UNITED STATES SECURITIESAND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended OCTOBER 31, 2008

o 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 of Incorporation or Organization)	(I.R.S. Employer Identification No.)
110 West Front Street, P.O. Box 500, Red Bank, N.J.	07701
(Address of Principal Executive Offices)	(Zip Code)

732-747-7800
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Stock, $.01 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
Depositary Shares, each representing 1/1,000th of a share of 7.625% Series A Preferred Stock	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
Class B Common Stock, $.01 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer o   Accelerated Filer ☒   Non-Accelerated Filer o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) was $443,351,894.

As of the close of business on December 19, 2008, there were outstanding 62,227,673 shares of the Registrant's Class A Common Stock and 14,639,746 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III—Those portions of registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of shareholders to be held on March 19, 2009 which are responsive to Part III, Items 10, 11, 12, 13 and 14.

FORM 10-K
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Part I

ITEM 1
BUSINESS

Business Overview

We design, construct, market and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. (the "Company", "we", "us" or "our") was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 280,000 homes, including 11,281 homes in fiscal 2008. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 284 communities in 44 markets in 18 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. We offer a variety of home styles at base prices ranging from $36,000 (low income housing) to $2,455,000 with an average sales price, including options, of $300,000 nationwide in fiscal 2008.

Our operations span all significant aspects of the home-buying process – from design, construction and sale, to mortgage origination and title services.

The following is a summary of our growth history:

1959—Founded by Kevork Hovnanian as a New Jersey homebuilder.

1983—Completed initial public offering.

1986—Entered the North Carolina market through the investment in New Fortis Homes.

1992—Entered the greater Washington, D.C. market.

1994—Entered the Coastal Southern California market.

1998—Expanded in the greater Washington, D.C. market through the acquisition of P.C. Homes.

1999—Entered the Dallas, Texas market through our acquisition of Goodman Homes. Further diversified and strengthened our position as New Jersey's largest homebuilder through the acquisition of Matzel & Mumford.

2001—Continued expansion in the greater Washington D.C. and North Carolina markets through the acquisition of Washington Homes. This acquisition further strengthened our operations in each of these markets.

2002—Entered the Central Valley market in Northern California and Inland Empire region of Southern California through the acquisition of Forecast Homes.

2003—Expanded operations in Texas and entered the Houston market through the acquisition of Parkside Homes and Brighton Homes. Entered the greater Ohio market through our acquisition of Summit Homes and entered the greater metro Phoenix market through our acquisition of Great Western Homes.

2004—Entered the greater Tampa, Florida market through the acquisition of Windward Homes, and started operations in the Minneapolis/St. Paul, Minnesota market.

2005—Entered the Orlando, Florida market through our acquisition of Cambridge Homes and entered the greater Chicago, Illinois market and expanded our position in Florida and Minnesota through the acquisition of the operations of Town & Country Homes, which occurred concurrently with our entering into a joint venture with affiliates of Blackstone Real Estate Advisors to own and develop Town & Country's existing residential communities. We also entered the Fort Myers market through the acquisition of First Home Builders of Florida, and the Cleveland, Ohio market through the acquisition of Oster Homes.

2006—Entered the coastal markets of South Carolina and Georgia through the acquisition of Craftbuilt Homes.

Geographic Breakdown of Markets by Segment

Hovnanian markets and builds homes that are constructed in 23 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, Pennsylvania

Mid-Atlantic: Delaware, Maryland, Virginia, West Virginia, Washington, D.C.

Midwest: Illinois, Kentucky, Minnesota, Ohio

Southeast: Florida, Georgia, North Carolina, South Carolina

Southwest: Arizona, Texas

West: California

We employed approximately 2,816 full-time employees (which we refer to as associates) as of October 31, 2008.

Our Corporate offices are located at 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732)747-7800, and our Internet website address is www.khov.com. We make available through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Copies of the Company's Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request.

Business Strategies

Due to the progressive weakening of demand in our homebuilding markets over the past few years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges and incurred losses in fiscal 2007 and 2008. Although we believe the long-term fundamentals which support housing demand, namely population growth and household formation, remain solid and the current negative conditions will moderate over time, the timing of a recovery in the housing market is unclear. Consequently, our primary focus while market conditions are weak is to strengthen our financial condition by reducing inventories of homes and land, controlling and reducing construction and overhead costs, maximizing cash flows, reducing outstanding debt and maintaining strong liquidity.

In addition to our current focus on maintaining strong liquidity, we will continue to focus on our historic key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to improve our business, lead to higher profitability for our shareholders and give us a clear advantage over our competitors.

Our market concentration strategy is a key factor that enables us to achieve powers and economies of scale and differentiate ourselves from most of our competitors. Our goal is to become a significant builder in each of the selected markets in which we operate.

We offer a broad product array to provide housing to a wide range of customers. Our customers consist of first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. Our diverse product array includes single family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes.

We are committed to customer satisfaction and quality in the homes that we build. We recognize that our future success rests in the ability to deliver quality homes to satisfied customers. We seek to expand our commitment to customer service through a variety of quality initiatives. In addition, our focus remains on attracting and developing quality associates. We use several leadership development and mentoring programs to identify key individuals and prepare them for positions of greater responsibility within our Company.

We focus on achieving high return on invested capital. Each new community, whether through organic growth or acquisition, is evaluated based on its ability to meet or exceed internal rate of return requirements. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital. However, given current market conditions it has been difficult to find new land investments that meet or exceed these rate of return requirements. Therefore, we have focused on managing the balance sheet by selling through our currently owned inventory and conserving cash to be prepared to invest in new land when market conditions are right.

We utilize a risk averse land strategy. We attempt to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. This policy significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

We enter into homebuilding and land development joint ventures from time to time as a means of controlling lot positions, expanding our market opportunities, establishing strategic alliances, reducing our risk profile, leveraging our capital base and enhancing our returns on capital. Our homebuilding joint ventures are generally entered into with third party investors to develop land and construct homes that are sold directly to homebuyers. Our land development joint ventures include those with developers and other homebuilders as well as financial investors to develop finished lots for sale to the joint venture's members or other third parties. Our Hovnanian Land Investment Group ("HLIG"), a wholly owned subsidiary, identifies, acquires, and develops large land parcels for sale to our homebuilding operations or to other homebuilders. HLIG may acquire the property directly or via joint ventures.

We manage our financial services operations to better serve all of our homebuyers. Our current mortgage financing and title service operations enhance our contact with customers and allow us to coordinate the homebuying experience from beginning to end.

Operating Policies and Procedures

We attempt to reduce the effect of certain risks inherent in the housing industry through the following policies and procedures:

Training—Our training is designed to provide our associates with the knowledge, attitudes, skills and habits necessary to succeed at their jobs. Our Training Department regularly conducts training classes in sales, construction, administration, and managerial skills.

Land Acquisition, Planning and Development—Before entering into a contract to acquire land, we complete extensive comparative studies and analyses which assist us in evaluating the economic feasibility of such land acquisition. We generally follow a policy of acquiring options to purchase land for future community developments.

- We typically acquire land for future development principally through the use of land options which need not be exercised before the completion of the regulatory approval process. We attempt to structure these options with flexible take down schedules rather than with an obligation to take down the entire parcel upon receiving regulatory approval. Additionally, we purchase improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows us to minimize the economic costs and risks of carrying a large land inventory, while maintaining our ability to commence new developments during favorable market periods.

- Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In fiscal 2008 and 2007, rather than purchase additional lots in underperforming communities, we took advantage of this right and walked-away from 15,370 lots and 18,157 lots, respectively, out of 31,834 total lots and 54,261 total lots, respectively, under option, resulting in a pretax charge of $114.1 million and $126.0 million, respectively.

Design—Our residential communities are generally located in suburban areas easily accessible through public and personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics. We strive to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures and colors. Recreational amenities such as swimming pools, tennis courts, club houses, open areas and tot lots are frequently included.

Construction—We design and supervise the development and building of our communities. Our homes are constructed according to standardized prototypes which are designed and engineered to provide innovative product design while attempting to minimize costs of construction. We generally employ subcontractors for the installation of site improvements and construction of homes. However, we employ general contractors to manage the construction of most mid-rise or high-rise buildings. Agreements with subcontractors are generally short term and provide for a fixed price for labor and materials. We rigorously control costs through the use of computerized monitoring systems.

Because of the risks involved in speculative building, our general policy is to construct an attached condominium or townhouse building only after signing contracts for the sale of at least 50% of the homes in that building. For our mid-rise and high-rise buildings our general policy is to begin building after signing contracts for the sale of at least 40% of the homes in that building. A majority of our single family detached homes are constructed after the signing of a sales contract and mortgage approval has been obtained. This limits the build-up of inventory of unsold homes and the costs of maintaining and carrying that inventory.

Materials and Subcontractors—We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors. In most instances, we use general contractors for mid-rise and high-rise construction. In recent years, we have experienced no significant construction delays due to shortages of materials or labor, however, we cannot predict the extent to which shortages in necessary materials or labor may occur in the future.

Marketing and Sales—Our residential communities are sold principally through on-site sales offices. In order to respond to our customers' needs and trends in housing design, we rely upon our internal market research group to analyze information gathered from, among other sources, buyer profiles, exit interviews at model sites, focus groups and demographic data bases. We make use of newspaper, radio, television, internet advertisements, magazine, our website, billboard, video and direct mail advertising, special promotional events, illustrated brochures, and full-sized and scale model homes in our comprehensive marketing program. In addition, we have home design galleries in our New Jersey, Virginia, Maryland, Texas, North Carolina, Florida, Illinois, Ohio, and portions of our California markets, which offer a wide range of customer options to satisfy individual customer tastes. These galleries have increased option sales and profitability in these markets.

