,644	\$731,807
Cost of sales	718,259	740,871	617,312
Housing gross margin	<u>\$190,294</u>	<u>\$154,773</u>	<u>\$114,495</u>
Gross margin percentage	<u>20.9%</u>	<u>17.3%</u>	<u>15.6%</u>

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

	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Sale of homes	100.0%	100.0%	100.0%
Cost of sales:			
Housing, land and development costs	71.0	74.8	76.0
Commissions	2.0	1.9	2.0
Financing concessions	0.8	0.7	0.9
Overheads	5.3	5.3	5.5
Total cost of sales	<u>79.1</u>	<u>82.7</u>	<u>84.4</u>
Gross margin percentage	<u>20.9%</u>	<u>17.3%</u>	<u>15.6%</u>

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. During the year ended October 31, 1999, our gross margin percentage increased 3.6% from the previous year. This can be attributed to higher gross margins being achieved in each of our markets. Higher gross margins are primarily attributed to positive effects from process redesign and quality programs that reduced the housing and land development costs, selective price increases or reduced selling incentives in our stronger markets, and an increased percentage of deliveries from the better performing communities. Another factor affecting the gross margin percentage is in the Northeast Region gross margin percentages are higher compared to our other markets. In 1999, the gross margin was negatively affected by a lower percentage of housing revenues from the Northeast Region amounting to 61.7% in fiscal 1999 compared to 66.5% in fiscal 1998. In fiscal 2000 we expect margins to remain the same or decrease slightly. This is primarily the result of a higher percentage of deliveries coming from outside the Northeast Region where margins are historically lower.

During the year ended October 31, 1998, gross margins increased in all our markets compared to the prior year except Florida. The reasons for the increase in 1998 are the same as above for 1999. In addition, deliveries increased in the Northeast Region to 66.5% compared to the prior year of 60.9%.

Selling and general administrative expenses as a percentage of homebuilding revenues increased to 8.8% for the year ended October 31, 1999 from 7.5% for the year ended October 31, 1998 which had decreased from 8.2% for the year ended October 31, 1997. The dollar amount of selling and general expenses has increased the last two years to \$81.4 million for the year ended October 31, 1999 from \$67.5 million for the year ended October 31, 1998 which increased from \$62.5 million for the previous year. The overall percentage and dollar increases in such expenses in 1999 are attributable to increases in all our markets but primarily due to fewer deliveries in our Northeast Region and due to Northeast Region and California administration cost increases. The percentage decrease during the year ended October 31, 1998 was due to increased deliveries. The dollar increase in 1998 was due to increased administration and marketing costs.

Land Sales and Other Revenues

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

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Land and lot sales	\$12,077	\$8,636	\$22,855
Cost of sales.....	11,766	8,070	17,005
Land and lot sales gross margin	\$ 311	\$ 566	\$ 5,850

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

Financial Services

Financial services consists primarily of originating mortgages from our homebuyers, as well as from third parties, selling such mortgages in the secondary market, and title insurance activities.

During the year ended October 31, 1999 and 1998 financial services provided a \$1.0 and \$2.1 million pretax profit, respectively, up from break even in 1997. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 57%, 58%, and 51% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 1999, 1998, and 1997, respectively. Our mortgage banking goals are to improve profitability by increasing the capture rate of our homebuyers and expanding our business to include originations from unrelated third parties. During the years ended October 31, 1999 and 1998, third party loans amounted to 48% and 40%, respectively, of total mortgage closings. Most servicing rights on new mortgages originated by us will be sold as the loans are closed.

Investment Properties

Investment Properties consist of rental properties, property management, and gains or losses from sale of such property. See “Capital Resources and Liquidity” for information on our decision to sell our investment properties. We plan to liquidate all properties except for our senior rentals. At October 31, 1999, all properties except one small land parcel had been liquidated. During the year ended October 31, 1999 we sold three land parcels for a total sales price of \$20.8 million and recorded a net loss before income taxes of \$0.5 million. During the years ended October 31, 1998 and 1997, investment property revenues included a \$6.5 million pretax gain and a \$4.9 million pretax gain, respectively, from the sale of its commercial facilities and land. Investment properties’ expenses do not include interest expense (see “Interest” below).

Collateralized Mortgage Financing

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

Corporate General and Administrative

Corporate general and administrative expenses includes the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses were 3.0%, 2.2%, and 1.9% for the years ended October 31, 1999, 1998, and 1997, respectively. In 1999, the increase was primarily attributed to increased expenditures for long term improvement initiatives. In 1998, the increase was primarily attributed to increased bonus accruals (there were no bonus accruals based on the Return on Equity incentive program in 1997), increased depreciation from the amortization of capitalized process redesign costs in prior years and increased expenditures for long term improvement initiatives. Our long term improvement initiatives include total quality, process redesign (net of capitalized expenses), and training. Such initiatives resulted in additional expenses for the years ended October 31, 1999, 1998, and 1997 amounting to \$7.5 million, \$3.8 million, and \$2.2 million, respectively. Beginning in fiscal year 2000 we will be required to capitalize certain computer software development costs in accordance with SOP 98-1, “Accounting For the Costs of Computer Software Development For or Obtained For Internal Use”. We have not yet determined the impact on net income in connection with the adoption of SOP 98-1.

Interest

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Sale of homes	\$28,093	\$31,499	\$29,505
Land and lot sales	1,082	652	962
Rental properties.....	1,168	2,272	5,308
Total.....	\$30,343	\$34,423	\$35,775

Housing interest as a percentage of sale of home revenues amounted to 3.1%, 3.5%, and 4.0% for the years ended October 31, 1999, 1998, and 1997, respectively. The decrease in the percentage for the years ended October 31, 1999 and 1998 was primarily due to decreased levels of debt during the year compared to the prior year. This decrease is the result of management's goal to deleverage the Company, and debt reductions from cash generated by the liquidation of investment properties and earnings.

Other Operations

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

Total Taxes

Total taxes as a percentage of income before income taxes amounted to 38.9% and 36.7% for the years ended October 31, 1999 and 1998, respectively. Net tax benefits as a percentage of the loss before income taxes amounted to 42.5% for the year ended October 31, 1997. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If for some reason the combination of future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income. (See "Notes to Consolidated Financial Statements - Note 10" for an additional explanation of taxes.)

