

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10Q

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

For quarterly period ended APRIL 30, 1999 or

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

Commission file number 1-8551

Hovnanian Enterprises, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 22-1851059  
(State or other jurisdiction or (I.R.S. Employer  
incorporation or organization) Identification No.)

10 Highway 35, P.O. Box 500, Red Bank, N. J. 07701  
(Address of principal executive offices)

732-747-7800  
(Registrant's telephone number, including area code)  
Same  
(Former name, former address and former fiscal year, if changed  
since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 13,307,799 Class A Common Shares and 7,631,121 Class B Common Shares were outstanding as of June 4, 1999.

HOVNANIAN ENTERPRISES, INC.

FORM 10Q

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Item 6(c). No reports on Form 8K have been filed during the quarter for which this report is filed.

Signatures

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

ASSETS	April 30, 1999	October 31, 1998
	-----	-----
Homebuilding:		
Cash and cash equivalents.....	\$ 7,915	\$ 13,306
Inventories - At cost, not in excess of fair value:		
Sold and unsold homes and lots under development.....	354,320	332,225
Land and land options held for future development or sale.....	41,225	43,508
Total Inventories.....	395,545	375,733
Receivables, deposits, and notes.....	40,635	29,490
Property, plant, and equipment - net.....	20,680	16,831
Prepaid expenses and other assets.....	31,692	32,650
Total Homebuilding.....	496,467	468,010
Financial Services:		
Cash and cash equivalents.....	3,119	1,486
Mortgage loans held for sale.....	46,750	71,611
Other assets.....	2,314	3,717
Total Financial Services.....	52,183	76,814
Investment Properties:		
Held for sale:		
Land and improvements.....	107	17,832
Other assets.....	788	295
Held for investment:		
Cash.....		762
Rental property - net.....	10,775	10,794
Other assets.....	1,090	868
Total Investment Properties.....	12,760	30,551
Collateralized Mortgage Financing:		
Collateral for bonds payable.....	5,863	5,970
Other assets.....	307	426
Total Collateralized Mortgage Financing.....	6,170	6,396
Income Taxes Receivable - Including deferred tax benefits.....	4,701	7,331
Total Assets.....	\$572,281	\$589,102
	=====	=====

See notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	April 30, 1999	October 31, 1998
	-----	-----

Homebuilding:		
Nonrecourse land mortgages.....	\$ 6,533	\$ 11,846
Accounts payable and other liabilities.....	40,695	53,765
Customers' deposits.....	22,468	23,857
Nonrecourse mortgages secured by operating properties.....	3,716	3,770
Total Homebuilding.....	73,412	93,238
Financial Services:		
Accounts payable and other liabilities.....	2,182	2,422
Mortgage warehouse line of credit.....	43,877	66,666
Total Financial Services.....	46,059	69,088
Investment Properties:		
Accounts payable and other liabilities.....	1,224	1,373
Total Investment Properties.....	1,224	1,373
Collateralized Mortgage Financing:		
Accounts payable and other liabilities.....		6
Bonds collateralized by mortgages receivable.....	4,574	5,652
Total Collateralized Mortgage Financing.....	4,574	5,658
Notes Payable:		
Revolving credit agreement.....	84,675	68,000
Subordinated notes.....	145,449	145,449
Accrued interest.....	5,725	4,904
Total Notes Payable.....	235,849	218,353
Total Liabilities.....	361,118	387,710
Stockholders' Equity:		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 15,834,002 shares (including 2,413,274 shares held in Treasury)...	158	157
Common Stock, Class B, \$.01 par value-authorized 13,000,000 shares; issued 8,014,466 shares (including 345,874 shares held in Treasury)....	79	80
Paid in Capital.....	34,590	34,561
Retained Earnings.....	196,762	183,182
Treasury Stock - at cost.....	(20,426)	(16,588)
Total Stockholders' Equity.....	211,163	201,392
Total Liabilities and Stockholders' Equity.....	\$572,281	\$589,102
	=====	=====

See notes to consolidated financial statements.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
Revenues:				
Homebuilding:				
Sale of homes.....	\$199,138	\$203,567	\$394,023	\$407,624
Land sales and other revenues.....	5,454	3,854	7,895	6,339
Total Homebuilding.....	204,592	207,421	401,918	413,963
Financial Services.....	4,154	4,140	9,812	7,702
Investment Properties.....	424	609	783	4,253
Collateralized Mortgage Financing....	139	150	275	362
Total Revenues.....	209,309	212,320	412,788	426,280
Expenses:				
Homebuilding:				

Cost of sales.....	159,037	170,806	314,624	340,606
Selling, general and administrative	18,586	15,858	36,120	31,515
Inventory impairment loss.....	401	359	401	1,948
Total Homebuilding.....	178,024	187,023	351,145	374,069
Financial Services.....	3,859	3,580	9,101	6,791
Investment Properties.....	322	753	1,101	1,876
Collateralized Mortgage Financing....	142	157	273	359
Corporate General and Administration.	6,418	4,779	12,853	9,140
Interest.....	7,346	7,990	14,388	16,466
Other Operations.....	729	428	1,280	951
Total Expenses.....	196,840	204,710	390,141	409,652
Income Before Income Taxes.....	12,469	7,610	22,647	16,628
State and Federal Income Taxes:				
State.....	1,340	596	2,828	1,244
Federal.....	3,677	2,001	6,239	4,458
Total Taxes.....	5,017	2,597	9,067	5,702
Net Income.....	\$ 7,452	\$ 5,013	\$ 13,580	\$ 10,926