Customer Service and Quality Control—In many of our markets, associates are responsible for customer service and pre-closing quality control inspections as well as responding to post-closing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by us. Our homes are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical and plumbing systems and a ten-year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing— We sell our homes to customers who generally finance their purchases through mortgages. Our financial services segment provides our customers with competitive financing and coordinates and expedites the loan origination transaction through the steps of loan application, loan approval and closing and title services. We originate loans in New Jersey, New York, Pennsylvania, Delaware, Maryland, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Texas, Arizona, Illinois, Ohio, Minnesota, Florida, and California. We believe that our ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

During the year ended October 31, 2008, for the markets in which our mortgage subsidiaries originated loans, 9.0% of our homebuyers paid in cash and 74.9% of our non-cash homebuyers obtained mortgages from one of our mortgage banking subsidiaries. The loans we originated in fiscal 2008 were 35.5% FHA/VA, 7.7% Alt-A, 52.6% prime, 0.3% broker sub-prime, 1.8% broker non-subprime and 2.1% construction to permanent.

We customarily sell virtually all of the loans and loan servicing rights that we originate within a short period of time. Loans are sold either individually or against forward commitments to institutional investors, including banks, mortgage banking firms, and savings and loan associations.

Code of Ethics—In almost 50 years of doing business, we have been committed to sustaining our shareholders' investment through conduct that is in accordance with the highest levels of integrity. Our Code of Ethics is a set of guidelines and policies that govern broad principles of ethical conduct and integrity embraced by our Company. Our Code of Ethics applies to our principal executive officer, principal financial officer, controller, and all other associates of our company, including our directors and other officers. The Company's Code of Ethics is available on the Company's website at www.khov.com under "Investor Relations/Governance/Code of Ethics".

Corporate Governance—We also remain committed to our shareholders in fostering sound corporate governance principles. The Company's "Corporate Governance Guidelines" assist the Board of Directors of the Company (the "Board") in fulfilling its responsibilities related to corporate governance conduct. These guidelines serve as a framework, addressing the function, structure, and operations of the Board, for purposes of promoting consistency of the Board's role in overseeing the work of management.

Residential Development Activities

Our residential development activities include site planning and engineering, obtaining environmental and other regulatory approvals and constructing roads, sewer, water and drainage facilities, recreational facilities and other amenities and marketing and selling homes. These activities are performed by our associates, together with independent architects, consultants and contractors. Our associates also carry out long-term planning of communities. A residential development generally includes single family detached homes and/or a number of residential buildings containing from two to twenty-four individual homes per building, together with amenities such as club houses, swimming pools, tennis courts, tot lots and open areas. We also develop mid-rise and high-rise buildings including some that contain over 300 homes per building.

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Current base prices for our homes in contract backlog at October 31, 2008 range from $36,000 (low income housing) to $2,455,000 in the Northeast, from $135,000 to $1,404,000 in the Mid-Atlantic, from $80,000 to $667,000 in the Midwest, from $139,000 to $551,000 in the Southeast, from $88,000 to $727,000 in the Southwest, and from $136,000 to $1,159,000 in the West. Closings generally occur and are typically reflected in revenues within eighteen months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2008 is set forth below:

(Housing Revenue in Thousands)	Housing Revenues	Homes Delivered	Average Price
Northeast	$ 679,488	1,412	$ 481,224
Mid-Atlantic	509,009	1,248	407,860
Midwest	209,759	965	217,367
Southeast	624,106	2,572	242,654
Southwest	603,513	2,616	230,701
West	551,978	1,764	312,913
Consolidated Total	$ 3,177,853	10,577	$ 300,449
Unconsolidated Joint Ventures	262,605	704	373,018
Total Including Unconsolidated Joint Ventures	$ 3,440,458	11,281	$ 304,978

The value of our net sales contracts, excluding unconsolidated joint ventures, decreased 48.4% to $1.9 billion for the year ended October 31, 2008 from $3.6 billion for the year ended October 31, 2007. This decrease was the result of a net 40.5% decrease in the number of homes contracted to 6,546 in 2008 from 11,006 in 2007, as well as increased incentives or base price reductions as the homebuilding market weakened further in 2008.

Information on the value of net sales contracts by segment for the years ended October 31, 2008 and 2007 is set forth below:

(Value of Net Sales Contracts in Thousands)	2008	2007	% Change
Northeast	$ 381,401	$ 802,459	52.5%
Mid-Atlantic	313,405	677,581	53.8%
Midwest	106,887	248,744	57.0%
Southeast	132,245	312,070	57.6%
Southwest	518,565	758,340	31.6%
West	421,292	833,986	49.5%
Consolidated Total	$ 1,873,795	$ 3,633,180	48.4%

As the homebuilding market and the economy as a whole have continued to weaken this year, the number of homes contracted has decreased in all of our segments by 32% or more. In addition, these weaker conditions have resulted in lower average prices in all segments except the Southwest, where the average prices are up 1.4%. This combination of lower net contracts and lower average prices has resulted in 48.4% lower value of net sales contracts.

The following table summarizes our active selling communities under development as of October 31, 2008. The contracted not delivered and remaining homes available in our active selling communities are included in the consolidated total home sites under the total residential real estate chart in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Active Selling Communities

	Communities	Approved Homes	Homes Delivered	Contracted Not Delivered(1)	Remaining Homes Available(2)
Northeast	31	7,965	5,269	495	2,201
Mid-Atlantic	48	10,231	5,568	385	4,278
Midwest	26	4,113	1,573	291	2,249
Southeast	32	10,079	7,180	163	2,736
Southwest	111	17,944	11,298	420	6,226
West	36	11,518	7,355	134	4,029
Total	284	61,850	38,243	1,888	21,719

(1) Includes 139 home sites under option.

(2) Of the total remaining homes available, 1,596 were under construction or completed (including 321 models and sales offices), 9,897 were under option, and 229 were financed through purchase money mortgages.

Backlog

At October 31, 2008 and October 31, 2007, including unconsolidated joint ventures, we had a backlog of signed contracts for 2,170 homes and 6,365 homes, respectively, with sales values aggregating $0.8 billion and $2.2 billion, respectively. The majority of our backlog at October 31, 2008 is expected to be completed and closed within the next twelve months. At November 30, 2008 and 2007, our backlog of signed contracts, including unconsolidated joint ventures, was 2,097 homes and 6,036 homes, respectively, with sales values aggregating $0.8 billion and $2.1 billion, respectively.

Sales of our homes typically are made pursuant to a standard sales contract that provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. This contract requires a nominal customer deposit at the time of signing. In addition, in the Northeast, Mid-Atlantic and some sections of the Southeast we typically obtain an additional 5% to 10% down payment due 30 to 60 days after signing. The contract may include a financing contingency, which permits the customers to cancel their obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution. As housing values decline in certain markets some customers cancel their contracts and forfeit their deposits. Cancellation rates are discussed further in Item 7 "Managements' Discussion and Analysis of Financial Condition and Results of Operation". Sales contracts are included in backlog once the sales contract is signed by the customer, which in some cases includes contracts that are in the rescission or cancellation periods. However, revenues from sales of homes are recognized in the Consolidated Statement of Operations, in accordance with generally accepted accounting principles, when title to the home is conveyed to the buyer, adequate initial and continuing investment have been received and there is no continued involvement.

Residential Land Inventory in Planning

It is our objective to control a supply of land, primarily through options, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land as of October 31, 2008, exclusive of communities under development described above under "Active Selling Communities" and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities under development are included in the 40,095 consolidated total home sites under the total residential real estate chart in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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Communities in Planning

(Dollars in Thousands)	Number of Proposed Communities	Proposed Developable Home Sites		Total Land Option Price		Book Value(2)
Northeast:						
Under Option(1)	26	4,478	$	214,974	$	58,477
Owned	18	1,801				314,299
Total	44	6,279			$	372,776
Mid-Atlantic:						
Under Option(1)	5	290	$	20,387	$	4,790
Owned	5	1,353				25,391
Total	10	1,643			$	30,181
Midwest:						
Under Option(1)	3	327	$	9,634	$	1,073
Owned	2	102				2,446
Total	5	429			$	3,519
Southeast:						
Under Option(1)	9	998	$	65,896	$	3,377
Owned	11	583				21,335
Total	20	1,581			$	24,712
Southwest:						
Under Option(1)	5	177	$	11,098	$	2,052
Owned	14	1,369				19,586
Total	19	1,546			$	21,638
West:						
Under Option(1)	1	158	$	4,740	$	127
Owned	33	4,852				194,282
Total	34	5,010			$	194,409
Totals:						
Under Option(1)	49	6,428	$	326,729	$	69,896
Owned	83	10,060				577,339
Combined Total	132	16,488			$	647,235

(1) *Properties under option also include costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2008, option fees and deposits aggregated approximately $13.3 million. As of October 31, 2008, we spent an additional $56.6 million in non-refundable predevelopment costs on such properties.*

(2) *The book value of $647.2 million is identified on the balance sheet as "Inventories—land and land options held for future development or sale". The book value includes $1.3 million for specific performance options, $0.1 million for deposits on variable interest entity property and $1.7 million for other options reported under "Consolidated inventory not owned".*

We either option or acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a non-recourse purchase agreement. Due to the dwindling supply of improved lots in our segments, we have been increasing the percentage of optioned parcels of unimproved land for development as compared to owned land.

For additional financial information regarding our homebuilding segments, see Note 10 to the Consolidated Financial Statements.

Competition

Our homebuilding operations are highly competitive. We are among the top ten homebuilders in the United States in both homebuilding revenues and home deliveries. We compete with numerous real estate developers in each of the geographic areas in which we operate. Our competition ranges from small local builders to larger regional builders to publicly owned builders and developers, some of which have greater sales and financial resources than we do. Previously owned homes and the availability of rental housing provide additional competition. We compete primarily on the basis of reputation, price, location, design, quality, service and amenities.

Regulation and Environmental Matters

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular locality. In addition, we are subject to registration and filing requirements in connection with the construction, advertisement and sale of our communities in certain states and localities in which we operate even if all necessary government approvals have been obtained. We may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums that could be implemented in the future in the states in which we operate. Generally, such moratoriums relate to insufficient water or sewerage facilities or inadequate road capacity.

In addition, some state and local governments in markets where we operate have approved, and others may approve, slow growth or no growth initiatives that could negatively impact the availability of land and building opportunities within those areas. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets and/or could require the satisfaction of additional administrative and regulatory requirements, which could result in slowing the progress or increasing the costs of our homebuilding operations in these markets. Any such delays or costs could have a negative effect on our future revenues and earnings.