Extraordinary Loss

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

Year 2000 Issues

We have fully implemented a plan to resolve our information technology (“IT”) and non-IT system year 2000 issues. We designated a full-time year 2000 project leader, engaged consultants to review and evaluate our plan, completed the identification of our IT and non-IT noncompliant systems and evaluated subcontractors’ and suppliers’ state of readiness. Our plan prioritized our efforts on our software systems and computer hardware equipment. We believe we have upgraded, fixed or retired 100% of our critical noncompliant systems. All other IT and non-IT systems are not considered critical to our operations, and if noncapable for year 2000, would only be an inconvenience. The cost of implementing the plan did not have a material impact on earnings in fiscal 1999 and was funded through operations.

We are concerned about the readiness of our subcontractors and suppliers. We have communicated with 100% of these third parties. We have been informed that substantially all of the subcontractors and suppliers are year 2000 compliant. Any third parties whose lack of readiness as to year 2000 issues would have an impact on our operations are being replaced. In most cases, we use more than one subcontractor and supplier so finding replacements was not difficult.

We believe we have solved all significant year 2000 issues. We do not believe we will have material lost revenues due to the year 2000 issues. Based on the above, we did not develop a worst-case year 2000 scenario. However, we have a year 2000 contingency plan which, if necessary, is ready to implement.

Inflation

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

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between four to twelve months. Construction costs for residential buildings represent approximately 57% of our homebuilding cost of sales.

Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from FNMA, FHLMC, GNMA securities and private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 1999 and 1998, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV"). There have been no significant changes in our market risk from October 31, 1998 to October 31, 1999.

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

(Dollars in Thousands)	As of October 31, 1998 for the Year Ended October 31,					Total	FMV @ 10/31/98	
	1999	2000	2001	2002	2003			
Long Term Debt⁽¹⁾:								
Fixed Rate.....	\$ 115	\$119	\$132	\$50,804	\$2,581	\$100,685	\$154,436	\$145,186
Average interest rate.....	7.59%	7.62%	7.60%	10.70%	7.04%	9.74%	10.01%	—
Variable Rate....	\$1,932	\$600	\$926	—	—	—	\$ 3,458	\$ 3,458
Average interest rate.....	9.22%	8.00%	8.64%	—	—	—	8.85%	—

⁽¹⁾ Does not include bonds collateralized by mortgages receivable.

Consolidated Statements of Operations

	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
<i>(In Thousands Except Per Share Data)</i>			
Revenues:			
Homebuilding:			
Sale of homes	\$908,553	\$895,644	\$731,807
Land sales and other revenues (Note 12)	17,409	15,411	26,983
Total Homebuilding	925,962	911,055	758,790
Financial Services	20,239	19,098	10,735
Investment Properties (Note 12)	1,567	11,111	13,757
Collateralized Mortgage Financing	519	683	854
Total Revenues	948,287	941,947	784,136
Expenses:			
Homebuilding:			
Cost of sales	730,025	748,941	634,317
Selling, general and administrative	81,396	67,519	62,475
Inventory impairment loss (Note 11)	2,091	3,994	14,019
Total Homebuilding	813,512	820,454	710,811
Financial Services	19,195	17,010	10,780
Investment Properties:			
Operations	1,772	3,395	5,909
Provision for impairment loss (Note 11)		1,038	14,446
Total Investment Properties	1,772	4,433	20,355
Collateralized Mortgage Financing	504	672	878
Corporate General and Administrative (Note 3)	28,652	21,048	15,088
Interest	30,343	34,423	35,775
Other operations	3,692	2,615	2,573
Total Expenses	897,670	900,655	796,260
Income (Loss) Before Income Taxes and Extraordinary Loss	50,617	41,292	(12,124)
State and Federal Income Taxes:			
State (Note 10)	5,093	3,572	1,796
Federal (Note 10)	14,581	11,569	(6,950)
Total Taxes	19,674	15,141	(5,154)
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes (Note 8)	(868)	(748)	
Net Income (Loss)	\$ 30,075	\$ 25,403	\$ (6,970)
Per Share Data:			
Basic:			
Income (Loss) Per Common Share Before Extraordinary Loss	\$ 1.45	\$ 1.20	\$ (0.31)
Extraordinary Loss	(.04)	(.03)	
Income (Loss)	\$ 1.41	\$ 1.17	\$ (0.31)
Assuming Dilution:			
Income (Loss) Per Common Share Before Extraordinary Loss	\$ 1.43	\$ 1.19	\$ (0.31)
Extraordinary Loss	(.04)	(.03)	
Income (Loss)	\$ 1.39	\$ 1.16	\$ (0.31)

See notes to consolidated financial statements.

Consolidated Balance Sheets

<i>(In Thousands)</i>	October 31, 1999	October 31, 1998
Assets		
Homebuilding:		
Cash and cash equivalents (Note 5)	\$ 17,163	\$ 13,306
Inventories - At the lower of cost or fair value (Notes 7 and 11):		
Sold and unsold homes and lots under development	475,196	332,225
Land and land options held for future development or sale	51,925	43,508
Total Inventories	527,121	375,733
Receivables, deposits, and notes (Note 12).....	30,675	29,490
Property, plant, and equipment - net (Note 4).....	26,500	16,831
Prepaid expenses and other assets (Note 15).....	55,308	32,650
Total Homebuilding	656,767	468,010
Financial Services:		
Cash	2,202	1,486
Mortgage loans held for sale (Note 6).....	33,158	71,611
Other assets.....	1,563	3,717
Total Financial Services	36,923	76,814
Investment Properties:		
Held for sale:		
Land and improvements (Notes 4 and 11)	109	17,832
Other assets.....	556	295
Held for investment:		
Cash		762
Rental property - net (Note 4).....	10,650	10,794
Other assets.....	889	868
Total Investment Properties	12,204	30,551
Collateralized Mortgage Financing:		
Collateral for bonds payable (Note 6).....	5,006	5,970
Other assets.....	238	426
Total Collateralized Mortgage Financing	5,244	6,396
Income Taxes Receivable - Including deferred tax benefits (Note 10).....	1,723	7,331
Total Assets	\$712,861	\$589,102

See notes to consolidated financial statements.