Per Share Data:

Basic:				
Income per common share.....	\$ 0.35	\$ 0.23	\$ 0.63	\$ 0.50
Weighted average number of common shares outstanding.....	21,266	21,848	21,391	21,841
Assuming dilution:				
Income per common share.....	0.35	0.23	0.63	0.50
Weighted average number of common shares outstanding.....	21,488	22,042	21,611	22,047

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Dollars In Thousands)

	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount				
Balance, October 31, 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.....	5,000				29			29
Conversion of Class B to Class A Common Stock....	25,705	1	(25,705)	(1)				
Treasury stock purchases..	(475,900)						(3,838)	(3,838)
Net Income.....						13,580		13,580
Balance, April 30, 1999...	13,420,728	\$158	7,668,592	\$79	\$34,590	\$196,762	(\$20,426)	\$211,163

See notes to consolidated financial statements.

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

Six Months Ended  
April 30,

1999 1998

Cash Flows From Operating Activities:		
Net Income.....	\$ 13,580	\$ 10,926
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation.....	2,428	1,936
Loss (gain) on sale and retirement of property and assets.....	520	(2,690)
Deferred income taxes.....	2,493	2,336
Impairment losses.....	401	1,948
Decrease (increase) in assets:		
Receivables, prepaids and other assets.....	(10,967)	(7,453)
Mortgage notes receivable.....	26,365	5,819
Inventories.....	(21,250)	(5,654)
Increase (decrease) in liabilities:		
State and Federal income taxes.....	137	(1,992)
Customers' deposits.....	(1,065)	179
Interest and other accrued liabilities.....	(3,268)	(2,490)
Post development completion costs.....	(807)	1,349
Accounts payable.....	(8,892)	(4,739)
Net cash (used) in operating activities.....	(325)	(525)
Cash Flows From Investing Activities:		
Proceeds from sale of property and assets.....	19,099	22,119
Purchase of property.....	(6,013)	(1,230)
Investment in and advances to unconsolidated affiliates.....	(4)	403
Investment in income producing properties.....	(1,016)	(4,188)
Net cash provided by investing activities...	12,066	17,104
Cash Flows From Financing Activities:		
Proceeds from mortgages and notes.....	323,253	280,003
Principal payments on mortgages and notes.....	(335,812)	(297,525)
Investment in mortgage notes receivable.....	107	1,166
Purchase of treasury stock.....	(3,838)	(457)
Proceeds from sale of stock.....	29	577
Net cash (used) in financing activities.....	(16,261)	(16,236)
Net (Decrease) Increase In Cash.....	(4,520)	343
Cash and Cash Equivalent Balance, Beginning Of Period.	15,554	11,313
Cash and Cash Equivalent and Balance, End Of Period...	\$ 11,034	\$ 11,656
	=====	=====

See notes to consolidated financial statements.

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

1. The consolidated financial statements, except for the October 31, 1998 consolidated balance sheets, have been prepared without audit. In the opinion of management, all adjustments for interim periods presented have been made, which include only normal recurring accruals and deferrals necessary for a fair presentation of consolidated financial position, results of operations, and changes in cash flows. 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. Results for the interim periods are not necessarily indicative of the results which might be expected for a full year.

2. Interest costs incurred, expensed and capitalized were:

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
	-----			
	(Dollars in Thousands)			
Interest Incurred (1):				
Residential (3).....	\$ 5,985	\$ 6,656	\$10,684	\$ 13,298
Commercial(4).....	289	485	645	1,164
	-----	-----	-----	-----

Total Incurred.....	\$ 6,274	\$ 7,141	\$11,329	\$ 14,462
	=====	=====	=====	=====
Interest Expensed:				
Residential (3).....	\$ 7,057	\$ 7,505	\$13,743	\$ 15,302
Commercial (4).....	289	485	645	1,164
	-----	-----	-----	-----
Total Expensed.....	\$ 7,346	\$ 7,990	\$14,388	\$ 16,466
	=====	=====	=====	=====
Interest Capitalized at				
Beginning of Period.....	\$ 22,089	\$ 30,695	\$25,545	\$ 35,950
Plus Interest Incurred.....	6,274	7,141	11,329	14,462
Less Interest Expensed.....	7,346	7,990	14,388	16,466
Less Inventory Write-off....				460
Less Sale of Assets.....			1,469	3,640
	-----	-----	-----	-----
Interest Capitalized at				
End of Period.....	\$21,017	\$ 29,846	\$ 21,017	\$ 29,846
	=====	=====	=====	=====
Interest Capitalized at				
End of Period:				
Residential(3).....	\$ 20,809	\$ 27,340	\$ 20,809	\$ 27,340
Commercial(2).....	208	2,506	208	2,506
	-----	-----	-----	-----
Total Capitalized.....	\$ 21,017	\$ 29,846	\$ 21,017	\$ 29,846
	=====	=====	=====	=====

- (1) Does not include interest incurred by the Company's mortgage and finance subsidiaries.
- (2) Does not include a reduction for depreciation.
- (3) Represents acquisition interest for construction, land and development costs which is charged to interest expense when homes are delivered and when land is not under active development.
- (4) Represents interest allocated to or incurred on long term debt for investment properties and charged to interest expense.

3. Homebuilding accumulated depreciation at April 30, 1999 and October 31, 1998 amounted to \$17,128,000 and \$15,088,000, respectively. Rental property accumulated depreciation at April 30, 1999 and October 31, 1998 amounted to \$2,011,000 and \$1,826,000, respectively.