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

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

ITEM 1A
RISK FACTORS

You should carefully consider the following risks in addition to the other information included in this Form 10-K.

The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets and weather conditions, which could affect our ability to build homes at prices our customers are willing or able to pay, could reduce profits that may not be recaptured, could result in cancellation of sales contracts and could affect our liquidity.

The homebuilding industry is cyclical, has from time to time experienced significant difficulties and is significantly affected by changes in general and local economic conditions such as:

- employment levels and job growth;
- availability of financing for home buyers;
- interest rates;
- foreclosure rates;
- inflation;
- adverse changes in tax laws;
- consumer confidence;
- housing demand; and
- population growth.

Turmoil in the financial markets could affect our liquidity. In addition, our cash balances are held at numerous financial institutions and may, at times, exceed insurable amounts. We believe we help to mitigate this risk by depositing our cash in major financial institutions and diversifying our investments. We also depend upon the lenders under our Revolving Credit Agreement to be able to perform under their commitments. If one or more of our lenders default on their funding obligations, the other lenders are not obligated to make up the shortfall, which would reduce our available liquidity. In addition, it may be difficult to find a bank willing to issue a letter of credit under our Revolving Credit Agreement in such a circumstance.

Weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the impact of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an impact on materials and labor

availability or pricing, but did impact the volume of home sales in subsequent weeks.

The difficulties described above could cause us to take longer and incur more costs to build our homes. We may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to twelve months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

The homebuilding industry is undergoing a significant and sustained downturn which has, and could continue to, materially and adversely affect our business, liquidity and results of operations.

The homebuilding industry is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has resulted from a lack of consumer confidence, decreased housing affordability, decreased availability of mortgage financing, and large supplies of resale and new home inventories. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes and foreclosures, has depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations during fiscal years 2008 and 2007. For example, we are continuing to experience significant declines in sales, significant reductions in our margins and higher cancellations. Further, we substantially increased our inventory through fiscal 2006, which required significant cash outlays and which has increased our price and margin exposure as we continue to work through this inventory. In addition, general economic conditions in the U.S. continue to weaken. Market volatility has been unprecedented and extraordinary in recent months, and the resulting economic turmoil may continue to exacerbate industry conditions or have other unforeseen consequences, leading to uncertainty about future conditions in the homebuilding industry. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity and the availability of credit. Continuation or worsening of this downturn or general economic conditions would continue to have a material adverse effect on our business, liquidity and results of operations.

Leverage places burdens on our ability to comply with the terms of our indebtedness, may restrict our ability to operate, may prevent us from fulfilling our obligations and may adversely affect our financial condition.

We have a significant amount of debt. On a pro forma basis to give effect to the exchange offer (the "Exchange Offer") in which we issued $29.3 million aggregate principal amount of 18.0% Senior Secured Notes due 2017 in exchange for certain of our unsecured senior notes aggregating $71.4 million on December 3, 2008 (for more details about the Exchange Offer see Note 23 to the Consolidated Financial Statements):

- our debt, as of October 31, 2008, including the debt of the subsidiaries that guarantee our debt, would have been $2,472.9 million ($2,463.7 million net of discount);
- as of October 31, 2008, the aggregate outstanding face amount of letters of credit under our Revolving Credit Agreement would have been $197.5 million and we would have had no outstanding revolving loans (unchanged from the actual amount); and
- our debt service payments for the 12-month period ended October 31, 2008, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on non-recourse secured debt and debt of our financial subsidiaries), would have been approximately $168.4 million.

In addition, we had substantial contractual commitments and contingent obligations, including $632.5 million of performance bonds as of October 31, 2008. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations".

Our significant amount of debt could have important consequences. For example, it could:

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business;
- place us at a competitive disadvantage because we have more debt than some of our competitors; and
- make us more vulnerable to downturns in our business and general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues

and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by customer sentiment and financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations, because borrowings under our Revolving Credit Agreement bear interest at floating rates. A higher interest rate on our debt service obligations could result in lower earnings.

Our business may not generate sufficient cash flow from operations and borrowings may not be available to us under our Revolving Credit Agreement in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Under the $300 million Revolving Credit Agreement, the amount available for revolving loans is limited to $100 million, with the remaining amounts available (subject to the borrowing base) for the issuance of letters of credit. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

Restrictive covenants in our debt instruments may restrict our ability to operate and if our financial performance worsens, we may not be able to maintain compliance with the financial covenants of our debt instruments.

The indentures governing our outstanding debt securities and our Revolving Credit Agreement impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, sales of assets, cash distributions, including paying dividends on common and preferred stock, capital stock and debt repurchases, and investments by us and certain of our subsidiaries. The covenants in our Revolving Credit Agreement also include a borrowing base covenant and a covenant requiring either a minimum operating cash flow coverage ratio or minimum liquidity as of the last day of each fiscal quarter but do not contain any other financial covenants. Our level of home deliveries, amount of impairments and other financial performance factors negatively impacted the borrowing base and financial covenants under the Revolving Credit Agreement prior to its amendment in May 2008, and there can be no assurance that we will not violate the financial or other covenants under our debt instruments in the future or that the amount available under our Revolving Credit Agreement would not be reduced.

In addition, as a result of the restrictions in our indentures, which would require our fixed charge coverage ratio to be at least 2.0 to 1.0, we are currently restricted from paying dividends on our Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends into fiscal 2009 and possibly beyond.

If we fail to comply with any of the restrictions or covenants of our debt instruments, and are unable to amend the instrument or obtain a waiver, or make timely payments on this debt and other material indebtedness, we could be precluded from incurring additional borrowings under our Revolving Credit Agreement and the trustees or the banks, as appropriate, could cause our debt to become due and payable prior to maturity. In such a situation, there can be no assurance that we would be able to obtain alternative financing. In addition, if we are in default of these agreements, we may be prohibited from drawing additional funds under the Revolving Credit Agreement, which could impair our ability to maintain sufficient working capital. Either situation could have a material adverse effect on the solvency of the Company.

The terms of our debt instruments allow us to incur additional indebtedness.

Under the terms of our indebtedness under our indentures and under the Revolving Credit Agreement, we have the ability, subject to our debt covenants, to incur additional amounts of debt. The incurrence of additional indebtedness could magnify the risks described above. In addition, certain obligations such as standby letters of credit and performance bonds issued in the ordinary course of business are not considered indebtedness under our indentures (and may be secured) and therefore are not subject to limits in our debt covenants.

We could be adversely affected by a negative change in our credit rating.

Our ability to access capital on favorable terms is a key factor in continuing to grow our business and operations in a profitable manner. On March 26, 2008, Moody's lowered our overall credit rating to B3 from B2 and maintained its negative outlook. On February 2, 2008, S&P lowered our credit rating to B- from B+ and maintained its negative outlook. On January 18, 2008, Fitch lowered the Company's issuer default rating to B- from BB- and placed the Company on negative rating outlook. These downgrades may make it more difficult and costly for us to access capital. A further downgrade by any of the principal credit agencies may exacerbate these difficulties.

Our business is seasonal in nature and our quarterly operating results can fluctuate.

Our quarterly operating results generally fluctuate by season. Historically, a large percentage of our agreements of sale have been entered into in the

winter and spring. The construction of a customer's home typically begins after signing the agreement of sale and can take 12 months or more to complete. Weather-related problems, typically in the late winter and early spring, can delay starts or closings and increase costs and thus reduce profitability. In addition, delays in opening communities could have an adverse impact on our sales and revenues. Due to these factors, our quarterly operating results may continue to fluctuate.

Our success depends on the availability of suitable undeveloped land and improved lots at acceptable prices.

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and improved lots at acceptable prices. The availability of undeveloped land and improved lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce revenue and profits.

Raw material and labor shortages and price fluctuations could delay or increase the cost of home construction and adversely affect our operating results.

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. In addition, we contract with subcontractors to construct our homes. Therefore, the timing and quality of our construction depends on the availability, skill and cost of our subcontractors. Delays or cost increases caused by shortages and price fluctuations could harm our operating results, the impact of which may be further affected depending on our ability to raise sales prices.

Changes in economic and market conditions could result in the sale of homes at a loss or holding land in inventory longer than planned, the cost of which can be significant.

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See "Critical Accounting Policies." For example, during 2008 and 2007 we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of $114.1 million and $126.0 million, respectively. Also, in 2008 and 2007, as a result of the slowing market, we recorded inventory impairment losses on owned property of $596.0 million and $331.8 million, respectively. If market conditions continue to worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

Home prices and sales activities in the California, New Jersey, Texas, Virginia, Maryland, Florida and Arizona markets have a large impact on our profitability because we conduct a significant portion of our business in these markets.

We presently conduct a significant portion of our business in the California, New Jersey, Texas, Virginia, Maryland, Florida and Arizona markets. Home prices and sales activities in these markets, and in most of the other markets in which we operate, have declined from time to time, particularly as a result of slow economic growth. In particular, Arizona, California, Florida, New Jersey, Virginia and Maryland have declined significantly since the end of 2006. Furthermore, precarious economic and budget situations at the state government level may adversely affect the market for our homes in those affected areas. If home prices and sales activity decline in one or more of the markets in which we operate, our costs may not decline at all or at the same rate and profits may be reduced.

Because almost all of our customers require mortgage financing, increases in interest rates or the decreased availability of mortgage financing could impair the affordability of our homes, lower demand for our products, limit our marketing effectiveness, and limit our ability to fully realize our backlog.

Virtually all of our customers finance their acquisitions through lenders providing mortgage financing. Increases in interest rates or decreases in availability of mortgage financing could lower demand for new homes because of the increased monthly mortgage costs to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. This could prevent or limit our ability to attract new customers as well as our ability to fully realize our backlog because our sales contracts generally include a financing contingency. Financing contingencies permit the customer to cancel his obligation in the event mortgage financing at prevailing interest rates, including financing arranged or provided by us, is unobtainable within the period specified in the contract. This contingency period is typically four to eight weeks following the date of execution of the sales contract.