<i>(In Thousands)</i>	October 31, 1999	October 31, 1998
Liabilities and Stockholders' Equity		
Homebuilding:		
Nonrecourse land mortgages (Note 7)	\$ 6,407	\$ 11,846
Accounts payable and other liabilities	73,057	53,765
Customers' deposits (Note 5)	25,647	23,857
Nonrecourse mortgages secured by operating properties (Note 7)	3,662	3,770
Total Homebuilding	108,773	93,238
Financial Services:		
Accounts payable and other liabilities	1,218	2,422
Mortgage warehouse line of credit (Notes 6 and 7)	30,034	66,666
Total Financial Services	31,252	69,088
Investment Properties:		
Accounts payable and other liabilities	932	1,373
Total Investment Properties	932	1,373
Collateralized Mortgage Financing:		
Accounts payable and other liabilities		6
Bonds collateralized by mortgages receivable (Note 6)	3,699	5,652
Total Collateralized Mortgage Financing	3,699	5,658
Notes Payable:		
Revolving credit agreement (Note 7)	70,125	68,000
Senior notes (Note 8)	150,000	
Subordinated notes (Note 8)	100,000	145,449
Accrued interest	11,654	4,904
Total Notes Payable	331,779	218,353
Total Liabilities	476,435	387,710
Commitments and Contingent Liabilities (Notes 5 and 14)		
Stockholders' Equity (Notes 12 and 13):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 17,218,442 shares in 1999 and 15,803,297 shares in 1998 (including 2,710,274 shares in 1999 and 1,937,374 shares in 1998 held in Treasury)	172	157
Common Stock, Class B, \$.01 par value-(convertible to Class A at time of sale)- authorized 13,000,000 shares; issued 7,997,083 shares in 1999 and 8,040,171 shares in 1998 (both years include 345,874 shares held in Treasury)	79	80
Paid in Capital	45,856	34,561
Retained Earnings (Note 8)	213,257	183,182
Treasury Stock - at cost	(22,938)	(16,588)
Total Stockholders' Equity	236,426	201,392
Total Liabilities and Stockholders' Equity	\$712,861	\$589,102

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

<i>(Dollars in Thousands)</i>	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount				
Balance, October 31, 1996	15,135,348	\$155	7,901,705	\$82	\$33,935	\$164,749	\$(5,299)	\$193,622
Conversion of Class B to Class A common stock	146,893	1	(146,893)	(1)				
Treasury stock purchases	(1,184,400)						(7,890)	(7,890)
Net Loss						(6,970)		(6,970)
Balance, October 31, 1997	14,097,841	156	7,754,812	81	33,935	157,779	(13,189)	178,762
Sale of Common Stock Under Employee Stock Option Plan	114,667				626			626
Conversion of Class B to Class A common stock	60,515	1	(60,515)	(1)				
Treasury stock purchases	(407,100)						(3,399)	(3,399)
Net Income						25,403		25,403
Balance, October 31, 1998	13,865,923	\$157	7,694,297	80	34,561	183,182	(16,588)	201,392
Sale of common stock under Employee Stock Option Plan	10,000	1			58			59
Acquisitions (Note 15)	1,362,057	13			11,237			11,250
Conversion of Class B to Class A common stock	43,088	1	(43,088)	(1)				
Treasury stock purchases	(772,900)						(6,350)	(6,350)
Net Income						30,075		30,075
Balance, October 31, 1999	14,508,168	\$172	7,651,209	\$79	\$45,856	\$213,257	\$(22,938)	\$236,426

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Cash Flows From Operating Activities:			
Net Income (Loss)	\$30,075	\$25,403	\$ (6,970)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	6,314	4,293	5,032
Loss (gain) on sale and retirement of property and assets	283	(6,189)	(4,760)
Extraordinary loss from extinguishment of Debt net of income taxes	868	748	
Deferred income taxes	3,056	1,987	(4,568)
Impairment losses	2,091	5,032	28,465
Decrease (increase) in assets:			
Mortgage notes receivable	46,012	(17,343)	4,332
Receivables, prepaids and other assets	(9,475)	6,410	(6,830)
Inventories	(53,592)	30,666	(48,105)
Increase (decrease) in liabilities:			
State and Federal income taxes	3,020	3,651	(7,325)
Customers' deposits	(1,269)	1,490	10,007
Interest and other accrued liabilities	9,203	2,235	3,726
Post development completion costs	3,293	4,438	(8,746)
Accounts payable	(4,400)	2,233	5,034
Net cash provided by (used in) operating activities	35,479	65,054	(30,708)
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets	19,094	30,436	14,997
Purchase of property	(13,381)	(3,135)	(3,156)
Acquisition of homebuilding companies	(12,249)		
Investment in and advances to unconsolidated affiliates	249	243	195
Investment in income producing properties	(843)	(3,844)	(11,099)
Net cash provided by (used in) investing activities	(7,130)	23,700	937
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes	850,320	632,531	1,139,780
Proceeds from senior debt	150,000		
Principal payments on mortgages and notes	(972,265)	(668,987)	(1,101,969)
Principal payments on subordinated debt	(46,302)	(45,284)	(10,000)
Purchase of treasury stock	(6,350)	(3,399)	(7,890)
Proceeds from sale of stock	59	626	
Net cash provided by (used in) financing activities	(24,538)	(84,513)	19,921
Net Increase (Decrease) In Cash	3,811	4,241	(9,850)
Cash and Cash Equivalent Balance, Beginning Of Year	15,554	11,313	21,163
Cash and Cash Equivalent Balance, End Of Year	\$19,365	\$15,554	\$11,313
Supplemental Disclosures Of Cash Flow:			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$23,731	\$35,315	\$35,869
Income Taxes	\$16,257	\$12,303	\$ 6,809
Non-cash Investing and Finance Activities:			
Debt assumed on sale of property and assets		\$13,530	
Stock issued for acquisitions	\$11,250		

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 1999, 1998, and 1997

1. Basis of Presentation and Segment Information

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

Segment Information - Statement of Financial Accounting Standards No. 131 ("FAS 131") "Disclosures About Segments of an Enterprise and Related Information" established new standards for segment reporting based on the way management organizes segments within a company for making operating decisions and assessing performance. Our financial reporting segments consist of homebuilding, financial services, collateralized mortgage financing, and corporate. Our homebuilding operations comprise the most substantial part of our business, with approximately 97% of consolidated revenues in years ended October 31, 1999, 1998, and 1997 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in more than 110 new home communities in New Jersey, Pennsylvania, New York, Florida, North Carolina, Virginia, California, Texas and Poland. We offer a wide variety of homes that are designed to appeal to first time buyers, first and second time move up buyers, luxury buyers, active adult buyers and empty nesters. Our financial services operations provide mortgage banking and title services to the homebuilding operations' customers and third parties. We do not retain or service the mortgages that we originate but rather, sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety. Assets, liabilities, revenues and expenses of our reportable segments are separately included in the consolidated balance sheets and consolidated statements of operations.

2. Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements.

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

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

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

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

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

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

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

Property - Historically, our rental operations arose primarily from rental of commercial properties. All commercial rental property has been liquidated as of October 31, 1998. At October 31, 1999 we own two senior residential rental properties.