4. During the six months ended April 30, 1999 the Company recorded a \$401,000 impairment loss associated with an option in Florida including approval, engineering and capitalized interest. The Company wrote off costs on two properties in New Jersey amounting to \$1,589,000 and \$359,000 during the three months ended January 31, 1998 and April 30, 1998, respectively. Residential inventory FAS 121 impairment losses and option write-offs are reported on the Consolidated Statements of Income as "Homebuilding - Inventory Impairment Loss."

5. The Company is involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on the Company. As of April 30, 1999 and 1998, respectively, the Company is obligated under various performance letters of credit amounting to \$7,079,000 and \$9,768,000.

6. On May 4, 1999, the Company issued \$150,000,000 9 1/8% Senior Notes due in 2009. The proceeds were used to reduce the outstanding balance on the Company's "Revolving Credit Facility" to zero for general corporate purposes, and on June 7, 1999, to redeem the remaining \$45,449,000 11 1/4% Subordinated Notes due 2002. The early retirement of these notes will result in an extraordinary loss of \$869,000 net of income taxes of \$468,000.

7. Financial Information of Subsidiary Issuer and Subsidiary Guarantors. Hovnanian Enterprises, Inc., the parent company (the "Parent" or "Company") 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 April 30, 1999 had issued and outstanding approximately \$145,449,000 of subordinated notes and a revolving credit agreement with an outstanding balance of \$84,675,000. Both the subordinated 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 revolving credit agreement of the Subsidiary Issuer.

Additionally the Parent has provided full, unconditional and joint and several guarantees to the Senior Notes. The Guarantor Subsidiaries may also provide similar guarantees to the Subsidiary Issuer.

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries the Company has 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 statement and other disclosures concerning the Guarantor Subsidiaries are not presented.

The following consolidating condensed financial information present 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.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
 CONSOLIDATING CONDENSED BALANCE SHEET  
 APRIL 30, 1999  
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
<b>Homebuilding:</b>						
Cash and cash equivalents.....	\$ 46	\$ (236)	\$ 8,022	\$ 83	\$	\$ 7,915
Inventories.....			393,156	2,389		395,545
Receivables, deposits, and notes.		3,331	37,304			40,635
Property, plant, and equipment...		12,515	8,129	36		20,680
Prepaid expenses and other assets	437	9,839	21,398	18		31,692
<b>Total Homebuilding.....</b>	<b>483</b>	<b>25,449</b>	<b>468,009</b>	<b>2,526</b>		<b>496,467</b>
<b>Financial Services.....</b>			<b>1,387</b>	<b>50,796</b>		<b>52,183</b>
<b>Investment Properties:</b>						
Held for sale.....			895			895
Held for investment.....			11,865			11,865
<b>Total Investment Properties....</b>			<b>12,760</b>			<b>12,760</b>
<b>Collateralized Mortgage Financing..</b>				<b>6,170</b>		<b>6,170</b>
<b>Income Taxes Receivables-Including deferred tax benefits.....</b>	<b>(1,074)</b>	<b>481</b>	<b>7,000</b>	<b>(1,706)</b>		<b>4,701</b>
<b>Investments in and amounts due to and from consolidated subsidiaries.....</b>	<b>211,754</b>	<b>213,261</b>	<b>(242,379)</b>	<b>13,548</b>	<b>(196,184)</b>	
<b>Total Assets.....</b>	<b>\$211,163</b>	<b>\$ 239,191</b>	<b>\$ 246,777</b>	<b>\$ 71,334</b>	<b>\$(196,184)</b>	<b>\$ 572,281</b>
<b>LIABILITIES</b>						
<b>Homebuilding:</b>						
Accounts payable and other liabilities.....	\$	\$ 3,395	\$ 37,093	\$ 207	\$	\$ 40,695
Customers' deposits.....			22,234	234		22,468
Nonrecourse mortgages.....			10,249			10,249
<b>Total Homebuilding.....</b>		<b>3,395</b>	<b>69,576</b>	<b>441</b>		<b>73,412</b>
<b>Financial Services.....</b>			<b>535</b>	<b>45,524</b>		<b>46,059</b>
<b>Investment Properties.....</b>			<b>1,224</b>			<b>1,224</b>
<b>Collateralized Mortgage Financing..</b>				<b>4,574</b>		<b>4,574</b>
<b>Notes Payable.....</b>		<b>235,702</b>	<b>147</b>			<b>235,849</b>
<b>Total Liabilities.....</b>		<b>239,097</b>	<b>71,482</b>	<b>50,539</b>		<b>361,118</b>
<b>STOCKHOLDERS' EQUITY.....</b>	<b>211,163</b>	<b>94</b>	<b>175,295</b>	<b>20,795</b>	<b>(196,184)</b>	<b>211,163</b>

Total Liabilities and Stockholders' Equity.....	\$211,163	\$ 239,191	\$ 246,777	\$ 71,334	\$(196,184)	\$ 572,281
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HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)  
CONSOLIDATING CONDENSED BALANCE SHEET  
OCTOBER 31, 1998  
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
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
Total Liabilities and Stockholders' Equity.....	\$201,392	\$224,099	\$ 255,099	\$ 91,794	\$(183,282)	\$ 589,102

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)  
CONSOLIDATING CONDENSED STATEMENT OF INCOME  
THREE MONTHS ENDED APRIL 30, 1999  
(Thousands of Dollars)