Over the last several quarters, many lenders have significantly tightened their underwriting standards, and many subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be difficult to obtain, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes will be adversely affected, which will adversely affect our operating results.

In addition, we believe that the availability of mortgage financing, including FNMA, FHLMC and FHA / VA financing, is an important factor in marketing many of our homes. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest. These investments involve risks and are highly illiquid.

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At October 31, 2008, we had invested an aggregate of $71.1 million in these joint ventures, which had borrowings outstanding of approximately $320.2 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

These investments involve risks and are highly illiquid. There are a limited number of sources willing to provide acquisition, development and construction financing to land development and homebuilding joint ventures, and as market conditions become more challenging, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms. In addition, we lack a controlling interest in these joint ventures and therefore are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions or take any other action without the vote of at least one of our venture partners. Therefore, absent partner agreement, we will be unable to liquidate our joint venture investments to generate cash.

Homebuilders are subject to a number of federal, local, state and foreign laws and regulations concerning the development of land, the home building, sales and customer financing processes and protection of the environment, which can cause us to incur delays and costs associated with compliance and which can prohibit or restrict our activity in some regions or areas.

We are subject to extensive and complex regulations that affect the development and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding. In addition, some state and local governments in markets where we operate have approved, and others may approve, slow growth or no growth initiatives that could negatively impact the availability of land and building opportunities within those areas. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets and/or could require the satisfaction of additional administrative and regulatory requirements, which could result in slowing the progress or increasing the costs of our homebuilding operations in these markets. Any such delays or costs could have a negative effect on our future revenues and earnings.

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

For example, during 2005, we received two requests for information pursuant to Section 308 of the Clean

Water Act from Region 3 of the Environmental Protection Agency (the "EPA"). These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The Department of Justice ("DOJ") is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters. We cannot predict whether those discussions will result in a resolution, or what any resolution of these matters ultimately will require of us.

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

Product liability litigation and warranty claims that arise in the ordinary course of business may be costly.

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, we may experience losses that could hurt our financial results. Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims.

We compete on several levels with homebuilders that may have greater sales and financial resources, which could hurt future earnings.

We compete not only for home buyers but also for desirable properties, financing, raw materials and skilled labor often within larger subdivisions designed, planned and developed by other homebuilders. Our competitors include other local, regional and national homebuilders, some of which have greater sales and financial resources.

The competitive conditions in the homebuilding industry together with current market conditions have, and could continue to, result in:

- difficulty in acquiring suitable land at acceptable prices;
- increased selling incentives;
- lower sales; or
- delays in construction.

Any of these problems could increase costs and/or lower profit margins.

We may have difficulty in obtaining the additional financing required to operate and develop our business.

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or borrowing additional money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indentures for our outstanding debt securities and our Revolving Credit Agreement contain provisions that restrict the debt we may incur and the equity we may issue in the future. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations. In addition, pledging substantially all of our assets to support the Revolving Credit Agreement, the $11^{1}/2$% Senior Secured Notes due 2013 and the 18.0% Senior Secured Notes due 2017 issued in the Exchange Offer may make it more difficult to raise additional financing in the future.

Also, our mortgage business currently operates with working capital from a Mortgage Master Repurchase Agreement that comes due in July 2009. We believe we will be able to extend the Master Repurchase Agreement beyond its expiration date, but there can be no assurance of such extension.

Our future growth may include additional acquisitions of companies that may not be successfully integrated and may not achieve expected benefits.

Acquisitions of companies have contributed to our historical growth and may again be a component of our growth strategy in the future. In April 2006, we acquired Craftbuilt Homes. In the future, we may acquire other businesses, some of which may be significant. As a result of acquisitions of companies, we may need to seek additional financing and integrate product lines, dispersed operations and distinct corporate cultures. These integration efforts may not succeed or may distract our management from operating our existing business. Additionally, we may not be able to enhance our earnings as a result of acquisitions. Our failure to successfully identify and

manage future acquisitions could harm our operating results.

Our controlling stockholders are able to exercise significant influence over us.

Kevork S. Hovnanian, the Chairman of our Board of Directors, and Ara K. Hovnanian, our President and Chief Executive Officer, have voting control, through personal holdings and family-owned entities, of Class A and Class B common stock that enables them to cast approximately 72.3% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of our Board of Directors and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Based on recent impairments and our current financial performance, we generated a net operating loss carryforward of $404.8 million for the year ending October 31, 2008, and we may generate net operating loss carryforwards in future years.

Section 382 of the Internal Revenue Code contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our net operating loss carryforwards and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our net operating loss carryforwards could expire before we would be able to use them. Our inability to utilize our net operating loss carryforwards could have a negative impact on our financial position and results of operations.

In August 2008, we announced that our Board of Directors adopted a shareholder rights plan designed to preserve shareholder value and the value of certain tax assets primarily associated with net loss carryforwards and built in losses under Section 382 of the Internal Revenue Code. See Note 3 to the Consolidated Financial Statements for further details about the shareholder rights plan.

Utility shortages and outages or rate fluctuations could have an adverse effect on our operations.

In prior years, the areas in which we operate in California have experienced power shortages, including periods without electrical power, as well as significant fluctuations in utility costs. We may incur additional costs and may not be able to complete construction on a timely basis if such power shortages/outages and utility rate fluctuations continue. Furthermore, power shortages and outages, such as the blackout that occurred in 2003 in the Northeast, and rate fluctuations may adversely affect the regional economies in which we operate, which may reduce demand for our homes. Our operations may be adversely affected if further rate fluctuations and/or power shortages and outages occur in California, the Northeast or in our other markets.

Geopolitical risks and market disruption could adversely affect our operating results and financial condition.

Geopolitical events, such as the aftermath of the war with Iraq and the continuing involvement in Iraq, may have a substantial impact on the economy and the housing market. The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 had an impact on our business and the occurrence of similar events in the future cannot be ruled out. The war and the continuing involvement in Iraq and Afghanistan, terrorism and related geopolitical risks have created many economic and political uncertainties, some of which may have additional material adverse effects on the U.S. economy, and our customers and, in turn, our results of operations and financial condition.

ITEM 1B
UNRESOLVED STAFF COMMENTS

None.

ITEM 2
PROPERTIES

We own a 69,000 square foot office complex located in the Northeast that serves as our corporate headquarters. We own 215,000 square feet of office and warehouse space throughout the Midwest. We lease approximately 868,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West.

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ITEM 3
LEGAL PROCEEDINGS

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

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

In March 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (the "EPA"). These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The Department of Justice ("DOJ") is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters. We cannot predict whether those discussions will result in a resolution, or what any resolution of these matters ultimately will require of us.

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

The Company is also involved in the following litigation in different parts of the country:

The Company, Chief Executive Officer and President Ara K. Hovnanian, Executive Vice President and Chief Financial Officer J. Larry Sorsby and a former officer of a Company subsidiary have been named as defendants in a purported class action. The original complaint, which only named Mr. Sorsby as a defendant, was filed on September 14, 2007 in the United States District Court for the Central District of California, captioned *Herbert Mankofsky v. J. Larry Sorsby,* and names only Mr. Sorsby as a defendant. On January 31, 2008, the court appointed Herbert Mankofsky as Lead Plaintiff. On February 19, 2008, the action was transferred to the United States District Court for the District of New Jersey. On March 10, 2008, plaintiff filed an amended complaint, captioned *In re Hovnanian Enterprises, Inc. Securities Litigation*, alleging, among other things, that the defendants violated federal securities laws by making false and misleading statements regarding the Company's business and future prospects in connection with the Company's acquisition of First Home Builders of Florida. The Company filed a Motion to Dismiss the amended complaint on July 14, 2008. On September 11, 2008, plaintiff filed his opposition to the Motion to Dismiss. The Company filed its reply brief on October 28, 2008. The Motion to Dismiss is now fully briefed and is pending before the court.

The Company has been named as a defendant in a purported class action suit filed May 30, 2007 in the United States District Court for the Eastern District of Pennsylvania, *Mark W. Mellar, et al., v. Hovnanian Enterprises, Inc., et al.*, asserting that the Company's sales of homes along with the financing of home purchases and the provision of title insurance by affiliated companies violated the Real Estate Settlement Procedures Act. Plaintiffs seek to represent a class of persons who purchased a home from the Company, who received a mortgage loan via a subsidiary of the Company and/or who bought title insurance from a company affiliated with the Company, and are seeking damages (including treble damages), declaratory and injunctive relief, and attorney's fees and costs. The Company's Motion to Dismiss the complaint was denied by the Court on March 4, 2008 without prejudice. The case was settled in October 2008 (with the Stipulation of Dismissal filed with the Court on November 5, 2008) and the terms of the settlement had no material impact on the Company.

A subsidiary of the Company has been named as a defendant in a purported class action suit filed on May 30, 2007 in the United States District Court for the Middle District of Florida, *Randolph Sewell, et al., v. D'Allesandro & Woodyard, et al.*, alleging violations of

the federal securities acts, among other allegations, in connection with the sale of some of the subsidiary's homes in Fort Myers, Florida. Plaintiffs filed an amended complaint on October 19, 2007. Plaintiffs sought to represent a class of certain home purchasers in southwestern Florida and sought damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs. The Company's subsidiary filed a Motion to Dismiss the amended complaint on December 14, 2007. Following oral argument on the motion in September 2008, the court dismissed the amended complaint with leave for plaintiffs to amend. Plaintiffs filed a second amended complaint on October 31, 2008. Plaintiffs seek to represent a class of certain home purchasers in southwestern Florida and seek damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs.

On April 4, 2008, K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), a wholly-owned subsidiary of the Company, initiated arbitration proceedings against GMAC Model Home Finance, LLC ("GMAC") to resolve a dispute arising under a Model Purchase, Construction Management and Rental Agreement dated October 4, 2001 (the "Agreement"). The Company is the guarantor of K. Hovnanian's obligations under the Agreement. On March 31, 2008, GMAC advised K. Hovnanian that it was terminating all model home leases and intended to take possession of all model homes at issue based on the claim that K. Hovnanian had defaulted under the Agreement. In its arbitration demand, K. Hovnanian disputes the existence of any default and claims that GMAC has materially breached the Agreement by failing to fund certain construction costs. On April 25, 2008, GMAC asserted counterclaims against K. Hovnanian and the Company alleging that K. Hovnanian defaulted and that all leases were terminated. On September 4, 2008, parties entered into a settlement and release agreement resolving all disputes between them arising under the Agreement. The terms of the settlement had no material impact on the Company.