Intangible Assets - Any intangible assets acquired by us are amortized on a straight line basis over its useful life. Goodwill resulting from company acquisitions during the year ended October 31, 1999 is being amortized over 10 years and reported in the consolidated statements of income as "Other Operations". During the years ended October 31, 1999, 1998, and 1997, goodwill amortization amounted to \$261,000, \$134,000, and \$134,000, respectively. The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the company acquired over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows. In addition, we assess long-lived assets for impairment under FAS 121. Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable.

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

Advertising Costs - Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 1999, 1998, and 1997, advertising costs expensed amounted to \$11,995,000, \$10,531,000, and \$12,559,000, respectively.

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

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

On December 10, 1998, our Board of Directors approved an increase in the stock repurchase plan to purchase up to 3 million shares. The 3 million shares equals 13.0% of our total and outstanding shares as of December 16, 1996 when the initial repurchase plan was approved by the Board. As of October 31, 1999, 2,364,400 shares have been repurchased under this program.

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

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

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

Per Share Calculations - Statement of Financial Accounting Standards No. 128 ("FAS 128") "Earnings Per Share" requires the presentation of basic earnings per share and diluted earnings per share, and is effective for annual periods ending after December 15, 1997. We adopted FAS 128 in the year ended October 31, 1998. Basic earnings per common share is computed using the weighted average number of shares outstanding and is the same calculation as reported in prior years. Basic weighted average shares outstanding at October 31, 1999, 1998, and 1997 amounted to 21,404,473 shares, 21,781,105 shares, and 22,409,063 shares, respectively. Diluted earnings per common share has been presented for prior years and is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 208,000, 235,000, and 97,000 for the years ended October 31, 1999, 1998, and 1997, respectively.

Accounting Pronouncements Not Yet Adopted - In March 1998, the AICPA issued SOP-98-1, Accounting For the Costs of Computer Software Developed For or Obtained For Internal Use. We plan to adopt the SOP on November 1, 1999. The SOP will require the capitalization of certain costs incurred after the date of adoption in connection with developing or obtaining software for internal use. We currently expense such costs as incurred. We have not yet determined the impact on net income or earnings per share in connection with the adoption of SOP 98-1.

Reclassifications - Certain amounts in the 1998 and 1997 consolidated financial statements have been reclassified to conform to the 1999 presentation.

3. Corporate Initiatives

We have embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administrative is \$7,502,000, \$3,756,000, and \$2,216,000 for the years ended October 31, 1999, 1998, and 1997, respectively, related to such initiatives.

4. Property

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business. Homebuilding accumulated depreciation related to these assets at October 31, 1999 and October 31, 1998 amounted to \$19,550,000 and \$15,088,000, respectively. We owned and held for sale three parcels of commercial land at October 31, 1998. During the three months ended January 31, 1999 we sold the three land parcels for a total sales price of \$20.8 million and recorded a loss before income taxes of \$0.5 million. At October 31, 1999 all commercial facilities and land (except for one small parcel) have been liquidated. We are retaining two senior citizen residential rental communities. Accumulated depreciation on rental property at October 31, 1999 and October 31, 1998 amounted to \$2,211,000 and \$1,826,000, respectively.

5. Escrow Cash

We hold escrow cash amounting to \$5,578,000 and \$4,775,000 at October 31, 1999 and October 31, 1998, respectively, which primarily represents customers' deposits which are restricted from use by us. We are able to release escrow cash by pledging letters of credit. At October 31, 1999 and October 31, 1998, \$10,000,000 and \$14,000,000 was released from escrow and letters of credit were pledged, respectively. Escrow cash accounts are substantially invested in short-term certificates of deposit or time deposits.

6. Mortgages and Notes Receivable

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market, servicing released, or prior to February 28, 1987 pledged against, collateralized mortgage obligations ("CMOs"). At October 31, 1999 and October 31, 1998, respectively, \$32,844,000 and \$71,002,000 of such mortgages were pledged against our mortgage warehouse line (see "Notes to Consolidated Financial Statements - Note 7"). We may incur risk with respect to mortgages that are delinquent and not pledged against CMOs, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 1999.

7. Mortgages and Notes Payable

Substantially all of the nonrecourse land mortgages are short-term borrowings. Nonrecourse mortgages secured by operating properties are installment obligations having annual principal maturities in the following years ending October 31, of approximately \$119,000 in 2000, \$132,000 in 2001, \$138,000 in 2002, \$2,585,000 in 2003, \$74,000 in 2004 and \$613,000 after 2004. The interest rates on these obligations range from 7.000% to 8.375%.

We have an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$275,000,000 through July 2002. Interest is payable monthly and at various rates of either the prime rate or LIBOR plus 1.45%. In addition, we pay a fee equal to .325% per annum on the weighted average unused portion of the line.

Interest costs incurred, expensed and capitalized were:

(Dollars In Thousands)	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Interest incurred ⁽¹⁾ :			
Residential ⁽³⁾	\$23,426	\$26,675	\$29,469
Commercial ⁽⁴⁾	1,168	2,272	5,308
Total incurred.....	\$24,594	\$28,947	\$34,777
Interest expensed:			
Residential ⁽³⁾	\$29,175	\$32,151	\$30,467
Commercial ⁽⁴⁾	1,168	2,272	5,308
Total expensed.....	\$30,343	\$34,423	\$35,775
Interest capitalized at beginning of year.....	\$25,545	\$35,950	\$39,152
Plus acquired entity interest.....	3,397		
Plus interest incurred.....	24,594	28,947	34,777
Less interest expensed.....	30,343	34,423	35,775
Less impairment write-off.....		460	1,220
Less sale of assets.....	1,227	4,469	984
Interest capitalized at end of year.....	\$21,966	\$25,545	\$35,950
Interest capitalized at end of year:			
Residential ⁽³⁾	\$21,516	\$23,868	\$29,804
Commercial ⁽²⁾	450	1,677	6,146
Total interest capitalized.....	\$21,966	\$25,545	\$35,950

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

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

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

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

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

(Dollars In Thousands)	October 31, 1999	October 31, 1998	October 31, 1997
Average outstanding borrowings.....	\$ 55,495	\$ 98,090	\$133,760
Average interest rate during period.....	9.2%	8.4%	8.2%
Average interest rate at end of period ⁽¹⁾	7.2%	6.9%	7.8%
Maximum outstanding at any month end.....	\$117,085	\$125,325	\$184,550

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

In addition, we have a secured mortgage loan warehouse agreement with a group of banks which provides up to \$100,000,000 through June 27, 2000. Interest is payable monthly and at various rates. The interest rate at October 31, 1999 was 6.4%.