Subsidiary Guarantor Non-Guarantor Eliminated Consol-

	Parent	Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ (57)	\$ 204,635	\$ 5,273	\$ (5,259)	\$ 204,592
Financial Services.....			791	3,363		4,154
Investment Properties.....			711		(287)	424
Collateralized Mortgage Financing				139		139
Intercompany Charges.....		20,944	1,335		(22,279)	
Equity In Pretax Income of Consolidated Subsidiaries.....	12,469				(12,469)	
<b>Total Revenues.....</b>	<b>12,469</b>	<b>20,887</b>	<b>207,472</b>	<b>8,775</b>	<b>(40,294)</b>	<b>209,309</b>
<b>Expenses:</b>						
Homebuilding.....			183,031	243	(5,250)	178,024
Financial Services.....			682	3,401	(224)	3,859
Investment Properties.....			490		(168)	322
Collateralized Mortgage Financing				142		142
Corporate General and Administration.....		6,241	279		(102)	6,418
Interest.....		14,504	7,251	95	(14,504)	7,346
Other Operations.....		430	292	7		729
<b>Total Expenses.....</b>		<b>21,175</b>	<b>192,025</b>	<b>3,888</b>	<b>(20,248)</b>	<b>196,840</b>
Income (Loss) Before Income Taxes..	12,469	(288)	15,447	4,887	(20,046)	12,469
State and Federal Income Taxes.....	5,017		5,631	2,065	(7,696)	5,017
<b>Net Income (Loss).....</b>	<b>\$ 7,452</b>	<b>\$ (288)</b>	<b>\$ 9,816</b>	<b>\$ 2,822</b>	<b>\$ (12,350)</b>	<b>\$ 7,452</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)  
CONSOLIDATING CONDENSED STATEMENT OF INCOME  
THREE MONTHS ENDED APRIL 30, 1998  
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 450	205,457	\$ 5,965	\$ (4,451)	\$ 207,421
Financial Services.....			939	3,201		4,140
Investment Properties.....			878		(269)	609
Collateralized Mortgage Financing				150		150
Intercompany Charges.....		20,307	1,661		(21,968)	
Equity In Pretax Income of Consolidated Subsidiaries.....	7,610				(7,610)	
<b>Total Revenues.....</b>	<b>7,610</b>	<b>20,757</b>	<b>208,935</b>	<b>9,316</b>	<b>(34,298)</b>	<b>212,320</b>
<b>Expenses:</b>						
Homebuilding.....			190,090	1,386	(4,453)	187,023
Financial Services.....			609	3,008	(37)	3,580
Investment Properties.....			1,022		(269)	753
Collateralized Mortgage Financing				157		157
Corporate General and Administration.....		4,546	239		(6)	4,779
Interest.....		15,298	7,961	29	(15,298)	7,990
Other Operations.....		352	69	7		428
<b>Total Expenses.....</b>		<b>20,196</b>	<b>199,990</b>	<b>4,587</b>	<b>(20,063)</b>	<b>204,710</b>
Income (Loss) Before Income Taxes..	7,610	561	8,945	4,729	(14,235)	7,610
State and Federal Income Taxes.....	2,597		3,027	1,854	(4,881)	2,597
<b>Net Income (Loss).....</b>	<b>\$ 5,013</b>	<b>\$ 561</b>	<b>\$ 5,918</b>	<b>\$ 2,875</b>	<b>\$ (9,354)</b>	<b>\$ 5,013</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)