ITEM 4
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year ended October 31, 2008, no matters were submitted to a vote of security holders. See Note 23 to the Consolidated Financial Statements for a discussion of the matters submitted to a vote of security holders during the first quarter of fiscal 2009.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information on executive officers of the registrant is incorporated herein from Part III, Item 10.

Part II

ITEM 5
MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock is traded on the New York Stock Exchange and was held by 597 stockholders of record at December 19, 2008. There is no established public trading market for our Class B Common Stock, which was held by 284 stockholders of record at December 19, 2008. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low sales prices for our Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 2008 and 2007:

	Oct. 31, 2008		**Oct. 31, 2007**	
Quarter	**High**	**Low**	**High**	**Low**
First	$10.45	$4.80	$38.01	$27.81
Second	$12.41	$8.09	$36.98	$22.85
Third	$11.87	$4.64	$25.95	$13.24
Fourth	$ 9.05	$3.38	$16.22	$ 9.99

Certain debt instruments to which we are a party contain restrictions on the payment of cash dividends. As a result of the most restrictive of these provisions, we are not currently able to pay any cash dividends. We have never paid a cash dividend to common stockholders.

Issuer Purchases of Equity Securities

In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock (adjusted for a 2 for 1 stock dividend on March 5, 2004). No shares of our Class A Common Stock or Class B Common Stock were purchased by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2008 (excluding purchases by certain members of the Hovnanian family, which have been previously reported in filings with the Securities and Exchange Commission). The maximum number of shares that may yet be purchased under the Company's plans or programs is 0.6 million.

ITEM 6
SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data and should be read in conjunction with the financial statements included elsewhere in this Form 10-K. Per common share data and weighted average number of common shares outstanding reflect all stock splits. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

	Year Ended				
Summary Consolidated Statements of Operations Data (In Thousands, Except Per Share Data)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**October 31, 2004**
Revenues	$ 3,308,111	$ 4,798,921	$ 6,148,235	$ 5,348,417	$ 4,153,890
Expenses	4,439,559	5,417,664	5,930,514	4,602,871	3,608,909
(Loss) income from unconsolidated joint ventures	(36,600)	(28,223)	15,385	35,039	4,791
(Loss) income before income taxes	(1,168,048)	(646,966)	233,106	780,585	549,772
State and Federal income tax (benefit)/provision	(43,458)	(19,847)	83,573	308,738	201,091
Net (loss) income	(1,124,590)	(627,119)	149,533	471,847	348,681
Less: preferred stock dividends	—	10,674	10,675	2,758	—
Net (loss) income available to common stockholders	$ (1,124,590)	$ (637,793)	$ 138,858	$ 469,089	$ 348,681
Per share data:					
Basic:					
(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.21	$ 7.51	$ 5.63
Weighted average number of common shares outstanding	70,131	63,079	62,822	62,490	61,892
Assuming dilution:					
(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.14	$ 7.16	$ 5.35
Weighted average number of common shares outstanding	70,131	63,079	64,838	65,549	65,133
Summary Consolidated Balance Sheet Data (In Thousands)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**October 31, 2004**
Total assets	$ 3,637,322	$ 4,540,548	$ 5,480,035	$ 4,726,138	$ 3,156,267
Mortgages, term loans, revolving credit agreements, and notes payable	$ 107,913	$ 410,298	$ 319,943	$ 271,868	$ 354,055
Senior secured notes, senior notes, and senior subordinated notes	$ 2,505,805	$ 1,910,600	$ 2,049,778	$ 1,498,739	$ 902,737
Stockholders' equity	$ 330,264	$ 1,321,803	$ 1,942,163	$ 1,791,357	$ 1,192,394

Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends

For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of earnings from continuing operations before income taxes and income or loss from equity investees, plus fixed charges and distributed income of equity investees, less interest capitalized. Fixed charges consist of all interest incurred plus the amortization of debt issuance costs and bond discounts. Combined fixed charges and preferred stock dividends consist of fixed charges and preferred stock dividends declared. The fourth quarter of 2005 was the first period we declared and paid preferred stock dividends and, due to covenant restrictions, we have been prohibited from paying dividends beginning with the first quarter of fiscal 2008.

The following table sets forth the ratios of earnings to fixed charges and the ratios of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated:

	Years Ended October 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Ratio of earnings to fixed charges	(a)	(a)	2.0	7.8	6.3
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	1.8	7.5	6.3

(a) *Earnings for the years ended October 31, 2008 and 2007 were insufficient to cover fixed charges for such period by $1,138.5 million and $667.5 million, respectively.*

(b) *Earnings for the years ended October 31, 2008 and 2007 were insufficient to cover fixed charges and preferred stock dividends for such period by $1,138.5 million and $678.6 million, respectively.*

ITEM 7
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Beginning during the second half of our fiscal year ended October 31, 2006 and continuing through today, the U. S. housing market has been impacted by a lack of consumer confidence, increasing home foreclosure rates and large supplies of resale and new home inventories. The result has been weakened demand for new homes, slower sales, higher than normal cancellation rates, and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products became more constrained starting in February 2007 when the mortgage industry began to more closely scrutinize sub-prime, Alt-A, and other non-prime mortgage products. The combination of these homebuilding industry and related mortgage financing developments resulted in significant decreases in our revenues and gross margins during 2008 and 2007 compared with prior years. Additionally, we incurred total land-related charges of $710.1 million and $457.8 million for the years ended October 31, 2008 and 2007, respectively. These charges resulted from the write-off of deposit and preacquisition costs of $114.1 million and $126.0 million, respectively, related to land we no longer plan to pursue and impairments on owned inventory of $596.0 million and $331.8 million for the fiscal years ended October 31, 2008 and 2007. In addition to land related charges, the continued weakening of the market resulted in impairments of our intangible assets and goodwill of $35.4 million and $135.2 million during fiscal 2008 and 2007, respectively.

We have exposure to additional impairments of our inventories, which, as of October 31, 2008, have a book value of $2.2 billion, net of $719.0 million of impairments recorded on 181 of our communities. We also have $161.7 million invested in 16,464 lots under option, including cash and letters of credit deposits of $69.9 million as of October 31, 2008. We will record a write-off for the amounts associated with an option if we determine it is probable we will not exercise it. As of October 31, 2008, we have total investments in, and advances to, unconsolidated joint ventures of $71.1 million. Each of our joint ventures assesses its inventory and other long-lived assets for impairment in accordance with U.S. GAAP, which has resulted in reductions in our investment in joint ventures of $72.2 million from our second half of fiscal 2006 through October 31, 2008. We still have exposure to future write-downs of our investment in unconsolidated joint ventures if conditions continue to deteriorate in the markets that our joint ventures operate. With respect to goodwill and intangibles, there is no remaining risk of further exposure to impairments because both goodwill and definite life intangibles have been fully written off as of October 31, 2008.

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We have adjusted our approach to land acquisition and construction practices and continue to shorten our land pipeline, reduce production volumes, and balance home price and profitability with sales pace. We are delaying and cancelling planned land purchases and renegotiating land prices and have significantly reduced our total number of controlled lots owned and under option. Additionally, we are significantly reducing the number of speculative homes put into production. While we will continue to purchase select land positions where it makes strategic and economic sense to do so, we currently anticipate minimal investment in new land parcels in fiscal 2009. We have also closely evaluated and made reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses $165.3 million from $625.2 million in fiscal 2007 to $459.9 million in fiscal 2008 due in large part to a 59% reduction head count from our peak in June 2006. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. We believe that these measures will help to strengthen our market position and allow us to take advantage of opportunities that will develop in the future.

Critical Accounting Policies

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

Business Combinations—When we make an acquisition of another company, we use the purchase method of accounting in accordance with the Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations" ("SFAS 141"). Under SFAS 141, we record as our cost the estimated fair value of 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 intangible assets less liabilities is recorded as goodwill. The reported income of an acquired company includes the operations of the acquired company from the date of acquisition.

Income Recognition from Home and Land Sales—We are primarily engaged in the development, construction, marketing and sale of residential single-family and multi-family homes where the planned construction cycle is less than 12 months. For these homes, in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), revenue is recognized when title is conveyed to the buyer, adequate initial and continuing investments have been received and there is no continued involvement. In

situations where the buyer's financing is originated by our mortgage subsidiary and the buyer has not made an adequate initial or continuing investment as prescribed by SFAS 66, the profit on such sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed.

Additionally, in certain markets, we sell lots to customers, transferring title, collecting proceeds, and entering into contracts to build homes on these lots. In these cases, we do not recognize the revenue from the lot sale until we deliver the completed home and have no continued involvement related to that home. The cash received on the lot is recorded as a component of inventory until the revenue is recognized.

Income Recognition from High-Rise/Mid-Rise Projects—We are developing several high-rise/mid-rise buildings that will take more than 12 months to complete. If these buildings qualify, revenues and costs are recognized using the percentage of completion method of accounting in accordance with SFAS 66. Under the percentage of completion method, revenues and costs are to be recognized when construction is beyond the preliminary stage, the buyer is committed to the extent of having a sufficient initial and continuing investment that the buyer cannot require to be refunded except for non-delivery of the home, sufficient homes in the building have been sold to ensure that the property will not be converted to rental property, the sales prices are collectible and the aggregate sales proceeds and the total cost of the building can be reasonably estimated. We currently do not have any buildings that meet these criteria; therefore the revenues from delivering homes in high-rise/mid-rise buildings are recognized when title is conveyed to the buyer, adequate initial and continuing involvement have been received and there is no continued involvement with respect to that home.