8. Senior and Subordinated Notes

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

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

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

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain restrictions on the payment of cash dividends. At October 31, 1999, \$35,415,000 of retained earnings were free of such restrictions.

The fair value of both the Senior Notes and Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The fair value of the Senior Notes and Subordinated Notes is estimated at \$143,250,000 and \$94,500,000, respectively, as of October 31, 1999.

9. Retirement Plan

In December 1982, we established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$1,976,000, \$1,523,000, and \$1,520,000 for the years ended October 31, 1999, 1998, and 1997, respectively.

10. Income Taxes

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

<i>(In Thousands)</i>	October 31, 1999	October 31, 1998
State income taxes:		
Current	\$ 437	\$ 2,897
Deferred	(758)	(1,495)
Federal income taxes:		
Current	4,311	36
Deferred	(5,713)	(8,769)
Total	\$(1,723)	\$(7,331)

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Current income tax expense:			
Federal ⁽¹⁾	\$13,253	\$ 9,177	\$(2,381)
State ⁽²⁾	4,954	3,484	2,051
	18,207	12,661	(330)
Deferred income tax expense:			
Federal	860	1,989	(4,569)
State	139	88	(255)
	999	2,077	(4,824)
Total	\$19,206	\$14,738	\$(5,154)

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

⁽²⁾ The current state income tax expense is net of the use of state loss carryforwards amounting to \$5,860,000, \$8,495,000, and \$13,439,000 for the years ended October 31, 1999, 1998, and 1997.

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

<i>(In Thousands)</i>	October 31, 1999	October 31, 1998
Deferred tax assets:		
Deferred income	\$ 40	\$ 40
Maintenance guarantee reserves	711	701
Provision to reduce inventory to net realizable value.....	—	136
Inventory impairment loss	2,545	6,077
Uniform capitalization of overhead	3,365	2,967
Post development completion costs	4,238	1,379
State net operating loss carryforwards.....	29,440	27,205
Other.....	1,378	843
Total.....	41,717	39,348
Valuation allowance ⁽³⁾	(29,440)	(27,205)
Deferred tax assets.....	12,277	12,143
Deferred tax liabilities:		
Deferred interest	31	31
Installment sales	137	137
Accelerated depreciation.....	2,916	1,711
Acquisition goodwill.....	2,722	—
Total.....	5,806	1,879
Net deferred tax assets.....	\$6,471	\$10,264

⁽³⁾ The net change in the valuation allowance of \$2,235,000 results from an increase in the separate company state net operating losses that may not be fully utilized.

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

	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Computed "expected" tax rate	35.0 %	35.0 %	(35.0)%
State income taxes, net of Federal income tax benefit.....	6.5 %	6.0 %	11.6 %
Company owned life insurance.....	(.1)%	(1.6)%	(6.2)%
Low income housing tax credit.....	(2.8)%	(3.4)%	(11.2)%
Other4 %	.7 %	(1.9)%
Effective tax rate.....	39.0 %	36.7 %	(42.7)%

We have state net operating loss carryforwards for financial reporting and tax purposes of \$359,000,000 due to expire between the years October 31, 2000 and October 31, 2014.

11. Reduction of Inventory to Fair Value

In accordance with FAS 121, we record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cashflows estimated to be generated by those assets are less than their related carrying amounts. As of October 31, 1998 and 1997, inventory with a carrying amount of \$3,077,000 and \$33,143,000, respectively, was written down by \$353,000 and \$9,258,000, respectively, to its fair value. This was based on our evaluation of the expected revenue, cost to complete including interest and selling cost. The writedown during the year ended October 31, 1998 was attributed to one community in Florida where homes are being discounted to accelerate sales. The writedowns during the year ended October 31, 1997 were attributable to numerous communities in Florida after we decided to reduce our investment in that state and two communities in New Jersey resulting from a product type change and unforeseen development costs.

Also in accordance with FAS 121, we record impairment losses on inventories and long-lived assets held for sale when the related carrying amount exceeds the fair value less the selling cost. As of October 31, 1999, 1998 and 1997, inventory and commercial properties with a carrying amount of \$4,539,000, \$4,629,000 and \$32,008,000, respectively, was written down by \$1,801,000, \$2,588,000 and \$12,690,000, respectively, to its fair value. The writedowns during the year ended October 31, 1999 were attributed to one land parcel in Florida and two residential communities in North Carolina. The Florida land parcel was written down based on recent purchase offers. The communities were written down based on our decision to discontinue selling homes and offer the

remaining lots for sale. The writedowns during the year ended October 31, 1998 were attributed to one parcel of land being sold as lots and a commercial retail center parcel of land which incurred higher land development costs, both in New Jersey. The writedowns during the year ended October 31, 1997 were attributable to four residential parcels of land in Florida, one residential parcel of land in New Jersey, one multi-use commercial parcel of land in New Jersey and two Florida commercial facilities with expansion land attached to one facility. During the year ended October 31, 1998, when these commercial facilities were liquidated, we recovered the carrying value. During the years ended October 31, 1999, 1998 and 1997, we recovered the carrying value or recognized nominal losses on the land held for sale which was subsequently liquidated.

The total aggregate impairment losses, which are presented in the consolidated statements of operations, on the inventory held for development and the land or commercial facilities held for sale were \$1,801,000, \$2,941,000, and \$21,948,000 for the years ended October 31, 1999, 1998 and 1997, respectively.

On the statement of operations the lines entitled "Homebuilding - Inventory impairment loss" and "Investment Properties - Provision for impairment loss" also include writeoffs of options including approval, engineering and capitalized interest costs. During the year ended October 31, 1999 the writeoffs amounted to \$290,000 and zero, respectively. During the year ended October 31, 1998, the writeoffs amounted to \$2,091,000 and zero, respectively. During the year ended October 31, 1997, the writeoffs amounted to \$4,761,000 and \$1,756,000, respectively. During 1999 we did not exercise an option because the community's proforma profitability did not produce an adequate return on investment commensurate with the risk. During 1998, we did not exercise three residential options because of changes in local market conditions and difficulties in obtaining government approvals. During 1997, we decided not to exercise three residential options due to environmental problems or the property's proforma did not produce an adequate return on investment commensurate with the risk and one commercial property option because an anchor tenant with an acceptable credit rating could not be found.