CONSOLIDATING CONDENSED STATEMENT OF INCOME  
SIX MONTHS ENDED APRIL 30, 1999  
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidi- aries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 29	\$ 400,919	\$ 9,534	\$ (8,564)	\$ 401,918
Financial Services.....			1,611	8,201		9,812
Investment Properties.....			1,344		(561)	783
Collateralized Mortgage Financing Intercompany Charges.....		41,840	1,984	275	(43,824)	275
Equity In Pretax Income of Consolidated Subsidiaries.....	22,647				(22,647)	
<b>Total Revenues.....</b>	<b>22,647</b>	<b>41,869</b>	<b>405,858</b>	<b>18,010</b>	<b>(75,596)</b>	<b>412,788</b>
<b>Expenses:</b>						
Homebuilding.....			358,523	1,168	(8,546)	351,145
Financial Services.....			1,172	8,150	(221)	9,101
Investment Properties.....			1,521		(420)	1,101
Collateralized Mortgage Financing Corporate General and Administration.....		12,538	456		(141)	12,853
Interest.....		28,686	14,196	192	(28,686)	14,388
Other Operations.....		916	357	7		1,280
<b>Total Expenses.....</b>		<b>42,140</b>	<b>376,225</b>	<b>9,790</b>	<b>(38,014)</b>	<b>390,141</b>
Income (Loss) Before Income Taxes..	22,647	(271)	29,633	8,220	(37,582)	22,647
State and Federal Income Taxes.....	9,067		11,252	3,510	(14,762)	9,067
<b>Net Income (Loss).....</b>	<b>\$13,580</b>	<b>\$ (271)</b>	<b>\$ 18,381</b>	<b>\$ 4,710</b>	<b>\$ (22,820)</b>	<b>\$ 13,580</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)  
CONSOLIDATING CONDENSED STATEMENT OF INCOME  
SIX MONTHS ENDED APRIL 30, 1998  
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidi- aries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 497	\$ 411,301	\$ 10,690	\$ (8,525)	\$ 413,963
Financial Services.....			1,800	5,902	7,702	
Investment Properties.....			4,788		(535)	4,253
Collateralized Mortgage Financing Intercompany Charges.....		40,483	3,469	362	(43,952)	362
Equity In Pretax Income of Consolidated Subsidiaries.....	16,628				(16,628)	
<b>Total Revenues.....</b>	<b>16,628</b>	<b>40,980</b>	<b>421,358</b>	<b>16,954</b>	<b>(69,640)</b>	<b>426,280</b>
<b>Expenses:</b>						
Homebuilding.....			380,589	1,997	(8,517)	374,069
Financial Services.....			1,228	5,692	(129)	6,791
Investment Properties.....			2,337		(461)	1,876
Collateralized Mortgage Financing Corporate General and Administration.....		8,790	422		(72)	9,140
Interest.....		30,586	16,410	56	(30,586)	16,466
Other Operations.....		777	167	7		951
<b>Total Expenses.....</b>		<b>40,153</b>	<b>401,153</b>	<b>8,111</b>	<b>(39,765)</b>	<b>409,652</b>
Income (Loss) Before Income Taxes..	16,628	827	20,205	8,843	(29,875)	16,628
State and Federal Income Taxes.....	5,702		7,195	3,449	(10,644)	5,702
<b>Net Income (Loss).....</b>	<b>\$10,926</b>	<b>\$ 827</b>	<b>\$ 13,010</b>	<b>\$ 5,394</b>	<b>\$ (19,231)</b>	<b>\$ 10,926</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED (Continued)  
 CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS  
 SIX MONTHS ENDED APRIL 30, 1999  
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
<b>Cash Flows From Operating Activities:</b>						
Net Income (loss).....	\$ 13,580	\$ (271)	\$ 18,381	\$ 4,710	\$ (22,820)	\$ 13,580
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities...	865	(3,931)	(59,077)	25,418	22,820	(13,905)
Net Cash Provided By (Used In) Operating Activities.....	14,445	(4,202)	(40,696)	30,128		(325)
Net Cash Provided by (Used In) Investing Activities.....		(436)	12,587	(85)		12,066
Net Cash Provided By(Used In) Financing Activities.....	(3,809)	16,675	(5,260)	(23,867)		(16,261)
Intercompany Investing and Financing Activities - Net.....	(10,604)	(2,613)	18,824	(5,607)		
Net Increase (Decrease) In Cash.....	32	9,424	(14,545)	569		(4,520)
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	\$ (236)	\$ 8,478	\$ 2,746	\$	\$ 11,034

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS  
 SIX MONTHS ENDED APRIL 30, 1998  
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
<b>Cash Flows From Operating Activities:</b>						
Net Income (loss).....	\$ 10,926	\$ 827	\$ 13,010	\$ 5,394	\$ (19,231)	\$ 10,926
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities...	(1,796)	(815)	(12,440)	(15,631)	19,231	(11,451)
Net Cash Provided By (Used In) Operating Activities.....	9,130	12	570	(10,237)		(525)
Net Cash Provided by (Used In) Investing Activities.....		(755)	18,009	(150)		17,104
Net Cash (Used In) Provided By Financing Activities.....	120	6,425	(15,772)	(7,009)		(16,236)
Intercompany Investing and Financing Activities - Net.....	(9,250)	174	(6,978)	16,054		
Net Increase (Decrease) In Cash.....		5,856	(4,171)	(1,342)		343
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.....	\$ 10	\$ 371	\$ 9,686	\$ 1,589	\$	\$ 11,656

CAPITAL RESOURCES AND LIQUIDITY

The Company's uses for cash during the six months ended April 30, 1999 were for operating expenses, increases in housing inventories, construction, income taxes, interest, and the repurchase of common stock. The Company provided for its cash requirements from the revolving credit facility, sales of commercial properties, and from housing and other revenues. The Company believes that these sources of cash are sufficient to finance its working capital requirements and other needs.

In December 1998 the Board of Directors authorized a stock repurchase program to purchase up to 3 million shares of Class A Common Stock. This authorization expires on December 31, 2000. As of April 30, 1999, 2,067,400 shares were repurchased under this program of which 475,900 shares were purchased during the six months ended April 30, 1999.

The Company's bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") that provides a revolving credit line of up to \$280,000,000 (the "Revolving Credit Facility") through July 2001. Interest is payable monthly and at various rates of either prime or Libor plus 1.45%. The Company believes that it will be able either to extend the Agreement beyond July 2001 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. The Company currently is in compliance and intends to maintain compliance with its covenants under the Agreement. As of April 30, 1999, borrowings under the Agreement were \$84,675,000.

The subordinated indebtedness issued by the Company and outstanding as of April 30, 1999 was \$100,000,000 9 3/4% Subordinated Notes due June 2005 and \$45,449,000 11 1/4% Subordinated Notes due April 2002. On May 4, 1999, the Company issued \$150,000,000 9 1/8% Senior Notes due in 2009. On June 7, 1999, the Company redeemed the remaining \$45,449,000 principal amount 11 1/4% Subordinated Notes. The remaining proceeds were used to reduce the outstanding balance on the Company's "Revolving Credit Facility" to zero and for general corporate purposes.

The Company's mortgage banking subsidiary borrows under a bank warehousing arrangement. Other finance subsidiaries formerly borrowed from a multi-builder owned financial corporation and a builder owned financial corporation to finance mortgage backed securities, but in fiscal 1988 decided to cease further borrowing from multi-builder and builder owned financial corporations. These non-recourse borrowings have been generally secured by mortgage loans originated by one of the Company's subsidiaries. As of April 30, 1999, the aggregate principal amount of all such borrowings was \$48,451,000.