Income Recognition from Mortgage Loans—Our Financial Services segment originates mortgages, primarily for our homebuilding customers. We use mandatory mortgage-backed securities ("MBS") forward commitments and investor commitments to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of non-agency and non-governmental loans, including Alt-A (FICO scores below 680 and depending on credit criteria) and sub-prime loans (FICO scores below 580 and depending on credit criteria), we require our Financial Services segment to either presell or broker all of these loans, on an individual loan basis as soon as they are committed to by the customer. However, because of the recent tightening by mortgage lenders, our origination of Alt-A and sub-prime loans has declined to only 7.6% and 0.3%, respectively, of the total loans we originated during fiscal 2008, as compared to 27.3% and 3.7%, respectively, for the same period last year. In addition, of the $87.5 million of mortgage loans held for sale as of October 31, 2008, none were Alt-A or sub-prime loans. There were, however, $3.2 million of mortgage loans held for investment at October 31, 2008, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. As Alt-A and sub-prime originations declined, we have seen an increase in our level of Federal Housing Administration and Veterans Administration ("FHA/VA") loan origination. For the twelve months ended October 31, 2008 and 2007, FHA/VA loans represented 35.5% and 6.5%, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

Interest Income Recognition for Mortgage Loans Receivable and Recognition of Related Deferred Fees and Costs—Interest income is recognized as earned for each mortgage loan during the period from the loan closing date to the sale date when legal control passes to the buyer, and the sale price is collected. All fees related to the origination of mortgage loans and direct loan origination costs are deferred and recorded as either (a) an adjustment to the related mortgage loans upon the closing of a loan or (b) recognized as a deferred asset or deferred revenue while the loan is in process. These fees and costs include loan origination fees, loan discount, and salaries and wages. Such deferred fees and costs relating to the closed loans are recognized over the life of the loans as an adjustment of yield or taken into operations upon sale of the loan to a permanent investor.

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

We report inventories in our consolidated balance sheets at the lower of cost or fair value. Our inventories consist of the following three components: (1) Sold and unsold homes and lots under development, which includes all construction, land, and

land development costs related to started homes and land under development in our active communities; (2) Land and land options held for future development or sale, which includes all costs related to land in our communities in planning; and (3) Consolidated inventory not owned, which includes all cost related to specific performance options, variable interest entities, and other options, which consists primarily of our GMAC model homes and inventory related to structured lot options.

As a result of the declining homebuilding market, we have decided to mothball (or stop development on) certain communities where we determine the current performance does not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from Sold and unsold homes and lots under development to Land and land options held for future development or sale. As of October 31, 2008, the book value associated with the 54 mothballed communities was $550.4 million, net of an impairment balance of $290.1 million. We continually review communities to determine if mothballing is appropriate.

The recoverability of inventories and other long-lived assets are assessed in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires long-lived assets, including inventories, held for development to be evaluated for impairment based on undiscounted future cash flows of the assets at the lowest level for which there are identifiable cash flows. As such, we evaluate inventories for impairment at the individual community level, the lowest level of discrete cash flows that we measure.

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly, primarily by completing detailed budgets for all of our communities and identifying those communities with a projected operating loss for any projected fiscal year or for the entire projected community life. For those communities with projected losses, we estimate remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

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

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

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

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

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

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. Our discount rates used for the impairments recorded to date range from 13.5% to 17.0%. The estimated future cash flow assumptions are the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a straight line basis.

Inventories held for sale, which are land parcels where we have decided not to build homes, are a very small portion of our total inventories, and are reported at the lower of carrying amount or fair value less costs to sell. In determining whether land held for sale is impaired, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties, if available.

From time to time, we write-off deposits and approval, engineering and capitalized interest costs when we decide not to exercise options to buy land in various locations or when we redesign communities and/or abandon certain engineering costs. In deciding not to exercise a land option, we take into consideration changes in market conditions, the timing of required land takedowns, the willingness of land sellers to modify terms of the land option contract (including timing of land takedowns), and the availability and best use of our capital, among other factors. The write-off is recorded in the period it is deemed probable that the optioned property will not be acquired. In certain instances, we have been able to recover deposits and other preacquisition costs which were previously written off. These recoveries are generally not significant in comparison to the total costs written off.

The impairment of communities under development and held for future development and inventories held for sale, and the charge for land option write-offs, are reflected on the Consolidated Statement of Operations in a separate line entitled "Homebuilding – Inventory impairment loss and land option write-offs". See also the "Results of Operations" below and Note 13 to the Consolidated Financial Statements for inventory impairment and write-off amounts by segment.

Insurance Deductible Reserves—For homes delivered in fiscal 2008 and 2007, our deductible is $20 million per occurrence with an aggregate $20 million for liability claims and an aggregate $21.5 million for construction defect claims under our general liability insurance. Our worker's compensation insurance deductible is $0.5 million per occurrence in fiscal 2008 and fiscal 2007. Reserves have been established based upon actuarial analysis of estimated losses for fiscal 2008 and fiscal 2007. We engage a third party actuary that uses our historical warranty data to estimate our unpaid claims, claim adjustment expenses and incurred but not reported claims reserves for the risks that we are assuming under the general liability and workers compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Interest—In accordance with SFAS 34, "Capitalization of Interest Cost", interest incurred is first capitalized to properties under development during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized because qualifying assets for interest capitalization are less than debt, or interest incurred on borrowings directly related to properties not under development are expensed immediately in "Other interest".

Land Options—Costs are 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. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46R") "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, SFAS No. 49 "Accounting for Product Financing Arrangements" ("SFAS 49"), SFAS No. 98 "Accounting for Leases" ("SFAS 98"), and Emerging Issues Task Force ("EITF") No. 97-10 "The Effects of Lessee Involvement in Asset Construction" ("EITF 97-10"), we record on the Consolidated Balance Sheets specific performance options, options with variable interest

entities and other options under "Consolidated inventory not owned" with the offset to "Liabilities from inventory not owned" and "Minority interest from inventory not owned".

Unconsolidated Homebuilding and Land Development Joint Ventures—Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but is generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we consider the guidance in EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-5"), in assessing whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business. In accordance with Accounting Principles Board Opinion 18 ("APB 18"), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write-down the investment to the recoverable value. We evaluate our equity investments for recoverability based on the joint venture's projected cash flows. In fiscal 2008, we wrote-down certain joint venture investments by $11.3 million, based on this recoverability analysis.

Intangible Assets—The intangible assets recorded on our October 31, 2007 balance sheet are goodwill, which has an indefinite life, and definite life intangibles, including trade names, architectural designs, distribution processes, and contractual agreements resulting from our acquisitions. We no longer amortize goodwill but instead assess it periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2008. If the fair value of the applicable business unit is less than the carrying amount of that business unit, the goodwill of that business unit is considered impaired. The amount of the impairment is determined as the excess of the book value of the goodwill over the implied fair value of the goodwill, and the implied fair value of the goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the fair value of the business unit is allocated to all of the assets and liabilities of that business unit as if the business unit had been acquired in a business combination. The excess of the fair value of the business unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The estimates used in the determination of the estimated cash flows and fair value of a business unit are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. This was the case in fiscal 2008, whereby we wrote-off the remaining $32.7 million of goodwill balance based upon present value cash flow analyses, bringing the balance to zero at October 31, 2008. The goodwill impairment charge was included in "Goodwill and intangible amortization and impairment" on the Consolidated Statements of Operations.

We also assess definite life intangibles for impairment whenever events or changes indicate that their carrying amount may not be recoverable. An intangible impairment is recorded when events and circumstances indicate the undiscounted future cash flows generated from the business unit with the intangible asset are less than the net assets of the business unit. The impairment loss is the lesser of the difference between the net assets of the business unit and the discounted future cash flows generated from the applicable business unit, which approximates fair value and the intangible asset balance. The estimates used in the determination of the estimated cash flows and fair value of a business unit are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. This was the case in fiscal 2008, whereby we wrote off $2.7 million of intangible assets carrying amount, bringing the balance to zero at October 31, 2008. In fiscal 2007, we determined that the intangible assets associated with our Fort Myers, California, Tampa, Orlando, Canton and Building Products operations were impaired and wrote them off for a total reduction of $162.2 million, of which $135.2 million was included in "Goodwill and intangible amortization and impairment" on the Consolidated Statement of Operations and $27.0 million was included in "Accounts payable and other liabilities" on the Consolidated Balance Sheets. The intangible impairment charge is included in "Goodwill and intangible amortization and impairment" on the Consolidated Statements of Operations.

Post-Development Completion and Warranty Costs—In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. In addition, we accrue warranty costs as part of cost of sales for repair costs under $5,000 per occurrence to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs over $5,000 per occurrence as part of our general liability insurance deductible expensed as selling, general and administrative costs. As previously stated, the deductible for our general liability insurance for homes delivered in fiscal 2008 and 2007 is $20 million per occurrence with an aggregate $20 million for liability claims, and an aggregate $21.5 million for construction defect claims. Both of these liabilities are recorded in "Accounts payable and other liabilities" on the Consolidated Balance Sheets.

Deferred Income Taxes—Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes. If, 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 or carried forward to future years to recover the deferred tax assets. In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. SFAS 109 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. See Total Taxes below under Results of Operations for further discussion of the valuation allowances.

Recent Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements included elsewhere in this Form 10-K.

Capital Resources and Liquidity

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

Our cash uses during the twelve months ended October 31, 2008 and 2007 were for operating expenses, construction, state income taxes, and interest. We provided for our cash requirements from available cash on hand, housing and land sales, the issuance of $600 million of senior secured second lien notes ("Senior Secured Notes"), the issuance of 14 million shares of Class A Common Stock, the revolving credit facility, financial service revenues, a federal tax refund and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs, despite continued declines in total revenues and a reduction in the availability under our revolving credit facility. For fiscal 2009, we are focused on maximizing cash flow, even at the expense of lower gross margins, by limiting investments in new communities and delaying further investment in current communities thereby reducing our inventory as we continue to build and deliver homes from our current communities. In addition, we anticipate receiving a federal tax refund in fiscal 2009 of $145.2 million. We may also enter into land sale agreements or joint ventures to generate cash from our existing balance sheet.