12. Transactions With Related Parties

Our Board of Directors has adopted a general policy providing that it will not make loans to our officers or directors or their relatives at an interest rate less than the interest rate at the date of the loan on six month U.S. Treasury Bills, that the aggregate of such loans will not exceed \$3,000,000 at any one time, and that such loans will be made only with the approval of the members of our Board of Directors who have no interest in the transaction. At October 31, 1999 and 1998 included in receivables, deposits and notes are related party receivables from officers and directors amounted to \$2,718,000 and \$2,117,000, respectively. Interest income from these loans for October 31, 1999, 1998, and 1997 amounted to \$108,000, \$97,000, and \$100,000, respectively.

We provide property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited partners. During the years ended October 31, 1999, 1998, and 1997 we received \$80,000, \$67,000, and \$76,000, respectively, in fees for such management services. At October 31, 1999 and 1998, no amounts were due us by these partnerships.

13. Stock Plans

We have a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. All options expire ten years after the date of the grant. In addition, during the years ended October 31, 1999 and 1997 each of the three outside directors of the Company were granted options to purchase 5,000 shares at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	October 31, 1999	Weighted Average Fair Value ⁽¹⁾ and Exercise Price	October 31, 1998	Weighted Average Fair Value ⁽¹⁾ and Exercise Price	October 31, 1997	Weighted Average Fair Value ⁽¹⁾ and Exercise Price
Options outstanding at beginning of period.....	1,415,000	\$8.13	1,336,500	\$7.83	1,156,000	\$8.04
Granted.....	171,000	\$7.87	291,500	\$9.09	190,500	\$6.47
Exercised.....	10,000	\$5.81	114,667	\$5.45		
Forfeited			98,333	\$9.98	10,000	\$5.81
Options outstanding at end of period.....	1,576,000	\$8.29	1,415,000	\$8.13	1,336,500	\$7.83
Options exercisable at end of period.....	1,106,666		1,013,166		1,069,333	
Price range of options outstanding	\$5.13- \$11.50		\$5.13- \$11.50		\$5.13- \$11.50	
Weighted-average remaining contractual life	5.0 yrs.		5.4 yrs.		5.4 yrs.	

⁽¹⁾ Fair value of options at grant date approximate exercise price.

Pro forma information regarding net income and earnings per share is required under the fair value method of Financial Accounting Standards No. 123 ("FAS 123") "Accounting for Stock-Based Compensation" and is to be calculated as if we had accounted for our stock options under the fair value method of FAS 123. The fair value for these options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997: risk-free interest rate of 6.4%, 4.5% and 5.8%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.41, 0.46 and 0.47, respectively; and a weighted-average expected life of the option of 7.7, 7.5 and 7.0 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and are not likely to be representative of the effects on reported net income for future years, if applicable.

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

	Year Ended		
	October 31, 1999	October 31, 1998	October 31, 1997
Pro forma net income (loss)	\$29,851	\$25,107	\$(7,131)
Pro forma basic earnings (loss) per share	\$ 1.39	\$ 1.15	\$ (0.32)
Pro forma diluted earnings (loss) per share	\$ 1.38	\$ 1.14	\$ (0.32)

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

14. Commitments and Contingent Liabilities

We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. We were involved in an action resulting from the non-performance by a land owner (the "Defendant") to sell real property to us. We entered into a Settlement Agreement and Mutual Release ("SAMR") relating to this action. Pursuant to the terms of the SAMR, the Defendant stipulated to a judgement in our favor in the amount of \$3,535,349, which would result in a gain amounting to approximately \$2,500,000. The Defendant also granted us an option to acquire the real property which was the subject of the action at a specified price in satisfaction of the judgement. In the event we do not exercise the option, we may enforce the judgement against such real property and certain other assets of the Defendant subsequent to June 30, 2000. We have not reflected this settlement in our financial statements as of October 31, 1999.

As of October 31, 1999 and 1998, respectively, we are obligated under various performance letters of credit amounting to \$4,091,000 and \$6,934,000. (See Note 5)

15. Acquisitions

On August 7, 1999 we acquired the Matzel and Mumford Organization, Inc, ("M & M"), a New Jersey homebuilder and its related entities. On October 1, 1999 we acquired the Goodman Family of Builders, L.P., ("Goodman") a Texas homebuilder and its related entities. The combined initial purchase price for both acquisitions was approximately \$21,200,000 in cash and 1,845,359 shares of our Class A Common Stock at a weighted average share price of \$7.18, of which 483,302 shares are being held in escrow (and thus not reported as issued and outstanding at October 31, 1999) for pre-acquisition contingencies. At the dates of the acquisition we loaned the acquired entities approximately \$85,000,000 to pay off their third party debt. The Goodman Purchase Agreement provides for an additional contingent payment equal to 75% of the Goodman pretax profit, as deferred, from October 1, 1999 to December 31, 1999; this contingent payment is not included in the purchase price above but will be recorded, if any, to goodwill when the future earnings requirement has been met. In addition, both the M & M and Goodman acquisitions provide for other payments to be made generally dependent upon the achievement of certain future operating and return objectives.

Both acquisitions were accounted for as a purchase with the results of operations of the acquired entities included in our consolidated financial statements as of the dates of acquisitions. The purchase prices were allocated based on estimated fair values at the dates of the acquisitions. An intangible asset equal to the excess purchase prices over the fair values of net assets acquired of \$16,422,000 is recorded in prepaid expenses and other assets on the consolidated balance sheet; this amount is being amortized on a straight-line basis over a period of ten years.

The following unaudited pro forma information presents a summary of our consolidated results of operations as if the acquisitions had occurred as of November 1, 1998 and 1997 with pro forma adjustments to give effect to amortization of goodwill, additional compensation, interest expense on acquisition debt and certain other adjustments, together with related income tax effects:

<i>(In Thousands Except Per Share)</i>	Year Ended October 31,	
	1999	1998
Total Revenues	\$1,142,690	\$1,180,964
Income Before Extraordinary Item	\$ 36,859	\$ 29,475
Net Income Before Adjusting Inventories to Fair Value at the Date of Acquisition	\$ 35,991	\$ 28,727
Basic Earnings Per Share	\$ 1.60	\$ 1.24
Diluted Earnings Per Share.....	\$ 1.58	\$ 1.23

These proforma results have been prepared for comparative purposes only and include certain adjustments including additional amortization expense as a result of goodwill, additional compensation and increased interest expense on acquisition debt. Cost of sales does not include inventory fair value adjustments at November 1, 1998 and 1997 which would reduce earnings per share. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on November 1, 1997 and 1998 or of future results of operations of the consolidated entities.