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

	April 30, 1999	October 31, 1998
	-----	-----
Residential real estate inventory.....	\$395,545,000	\$375,733,000
Senior residential rental property.....	10,775,000	10,794,000
	-----	-----
Total Residential Real Estate.....	406,320,000	386,527,000
Commercial properties.....	107,000	17,832,000
	-----	-----
Combined Total.....	\$406,427,000	\$404,359,000
	=====	=====

Substantially all residential homes under construction or completed and included in real estate inventory at April 30, 1999 are expected to be closed during the next twelve months. Most residential real estate completed or under development is financed through the Company's line of credit, senior notes and subordinated indebtedness.

The following table summarizes housing lots in the Company's active selling communities under development (including Poland):

			(1)	(2)	
	Commun- ities	Approved Lots	Homes Deliv- ered	Contracted Not Delivered	Remaining Home Sites Available
	-----	-----	-----	-----	-----
April 30, 1999.....	72	17,542	6,674	1,718	9,150
October 31, 1998.....	84	17,020	6,553	1,672	8,795

(1) Includes 12 and 8 lots under option at April 30, 1999 and October 31, 1998,

respectively.

(2) Of the total home lots available, 330 and 460 were under construction or complete (including 43 and 54 models and sales offices), 5,384 and 4,570 were under option, and 233 and 330 were financed through purchase money mortgages at April 30, 1999 and October 31, 1998, respectively.

In addition, at April 30, 1999 and October 31, 1998, respectively, in substantially completed or suspended communities, the Company owned or had under option 144 and 283 home lots. The Company also controls a supply of land primarily through options for future development. This land is consistent with anticipated home building requirements in its housing markets. At April 30, 1999 the Company controlled such land to build 11,398 proposed homes, compared to 10,963 homes at October 31, 1998.

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

	April 30, 1999			October 31, 1998		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	117	15	132	180	16	196
North Carolina.....	104	-	104	93	-	93
Florida.....	9	1	10	24	6	30
Virginia.....	10	7	17	23	11	34
California.....	55	20	75	78	21	99
Poland.....	6	-	6	11	-	11
<b>Total</b>	<b>301</b>	<b>43</b>	<b>344</b>	<b>409</b>	<b>54</b>	<b>463</b>

During fiscal 1997 the Company announced it was planning an orderly exit from the business of owning investment properties. During the first quarter of fiscal 1999 the Company sold three land parcels which reduced such properties \$17,725,000. At April 30, 1999 the Company had remaining one small investment property.

Collateral Mortgage Financing - Collateral for bonds payable consist 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 \$46,144,000 and \$71,002,000 at April 30, 1999 and October 31, 1998, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of such mortgages is being held as an investment by the Company. The Company may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, the Company has incurred minimal credit losses.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 1999 COMPARED TO THE THREE AND SIX MONTHS ENDED APRIL 30, 1998

The Company's operations consist primarily of residential housing development and sales in its Northeast Region (comprising of New Jersey, southern New York State and eastern Pennsylvania), North Carolina, southeastern Florida, northern Virginia, southern California and Poland. The Company is expanding into Maryland and expects to begin selling homes in its fourth quarter of fiscal 1999. In addition, the Company provides financial services to its homebuilding customers and third parties.

Important indicators of the future results of the Company are recently signed contracts and home contract backlog for future deliveries. The Company's sales contracts and homes in contract (using base sales prices) by market area is set forth below:

	Sales Contracts for the Six Months Ended April 30,		Contract Backlog as of April 30,	
	1999	1998	1999	1998
(Dollars in Thousands)				
Northeast Region:				
Dollars.....	\$205,087	\$286,896	\$256,033	\$312,662
Homes.....	886	1,309	1,058	1,359

North Carolina:

Dollars.....	\$ 81,784	\$ 59,893	\$ 71,044	\$ 51,920
Homes.....	416	328	348	272
Florida:				
Dollars.....	\$ 20,580	\$ 16,433	\$ 19,262	\$ 18,050
Homes.....	92	87	87	94
Virginia:				
Dollars.....	\$ 27,278	\$ 13,449	\$ 34,815	\$ 11,025
Homes.....	122	50	156	39
California:				
Dollars.....	\$ 41,952	\$ 28,304	\$ 20,001	\$ 14,626
Homes.....	217	154	105	79
Poland:				
Dollars.....	\$ 482	\$ 1,609	\$ 428	\$ 2,600
Homes.....	5	20	3	35
Totals:				
Dollars.....	\$377,163	\$406,584	\$401,583	\$410,883
Homes.....	1,738	1,948	1,757	1,878

#### Total Revenues:

Revenues for the three months ended April 30, 1999 decreased \$3.0 million or 1.4%, compared to the same period last year. This was the result of a \$4.4 million decrease in revenues from the sale of homes, and a \$0.2 decrease in investment properties revenues. The decreases were partially offset by a \$1.6 million increase in land sales and other homebuilding revenues.

Revenues for the six months ended April 30, 1999 decreased \$13.5 million or 3.2%, compared to the same period last year. This was the result of a \$13.6 million decrease in revenues from the sale of homes, a \$3.5 million decrease in investment properties revenues, and a \$0.1 million decrease in collateralized mortgage financing revenues. The decreases were partially offset by a \$1.6 million increase in land sales and other homebuilding revenues and a \$2.1 million increase in financial services revenues.