On December 3, 2008, we issued $29.3 million of 18% Senior Secured Notes in exchange for $71.4 million of our unsecured senior notes. On May 27, 2008, we issued $600 million of $11^1/_2$% Senior Secured Notes, and the Amendment to the Seventh Amended and Restated Credit Agreement, which reduced the aggregate amount of commitments from $900 million to $300 million, became effective. Availability under the Amended Credit Agreement equals the lesser of $300 million and the amount available pursuant to the borrowing base and the sub-limit for revolving loans is $100 million. The Amended Credit Agreement eliminated all but one of the financial maintenance covenants, which requires that as of the last day of each fiscal quarter either (1) the ratio of our adjusted operating cash flow to fixed charges exceed 1.50 to 1.00 or (2) our liquidity, as defined in the Amended Credit Agreement, equals or exceeds $100 million. Because of our $838.2 million of homebuilding cash at October 31, 2008 and our expectations of cash flows in fiscal 2009, we believe we will be in compliance with this new covenant through 2009.

Our net (loss) income historically does not approximate cash flow from operating activities. The difference between net (loss) income and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and non-cash charges relating to depreciation, amortization of computer software costs, amortization of definite life intangibles, stock compensation awards and impairment losses for inventory, definite life intangibles and goodwill. When we are expanding our operations, which was the case in fiscal 2006, inventory levels, prepaids and other assets increase causing cash flow from operating

activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increase, but for cash flow purposes are offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what has been happening since the last half of fiscal 2007 allowing us to generate positive cash flow from operations during this period. Looking forward, given the continued deterioration in the housing market, it will become more difficult to generate positive cash flow. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2008, 3.4 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 5 for information on equity purchases). On March 5, 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. All share information reflects this stock dividend.

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000. Dividends on the Series A Preferred Stock are not cumulative and are paid at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the Nasdaq Global Market under the symbol "HOVNP". In each of fiscal year 2007 and 2006, we paid $10.7 million of dividends on the Series A Preferred Stock. In fiscal 2008, we did not make any dividend payments as a result of covenant restrictions in the indentures governing our Senior Secured, Senior and Senior Subordinated Notes discussed below. We anticipate that we will continue to be restricted from paying dividends into fiscal 2009 and potentially beyond.

On May 14, 2008, we issued 14,000,000 shares of Class A Common Stock for net proceeds of $125.9 million.

On May 16, 2008, we entered into Amendment No. 1 (the "Amendment") to the Seventh Amended and Restated Credit Agreement (as amended, the "Amended Credit Agreement"). On May 27, 2008, in conjunction with the consummation of the issuance of $600 million of 11^{1}/2% Senior Secured Notes due 2013, the Amendment became effective. The Amendment decreased the aggregate amount of commitments under the Amended Credit Agreement from $900 million to $300 million. The maturity date of the facility remains May 31, 2011. Availability under the Amended Credit Agreement equals the lesser of $300 million and the amount available pursuant to the borrowing base and the sub-limit for revolving loans is $100 million. Borrowings under the Amended Credit Agreement bear interest at a rate equal, at the Company's option, to (1) one, two, three or six month LIBOR, plus 4.50%, (2) a base rate equal to the greater of PNC Bank, National Association's prime rate and the federal funds effective rate plus 0.50%, plus 2.75% or (3) an index rate based on daily LIBOR, plus 4.625%. In addition to paying interest on outstanding principal under the revolving facility, the Company is required to pay an unused fee equal to 0.55% per annum on the daily average unused portion of the revolving facility. The Company will also pay a letter of credit fee of 4.50% per annum on the average outstanding face amount of letters of credit issued under the revolving facility. Notwithstanding the foregoing, the interest rate and fees payable under the revolving facility may not be less than the applicable interest rates and fees that would have been payable pursuant to the revolving facility that was in effect prior to March 7, 2008, the date of the Amended Credit Agreement. Borrowings under the Amended Credit Agreement may be used for general corporate purposes and working capital. A portion of the proceeds of the issuance of 11^{1}/2% Senior Secured Notes due 2013 were used to repay the outstanding balance of $325.0 million at May 27, 2008 under the Amended Credit Agreement. As of October 31, 2008, there was zero drawn under the Amended Credit Agreement, excluding letters of credit totaling $197.5 million. As of October 31, 2007, there was $206.8 million drawn under the Revolving Credit Agreement then in effect, excluding letters of credit totaling $306.4 million.

We and each of our subsidiaries are guarantors under the Amended Credit Agreement, except for K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), the borrower, certain of our financial services subsidiaries and joint ventures. All obligations under the Amended Credit Agreement, and the guarantees of those obligations, are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors.

The Amended Credit Agreement has covenants that restrict, among other things, the ability of the Company and certain of its subsidiaries, including K.

Hovnanian, to incur additional indebtedness, pay dividends on, and make distributions with respect to, common and preferred stock and repurchase capital stock, make other restricted payments, make investments, dispose of assets, incur liens, consolidate, merge, sell or otherwise transfer all or substantially all of its assets and enter into certain transactions with affiliates. The Amended Credit Agreement also contains a covenant that requires that as of the last day of each fiscal quarter either (1) the ratio of our adjusted operating cash flow to fixed charges exceed 1.50 to 1.00 or (2) our liquidity, as defined in the Amended Credit Agreement, equals or exceeds $100 million. However, the Amended Credit Agreement does not contain any other financial maintenance covenants. The Amended Credit Agreement contains events of default which would permit the lenders to accelerate the loans if not cured within applicable grace periods, including the failure to make timely payments under the Amended Credit Agreement or other material indebtedness, the failure to satisfy covenants, the failure of the documents granting security for the obligations under the Amended Credit Agreement to be in full force and effect and specified events of bankruptcy and insolvency. As of October 31, 2008, we were in compliance with the covenants under the Amended Credit Agreement.

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement, which was amended on July 7, 2008, with a group of banks is a short-term borrowing facility that provides up to $151 million through July 6, 2009. Interest is payable monthly at LIBOR plus 1.50% (4.08% at October 31, 2008). The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. We also had a commercial paper facility which provided for up to $200 million through April 25, 2008 with interest payable monthly at LIBOR plus 0.40%. On November 28, 2007, we paid the outstanding balance in full and terminated the commercial paper facility. We believe that we will be able to extend the Master Repurchase Agreement beyond its expiration date, but there can be no assurance of such extension. As of October 31, 2008, the aggregate principal amount of all borrowings under the Master Repurchase Agreement was $84.8 million. The Master Repurchase Agreement requires K. Hovnanian American Mortgage, LLC to satisfy and maintain specified financial ratios and other financial condition tests. As of October 31, 2008, we were in compliance with the covenants of the Master Repurchase Agreement.

On May 27, 2008, K. Hovnanian issued $600 million ($594.4 million net of discount) of $11^{1}/_{2}$% Senior Secured Notes due 2013. The notes are secured, subject to permitted liens and other exceptions, by a second-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement. The notes are redeemable in whole or in part at our option at 102% of principal commencing November 1, 2010, 101% of principal commencing May 1, 2011 and 100% of principal commencing May 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 111.50% of principal. A portion of the net proceeds of the issuance were used to repay the outstanding balance under the Amended Credit Agreement.

At October 31, 2008, we had $600 million of outstanding Senior Secured Notes due 2013 ($594.7 million net of discount). We also had $1,515.0 million of outstanding senior notes ($1,511.1 million, net of discount), comprised of $100 million 8% Senior Notes due 2012, $215 million $6^{1}/_{2}$% Senior Notes due 2014, $150 million $6^{3}/_{8}$% Senior Notes due 2014, $200 million $6^{1}/_{4}$% Senior Notes due 2015, $300 million $6^{1}/_{4}$% Senior Notes due 2016, $300 million $7^{1}/_{2}$% Senior Notes due 2016 and $250 million $8^{5}/_{8}$% Senior Notes due 2017. In addition, we had $400.0 million of outstanding senior subordinated notes, comprised of $150 million $8^{7}/_{8}$% Senior Subordinated Notes due 2012, $150 million $7^{3}/_{4}$% Senior Subordinated Notes due 2013 and $100 million 6% Senior Subordinated Notes due 2010.

On December 3, 2008 we issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of our unsecured senior notes as follows: $0.5 million aggregate principal amount of the 8% Senior Notes due 2012, $12.0 million aggregate principal amount of the $6^{1}/_{2}$% Senior Notes due 2014, $1.1 million aggregate principal amount of the $6^{3}/_{8}$% Senior Notes due 2014, $3.3 million aggregate principal amount of the $6^{1}/_{4}$% Senior Notes due 2015, $24.8 million aggregate principal amount of the $7^{1}/_{2}$% Senior Notes due 2016, $28.7 million aggregate principal amount of the $6^{1}/_{4}$% Senior Notes due 2016 and $1.0 million aggregate principal amount of the $8^{5}/_{8}$% Senior Notes due 2017. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement and the $11^{1}/_{2}$% Senior Secured Notes due 2013. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011 and 100% of principal commencing November 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount

of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 118.0% of principal.

We and each of our subsidiaries are guarantors of the Senior Secured, Senior and Senior Subordinated Notes, except for K. Hovnanian, the issuer of the notes, certain of our financial services subsidiaries and joint ventures. The indentures governing the Senior Secured, Senior and Senior Subordinated Notes contain restrictive covenants that limit, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, the issuer of the Senior Secured, Senior and Senior Subordinated Notes, to incur additional indebtedness, pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates. If our consolidated fixed charge coverage ratio, as defined in the indentures governing our Senior Secured, Senior and Senior Subordinated Notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends into fiscal 2009 and possibly future years. The restriction on making preferred dividend payments under our bond indentures will not affect our compliance with any of the covenants contained in the Amended Credit Agreement and will not permit the lenders under the Amended Credit Agreement to accelerate the loans. The indentures also contain events of default which would permit the holders of the Senior Secured, Senior and Senior Subordinated Notes to declare those notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to satisfy covenants and specified events of bankruptcy and insolvency and, with respect to the indenture governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of October 31, 2008, we were in compliance with the covenants of the indentures governing our outstanding notes. Under the terms of the indentures, we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We may also make debt purchases and/or exchanges through open market purchases, private transactions or otherwise from time to time depending on market conditions and covenant restrictions.