**16. Unaudited
Summarized
Consolidated
Quarterly
Information**

Summarized quarterly financial information for the years ended October 31, 1999 and 1998 is as follows:

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 1999	July 31, 1999	April 30, 1999	January 31, 1999
Revenues	\$298,828	\$236,671	\$209,309	\$203,479
Expenses	\$284,928	\$222,601	\$196,840	\$193,301
Income before income taxes and extraordinary loss..	\$ 13,900	\$ 14,070	\$ 12,469	\$ 10,178
State and Federal income tax	\$ 5,015	\$ 5,592	\$ 5,017	\$ 4,050
Extraordinary loss from extinguishment of debt, net of income taxes.....		\$ (868)		
Net income	\$ 8,885	\$ 7,610	\$ 7,452	\$ 6,128
Per Share Data:				
Basic:				
Income per common share before extraordinary loss	\$ 0.41	\$ 0.40	\$ 0.35	\$ 0.28
Extraordinary loss		\$ (.04)		
Net Income.....	\$ 0.41	\$ 0.36	\$ 0.35	\$ 0.28
Weighted average number of common shares outstanding.....	21,726	20,979	21,266	21,512
Assuming Dilution:				
Income per common share before extraordinary loss	\$ 0.41	\$ 0.40	\$ 0.35	\$ 0.28
Extraordinary loss		\$ (.04)		
Net Income.....	\$ 0.41	\$ 0.35	\$ 0.35	\$ 0.28
Weighted average number of common shares outstanding.....	21,902	21,206	21,488	21,725

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

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

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

The Subsidiary Issuer acts as a finance and management entity that as of October 31, 1999 had issued and outstanding \$100,000,000 subordinated notes, \$150,000,000 senior notes and a revolving credit agreement with an outstanding balance of \$70,125,000. The subordinated notes, senior notes and the revolving credit agreement are fully and unconditionally guaranteed by the Parent.

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

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries we have included the accompanying consolidated condensed financial statements based on our understanding of the Securities and Exchange Commission’s interpretation and application of Rule 3-10 of the Securities and Exchange Commission’s Regulations S-X and Staff Accounting Bulletin 53. Management does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented.

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

Consolidating Condensed Balance Sheet

October 31, 1999

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Homebuilding:						
Cash and cash equivalents.....	\$ 47	\$ (5,395)	\$ 22,405	\$ 106	\$	\$ 17,163
Inventories.....			523,192	3,929		527,121
Receivables, deposits, and notes.....	6	7,979	22,690			30,675
Property, plant, and equipment.....		17,417	9,046	37		26,500
Prepaid expenses and other assets....		14,734	40,537	37		55,308
Total Homebuilding.....	53	34,735	617,870	4,109		656,767
Financial Services.....			(4,807)	41,730		36,923
Investment Properties:						
Held for sale.....			665			665
Held for investment.....			11,539			11,539
Total Investment Properties.....			12,204			12,204
Collateralized Mortgage Financing.....				5,244		5,244
Income Taxes Receivable.....	(4,303)	(374)	8,562	(2,162)		1,723
Investments in and amounts due to and from consolidated subsidiaries.....	240,676	304,811	(305,942)	2,252	(241,797)	
Total Assets.....	\$236,426	\$339,172	\$327,887	\$51,173	\$(241,797)	\$712,861
Liabilities						
Homebuilding:						
Accounts payable and other liabilities.....	\$	\$ 7,060	\$ 65,930	\$ 67	\$	\$ 73,057
Customers' deposits.....			25,351	296		25,647
Nonrecourse mortgages.....			10,069			10,069
Total Homebuilding.....		7,060	101,350	363		108,773
Financial Services.....			495	30,757		31,252
Investment Properties.....			932			932
Collateralized Mortgage Financing.....				3,699		3,699
Notes Payable.....		331,491	288			331,779
Total Liabilities.....		338,551	103,065	34,819		476,435
Stockholders' Equity.....	236,426	621	224,822	16,354	(241,797)	236,426
Total Liabilities and Stockholders' Equity.....	\$236,426	\$339,172	\$327,887	\$51,173	\$(241,797)	\$712,861

Consolidating Condensed Balance Sheet

October 31, 1998

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Homebuilding:						
Cash and cash equivalents.....	\$ 14	\$ (9,660)	\$ 21,732	\$ 1,220	\$	\$ 13,306
Inventories.....			373,364	2,369		375,733
Receivables, deposits, and notes.....		2,618	26,872			29,490
Property, plant, and equipment.....		10,180	6,627	24		16,831
Prepaid expenses and other assets.....	187	9,931	22,530	2		32,650
Total Homebuilding.....	201	13,069	451,125	3,615		468,010
Financial Services.....			1,461	75,353		76,814
Investment Properties:						
Held for sale.....			18,127			18,127
Held for investment.....			12,424			12,424
Total Investment Properties.....			30,551			30,551
Collateralized Mortgage Financing.....				6,396		6,396
Income Taxes Receivables-Including deferred tax benefits.....	41	382	8,419	(1,511)		7,331
Investments in and amounts due to and from consolidated subsidiaries.....	201,150	210,648	(236,457)	7,941	(183,282)	
Total Assets.....	\$201,392	\$224,099	\$255,099	\$91,794	\$(183,282)	\$589,102
Liabilities						
Homebuilding:						
Accounts payable and other liabilities.....	\$	\$ 5,908	\$ 47,636	\$ 221	\$	\$ 53,765
Customers' deposits.....			23,367	490		23,857
Nonrecourse mortgages.....			15,616			15,616
Total Homebuilding.....		5,908	86,619	711		93,238
Financial Services.....			677	68,411		69,088
Investment Properties.....			1,373			1,373
Collateralized Mortgage Financing.....				5,658		5,658
Notes Payable.....		218,182	171			218,353
Total Liabilities.....		224,090	88,840	74,780		387,710
Stockholders' Equity.....	201,392	9	166,259	17,014	(183,282)	201,392
Total Liabilities and Stockholders' Equity.....	\$201,392	\$224,099	\$255,099	\$91,794	\$(183,282)	\$589,102