#### Homebuilding:

Revenues from the sale of homes decreased \$4.4 million or 2.2% during the three months ended April 30, 1999, and decreased \$13.6 million or 3.3% during the six months ended April 30, 1999, compared to the same period last year. Revenues from sales of homes 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:

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	1999	1998	1999	1998
----- (Dollars in Thousands) -----				
Northeast Region:				
Housing Revenues.....	\$126,500	\$136,133	\$253,184	\$275,144
Homes Delivered.....	482	597	960	1,237
North Carolina:				
Housing Revenues.....	\$ 30,553	\$ 28,264	\$ 59,633	\$ 53,940
Homes Delivered.....	149	153	303	288
Florida:				
Housing Revenues.....	\$ 9,531	\$ 15,254	\$ 17,864	\$ 24,766
Homes Delivered.....	40	90	78	143
Virginia:				
Housing Revenues.....	\$ 6,005	\$ 4,843	\$ 18,552	\$ 10,961
Homes Delivered.....	27	18	81	38
California:				
Housing Revenues.....	\$ 26,548	\$ 17,613	\$ 43,859	\$ 40,734
Homes Delivered.....	128	95	231	212
Poland:				
Housing Revenues.....	\$ -	\$ 1,460	\$ 931	\$ 2,079
Homes Delivered.....	-	17	9	24

Totals:				
Housing Revenues.....	\$199,138	\$203,567	\$394,023	\$407,624
Homes Delivered.....	826	970	1,662	1,942

The 14.8% and 14.4% decrease in the number of homes delivered for the three and six months ended April 30, 1999, respectively, compared to the same periods last year, were primarily due to the decreases in the Company's Northeast Region. The decrease in deliveries in the Northeast Region was primarily due to a reduced number of communities during the three and six months ended April 30, 1999, compared to the same period last year. The decrease in housing revenues was only 2.2% and 3.3% during the three and six months ended April 30, 1999, respectively, compared to the same periods last year. The decrease in housing revenues was not as great as the decrease in the number of homes delivered due to higher average home prices. Average home prices increased to \$237,078 compared to \$209,899 during the six months ended April 30, 1999 and 1998, respectively.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
	(Dollars in Thousands)			
Sale of Homes.....	\$199,138	\$203,567	\$394,023	\$407,624
Cost of Sales.....	155,085	169,220	309,334	337,748
Housing Gross Margin.....	\$ 44,053	\$ 34,374	\$ 84,689	\$ 69,876
	=====	=====	=====	=====
Gross Margin Percentage.....	22.1%	16.9%	21.5%	17.1%

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
Sale of Homes.....	100.0%	100.0%	100.0%	100.0%
Cost of Sales:				
Housing, land & development costs....	69.9%	75.5%	70.4%	75.0%
Commissions.....	1.9%	1.9%	1.9%	1.9%
Financing concessions..	0.7%	0.7%	0.8%	0.7%
Overheads.....	5.4%	5.0%	5.4%	5.3%
Total Cost of Sales.....	77.9%	83.1%	78.5%	82.9%
Gross Margin.....	22.1%	16.9%	21.5%	17.1%
	=====	=====	=====	=====

The Company sells a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both communities and of home types delivered, consolidated quarterly gross margin will fluctuate up or down and may not be representative of the consolidated gross margin for the year. In addition, gross margin percentages are higher in the Northeast Region compared to the Company's other markets. For the three and six months ended April 30, 1999 the Company's gross margin increased 5.2% and 4.4%, respectively, compared to the same periods last year. This can be attributed to higher gross margins being achieved in each of the Company's markets. Higher gross margins are primarily attributed to positive effects from process redesign and quality programs that reduced housing and land development costs, selective price increases or reduced selling incentives in the Company's stronger markets, and an increased percentage of deliveries from the better performing communities.

Selling, general, and administrative expenses as a percentage of total homebuilding revenues, increased to 9.0% for the three and six months ended April 30, 1999 from 7.6% for the prior year three and six months. Such expenses increased during the three and six months ended April 30, 1999 \$2.7 million and \$4.6 million, respectively, compared to the same periods last year. The overall percentage and dollar increases in selling, general and administrative is principally due to decreased deliveries and increases in administrative costs

primarily in the Company's Northeast Region, North Carolina, and California.

#### Land Sales and Other Revenues:

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
Land and Lot Sales.....	\$ 4,207	\$ 1,766	\$ 5,534	\$ 3,363
Cost of Sales.....	3,952	1,586	5,290	2,858
Land and Lot Sales Gross Margin...	255	180	244	505
Interest Expense.....	609	159	742	317
Land and Lot Sales Profit (Loss) Before Tax.....	\$ (354)	\$ 21	\$ (498)	\$ 188

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

#### Financial Services

Financial services consist primarily of originating mortgages from sales of the Company's homes, and selling such mortgages in the secondary market and title insurance activities. For the three and six months ended April 30, 1999 financial services provided a \$0.3 million and \$0.7 million pretax profit, respectively, compared to a profit of \$0.6 million and \$0.9 million for the same periods in 1998. The Company's mortgage banking goals are to improve profitability by increasing the capture rate of its homebuyers and expanding its business to include originations from unrelated third parties. The Company has initiated efforts to originate mortgages from unrelated third parties and expects these third party loans to increase as a percentage of the Company's total loan volume over the next few years.

#### Investment Properties

Investment Properties consisted of rental properties, property management, and gains or losses from the sale of such property. At the end of the second quarter of 1997 the Company announced that it was planning an orderly exit from the investment properties business. During the three months ended January 31, 1999 the Company sold three land parcels for a total sales price of \$20.8 million and recorded a loss before income taxes of \$0.5 million. At April 30, 1999 all commercial facilities and land (except for one small parcel) have been liquidated. The Company is retaining two senior citizen residential rental communities.

#### Collateralized Mortgage Financing

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

#### Corporate General and Administrative

Corporate general and administration expenses include the operations at the Company's headquarters in Red Bank, New Jersey. Such expenses include the Company's 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 increased to 3.1% for the three months ended April 30, 1999 from 2.3% for the prior year three months. For the six months ended April 30, 1999 such expenses increased to 3.1% from 2.1% for the prior year six months. Corporate general and administration expenses increased \$1.6 million and \$3.7 million during the three and six months ended April 30, 1999 compared to the same periods last year. These increases are primarily attributed to

increased process redesign costs associated with the design and development of streamlined business processes associated with the implementation of SAP, our new enterprise wide fully integrated software package and increased depreciation expense related to capitalized process redesign costs in prior years.

#### Interest

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	1999	1998	1999	1998
Sale of Homes.....	\$ 6,448	\$ 7,346	\$ 13,001	\$ 14,985
Land and Lot Sales.....	609	159	742	317
Rental Properties.....	289	485	645	1,164
Total.....	<u>\$ 7,346</u>	<u>\$ 7,990</u>	<u>\$ 14,388</u>	<u>\$ 16,466</u>

Housing interest as a percentage of sale of homes revenues amounted to 3.2% and 3.3% for the three and six months ended April 30, 1999, respectively, compared to 3.6% and 3.7% for the three and six months ended April 30, 1998, respectively. The decrease in the percentage for the three and six months ended April 30, 1999 was primarily the result of the Company's lower debt levels. Lower debt levels are attributed to debt reductions resulting from cash generated by the liquidation of investment properties and income from fiscal 1998.

#### Other Operations

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

#### Total Taxes

Total taxes as a percentage of income before taxes amounted to approximately 40.0% and 34.2% for the six months ended April 30, 1999 and 1998, respectively. The increase in this percentage from 1998 to 1999 is primarily attributed to higher state taxes and the elimination of certain federal tax benefits associated with the Company's corporate owned life insurance. 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.

#### Year 2000 Issues

The Company has assessed and formulated a plan to resolve its information technology ("IT") and non-IT system year 2000 issues. The Company has designated a full-time year 2000 project leader, engaged consultants to review and evaluate its plan, completed the identification of Company IT and non-IT noncompliant systems and evaluated subcontractors' and suppliers' state of readiness. The Company's plan has prioritized its efforts on its software systems and computer hardware equipment. The Company has upgraded, fixed or retired 95% of its noncompliant systems. The Company expects to have substantially all critical IT software year 2000 capable and tested by June 30, 1999. All other Company IT and non-IT systems are not considered critical to Company operations, and if non-capable for year 2000, would only be an inconvenience. The Company does not anticipate the costs of implementation of its plan to have a material impact on future earnings and is expected to be funded through operations.

The Company is concerned about the readiness of its subcontractors and suppliers. The Company has communicated with 100% of these third parties. The Company has been informed that 70% of the subcontractors and suppliers are year 2000 compliant, 30% are expected to be compliant by September 30, 1999. If any of the third parties are not year 2000 compliant by September 30, 1999 and such third parties would have a substantial impact on the Company's operations, the Company will look to replace such subcontractors and suppliers. In most cases, the Company uses more than one subcontractor and supplier so it believes finding replacements will not be difficult.

The Company believes it is on track to solve its year 2000 issues. It does not believe it will have material lost revenues due to the year 2000 issues.

Based on the above, it sees no need to develop a worst-case year 2000 scenario. However, the Company is in the process of developing year 2000 contingency plans which are approximately 80% complete.

#### Inflation

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

Inflation has a lesser short-term effect on the Company because the Company generally negotiates fixed price contracts with its subcontractors and material suppliers for the construction of its homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between four to twelve months. Construction costs for residential buildings represent approximately 56% of the Company's total costs and expenses.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

On May 4, 1999, the Company issued \$150,000,000 9 1/8 % Senior Notes due in 2009. Such transaction was conducted under market conditions and falls within the parameters of the Company's strategy for managing its market risk. The proceeds were used to reduce the outstanding balance on the Company's "Revolving Credit Facility" to zero, for general corporate purposes, and on June 7, 1999 to redeem the remaining \$45,449,000 11 1/4% Subordinated Notes due 2002.

#### SIGNATURES

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

HOVNANIAN ENTERPRISES, INC.  
(Registrant)

DATE: June 11, 1999

/S/J. LARRY SORSBY  
J. Larry Sorsby,  
Senior Vice President,  
Treasurer and  
Chief Financial Officer

DATE: June 11, 1999

/S/PAUL W. BUCHANAN  
Paul W. Buchanan,  
Senior Vice President  
Corporate Controller

6-MOS

OCT-31-1999

APR-30-1999

11,034

0

40,635

0

395,545

534,068

37,808

17,128

572,281

207,379

153,739

237

0

0

210,926

572,281

399,557

412,566

314,624

375,531

0

0

14,388

22,647

9,067

13,580

0

0

0

13,580

0.63

0.63