Consolidating Condensed Statement of Operations

Twelve Months Ended October 31, 1999

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$ (159)	\$1,120	\$922,639	\$22,767	\$(20,405)	\$925,962
Financial Services			3,561	16,678		20,239
Investment Properties			2,757		(1,190)	1,567
Collateralized Mortgage Financing.....				519		519
Intercompany Charges.....		91,695	72		(91,767)	
Equity In Pretax Income of Consolidated Subsidiaries.....	50,776				(50,776)	
Total Revenues.....	50,617	92,815	929,029	39,964	(164,138)	948,287
Expenses:						
Homebuilding			832,314	1,918	(20,720)	813,512
Financial Services			2,757	16,866	(428)	19,195
Investment Properties			2,732		(960)	1,772
Collateralized Mortgage Financing.....				504		504
Corporate General and Administration		27,415	1,468		(231)	28,652
Interest		60,922	30,381	316	(61,276)	30,343
Other Operations		1,774	1,904	14		3,692
Total Expenses		90,111	871,556	19,618	(83,615)	897,670
Income (Loss) Before Income Taxes.....	50,617	2,704	57,473	20,346	(80,523)	50,617
State and Federal Income Taxes.....	19,674	917	21,453	7,771	(30,141)	19,674
Extraordinary Loss.....	(868)	(868)			868	(868)
Net Income (Loss)	\$30,075	\$ 919	\$ 36,020	\$12,575	\$(49,514)	\$ 30,075

Consolidating Condensed Statement of Operations

Twelve Months Ended October 31, 1998

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding.....	\$	\$1,441	\$902,952	\$26,210	\$(19,548)	\$911,055
Financial Services.....			3,817	15,281		19,098
Investment Properties			12,180		(1,069)	11,111
Collateralized Mortgage Financing				683		683
Intercompany Charges.....		84,166	3,844		(88,010)	
Equity In Pretax Income of Consolidated Subsidiaries.....	41,292				(41,292)	
Total Revenues	41,292	85,607	922,793	42,174	(149,919)	941,947
Expenses:						
Homebuilding.....			833,470	6,219	(19,235)	820,454
Financial Services.....			3,049	14,165	(204)	17,010
Investment Properties			5,179		(746)	4,433
Collateralized Mortgage Financing				672		672
Corporate General and Administration		20,388	897		(237)	21,048
Interest		61,972	34,184	515	(62,248)	34,423
Other Operations		1,680	921	14		2,615
Total Expenses.....		84,040	877,700	21,585	(82,670)	900,655
Income (Loss) Before Income Taxes.....	41,292	1,567	45,093	20,589	(67,249)	41,292
State and Federal Income Taxes.....	15,141	(64)	16,315	7,975	(24,226)	15,141
Extraordinary Loss	(748)	(748)			748	(748)
Net Income (Loss)	\$25,403	\$ 883	\$ 28,778	\$12,614	\$(42,275)	\$ 25,403

Consolidating Condensed Statement of Operations

Twelve Months Ended October 31, 1997

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 895	\$754,972	\$14,053	\$(11,130)	\$758,790
Financial Services			3,090	7,645		10,735
Investment Properties			14,822		(1,065)	13,757
Collateralized Mortgage Financing.....				854		854
Intercompany Charges.....		77,737	7,346		(85,083)	
Equity In Pretax Income of Consolidated Subsidiaries	(12,124)				12,124	
Total Revenues	(12,124)	78,632	780,230	22,552	(85,154)	748,136
Expenses:						
Homebuilding			717,637	3,331	(10,157)	710,811
Financial Services			3,063	8,101	(384)	10,780
Investment Properties			21,031		(676)	20,355
Collateralized Mortgage Financing.....				878		878
Corporate General and Administration		14,671	737		(320)	15,088
Interest		58,870	36,555	157	(59,807)	35,775
Other Operations		1,951	608	14		2,573
Total Expenses.....		75,492	779,631	12,481	(71,344)	796,260
Income (Loss) Before Income Taxes.....	(12,124)	3,140	599	10,071	(13,810)	(12,124)
State and Federal Income Taxes.....	(5,154)	367	(830)	4,028	(3,565)	(5,154)
Net Income (Loss)	\$(6,970)	\$2,773	\$ 1,429	\$ 6,043	\$(10,245)	\$ (6,970)

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 1999

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

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 1998

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

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 1997

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income (loss)	\$(6,970)	\$ 2,773	\$ 1,429	\$6,043	\$(10,245)	\$ (6,970)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	30,787	(121,105)	56,498	(163)	10,245	(23,738)
Net Cash Provided By (Used In) Operating Activities	23,817	(118,332)	57,927	5,880		(30,708)
Net Cash Provided By (Used In) Investing Activities		(2,327)	3,327	(63)		937
Net Cash Provided By (Used In) Financing Activities	(7,890)	55,000	(14,965)	(12,224)		19,921
Intercompany Investing and Financing Activities - Net	(15,926)	61,423	(50,708)	5,211		
Net Increase (Decrease) In Cash	1	(4,236)	(4,419)	(1,196)		(9,850)
Cash and Cash Equivalent Balance, Beginning of Period	9	(1,249)	18,276	4,127		21,163
Cash and Cash Equivalent Balance, End of Period	\$ 10	\$(5,485)	\$13,857	\$2,931	\$	\$11,313


Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1999 in conformity with generally accepted accounting principles.



Ernst & Young LLP

New York, New York
December 16, 1999

Board of Directors and Corporate Officers

KEVORK S. HOVNANIAN

*Chairman of the Board
and Director*

ARA K. HOVNANIAN

*President, Chief Executive Officer
and Director*

ARTHUR M. GREENBAUM, ESQ.

*Director and Partner
Greenbaum, Rowe, Smith, Ravin & Davis*

DESMOND P. McDONALD

Director

STEPHEN D. WEINROTH

*Director and Partner
Andersen, Weinroth and Co., L.P.*

PAUL W. BUCHANAN

*Senior Vice President –
Corporate Controller and Director*

WILLIAM L. CARPITELLA

*Senior Vice President –
Organizational Development*

PETER S. CORSI

Vice President for Quality

TIMOTHY P. MASON

Vice President – Risk Management

NANCY A. MARRAZZO

Assistant Treasurer

PETER S. REINHART

*Senior Vice President
General Counsel and Director*

AVNI SHARMA

Vice President and Chief Information Officer

J. LARRY SORSBY

*Senior Vice President, Treasurer,
Chief Financial Officer and Director*

Corporate Information

Annual Meeting

March 16, 2000, 10:00 a.m.
American Stock Exchange
86 Trinity Place
New York, New York

Stock Listing

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

Form 10-K

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

Investor Relations Contact

Laura A. Camisa
Director of Investor Relations
(732) 747-7800
Email: ir@khov.com

Auditors

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

Counsel

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

Transfer Agent and Registrar

BankBoston, N.A.
c/o EquiServe Limited Partnership
P.O. Box 8040
Boston, MA 02266-8040
<http://www.EquiServe.com>

Trustee

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

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



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10 Highway 35, PO Box 500
Red Bank, NJ 07701
(732) 747-7800

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