Total inventory decreased $1.3 billion, excluding inventory not owned, during the fiscal year ended October 31, 2008. This decrease excluded the decrease in consolidated inventory not owned of $107.3 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10, and variable interest entities in accordance with FIN 46R. See "Notes to Consolidated Financial Statements"—Note 19 for additional information on FIN 46R. Total inventory decreased in the Northeast $203.9 million, in the Mid-Atlantic $189.8 million, in the Midwest $29.6 million, in the Southeast $166.8 million, in the Southwest $138.4 million, and in the West $523.4 million. These decreases were due to decisions to delay or terminate new communities, as well as slow spending in current communities and due to inventory impairments recorded in these segments. Substantially all homes under construction or completed and included in inventory at October 31, 2008 are expected to be closed during the next 12 months. Most inventory completed or under development was/is partially financed through our line of credit, preferred stock and senior secured, senior and senior subordinated indebtedness.

Despite the decrease in total inventory, our inventory representing "Land and land options held for future development or sale" on the Consolidated Balance Sheets increased by $197.9 million compared to October 31, 2007. The increase is due to "Sold and unsold home and lots under development inventory" being reclassified to "Land and land options held for future development or sale inventory" when we decide to mothball (or stop development on) a community. We mothball communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we avoid spending money to improve land today and save the raw land until such times as the markets improve. As of October 31, 2008, we have mothballed land in 54 communities. The book value associated with these 54 communities at October 31, 2008 was $550.4 million, net of an impairment balance of $290.1 million. We continually review communities to determine if mothballing is appropriate.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. Inventory impairment losses, which include inventory that has been written-off or written-down, increased $252.3 million for the fiscal year ended October 31, 2008, compared to the prior year. During the fiscal year 2008, we incurred $596.0 million in write-downs primarily attributable to impairments as a result of a continued decline in sales pace, sales price and general market conditions, as well as increased cancellation rates. In addition, we wrote-off costs in the amount of $114.1 million during the fiscal year ended October 31, 2008.

The following table summarizes home sites included in our total residential real estate. The decrease in total home sites available in 2008 compared to 2007 is partially attributable to terminating certain option agreements, as discussed herein.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2008:			
Northeast	8,975	495	8,480
Mid-Atlantic	6,306	385	5,921
Midwest	2,969	291	2,678
Southeast	4,480	163	4,317
Southwest	8,192	420	7,772
West	9,173	134	9,039
Consolidated total	40,095	1,888	38,207
Unconsolidated joint ventures	3,256	261	2,995
Total including unconsolidated joint ventures	43,351	2,149	41,202
Owned	23,439	1,557	21,882
Optioned	16,464	139	16,325
Construction to permanent financing lots	192	192	—
Consolidated total	40,095	1,888	38,207
Lots controlled by unconsolidated joint ventures	3,256	261	2,995
Total including unconsolidated joint ventures	43,351	2,149	41,202
October 31, 2007:			
Northeast	12,923	967	11,956
Mid-Atlantic	12,627	753	11,874
Midwest	4,062	759	3,303
Southeast	13,578	2,151	11,427
Southwest	13,936	751	13,185
West	9,797	547	9,250
Consolidated total	66,923	5,928	60,995
Unconsolidated joint ventures	4,326	425	3,901
Total including unconsolidated joint ventures	71,249	6,353	64,896
Owned	28,680	3,327	25,353
Optioned	36,104	462	35,642
Construction to permanent financing lots	2,139	2,139	—
Consolidated total	66,923	5,928	60,995
Lots controlled by unconsolidated joint ventures	4,326	425	3,901
Total including unconsolidated joint ventures	71,249	6,353	64,896

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

	October 31, 2008			October 31, 2007		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	186	33	219	301	49	350
Mid-Atlantic	182	19	201	318	3	321
Midwest	70	27	97	125	28	153
Southeast	181	20	201	386	24	410
Southwest	566	125	691	787	91	878
West	90	97	187	473	237	710
Total	1,275	321	1,596	2,390	432	2,822
Started or completed unsold homes and models per active selling communities(1)	4.5	1.1	5.6	5.5	1.0	6.5

(1) Active selling communities were 284 at October 31, 2008 and 431 at October 31, 2007.

The decrease in total unsold homes compared to the prior year is primarily due to an effort to sell inventoried homes during fiscal 2008. In some instances, this required giving additional incentives to homebuyers on completed unsold homes.

Investments in and advances to unconsolidated joint ventures decreased $105.3 million during the fiscal year ended October 31, 2008. A significant portion of the decrease is the result of consolidating a previously unconsolidated land development joint venture in our West segment, when our partner in the joint venture decided to terminate its investment. There was no debt associated with this joint venture and no further financial obligations required from us. However, we will be responsible for property taxes on the land previously owned by the joint venture going forward. Upon consolidating, no additional funds were invested in this land, as we had already invested the money in the lots via our investment in the joint venture. We decided not to walk away from the land investment of the joint venture because we believe we will be able to recover a portion of the original basis, whether or not developed. Because of the consolidation, we now own

the lots outright and they are included in our consolidated lot count. This resulted in reclassing $61.5 million investment in this joint venture to inventory. This inventory was subsequently impaired by $41.1 million in the fourth quarter of 2008 and we have mothballed the community for the time being. Also contributing to the decrease in investments in and advances to unconsolidated joint ventures are distributions received from joint ventures and losses incurred by joint ventures, primarily related to inventory impairments and land option and walk away costs during fiscal 2008, partially offset by increases resulting from joint venture income not distributed and additional investments in joint ventures. As of October 31, 2008, we have investments in ten homebuilding joint ventures and seven land development joint ventures. Other than guarantees limited only to completion of development, environmental indemnification and standard indemnification for fraud and misrepresentation including voluntary bankruptcy, we have no guarantees associated with unconsolidated joint ventures.

Receivables, deposits and notes decreased $31.1 million to $78.8 million at October 31, 2008. The decrease is primarily due to the receipt of cash of $20.2 million from insurance carriers related to outstanding warranty claims, as well as the return of refundable deposits as we complete communities and the required land development.

Property, plant and equipment decreased $14.0 million primarily due to depreciation and disposals, which were not offset by additions during the period as we elected to reduce our investment in new property, plant and equipment in the current market environment.

Prepaid expenses and other assets are as follows as of:

(In Thousands)	October 31, 2008	October 31, 2007	Dollar Change
Prepaid insurance	$ 8,262	$ 6,769	$ 1,493
Prepaid project costs	82,394	110,439	(28,045)
Senior residential rental properties	7,321	7,694	(373)
Other prepaids	49,167	20,995	28,172
Other assets	9,451	28,135	(18,684)
Total	$ 156,595	$ 174,032	$ (17,437)

Prepaid insurance increased slightly due to the timing of payments for insurance premium costs. These costs are amortized over the life of the associated insurance policy. Prepaid project costs decreased for homes delivered and have not been replenished, as we have reduced the number of active selling communities given the current homebuilding environment. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Other prepaids increased primarily as a result of fees paid in connection with the issuance of the $600 million 11 $^{1}/_{2}$% senior secured notes due 2013 in May 2008. This increase was partially offset by a decrease for bank fees paid in connection with the entering into the Seventh Amended and Restated Credit Agreement in March 2008, which normally would be amortized over the loan period. Because we amended and reduced the aggregate commitment of the facility effective May 27, 2008, we wrote off a significant portion of these bank fees in the third quarter of fiscal 2008. Other assets decreased because there were significant distributions in the first quarter from our executive deferred compensation plan. These distributions also resulted in a corresponding decrease in accrued compensation discussed below under Accounts payable and other liabilities.

At October 31, 2007, we had $32.7 million of goodwill. This amount resulted from Company acquisitions prior to fiscal 2002. As required by SFAS 142, Goodwill and Other Intangible Assets ("SFAS 142"), we performed an annual assessment of this goodwill for impairment, and despite years of significant income generation in the markets with goodwill, primarily Texas in the Southwest segment and the Mid-Atlantic segment, the current financial projections of these markets has resulted in a full impairment of existing goodwill. As such, as of October 31, 2008, the goodwill balance is zero. The impairment was written off in the line "Goodwill and intangible amortization and impairment" on the Consolidated Statement of Operations.

Definite life intangibles decreased $4.2 million to zero at October 31, 2008. The decrease was the result of amortization during the twelve months of $1.5 million, and the write-off of $2.7 million for impaired intangible assets. In fiscal 2008, we determined that the remaining intangible assets in our Mid-Atlantic and Southeast segments were impaired, and wrote off the assets accordingly.

Financial Services - Mortgage loans held for sale or investment consist primarily of residential mortgages receivable held for sale of which $87.5 million and $177.0 million at October 31, 2008 and October 31, 2007, respectively, were being temporarily warehoused and awaiting sale in the secondary mortgage market. Also included are residential mortgages receivable held for investment of $3.2 million and $5.6 million at October 31, 2008 and October 31, 2007, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. 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. We have reserves for potential losses on mortgages we currently hold. The decrease in the receivable from October 31, 2007 is directly related to

a decrease in the amount of loans financed at October 31, 2008 as compared to October 31, 2007.

Income taxes receivable decreased $67.6 million from October 31, 2007 to $126.8 million. The decrease is primarily due to the receipt of our federal tax refund for fiscal year 2007 during the third quarter of fiscal 2008 of $94.7 million, offset by the current tax receivable which can be carried back to 2006. The recoverability of the tax asset is limited to the use of loss carrybacks to 2006 and existing deferred tax liabilities. See Total Taxes later in Item 7 for further discussion of the valuation allowances recorded during fiscal 2008.

Accounts payable and other liabilities are as follows as of:

(In Thousands)	October 31, 2008	October 31, 2007	Dollar Change
Accounts payable	$ 167,407	$ 170,091	$ (2,684)
Reserves	133,423	131,790	1,633
Accrued expenses	59,394	97,753	(38,359)
Accrued compensation	27,211	53,767	(26,556)
Other liabilities	33,260	62,021	(28,761)
Total	$ 420,695	$ 515,422	$ (94,727)

The decrease in accounts payable was primarily due to the lower volume of deliveries in the fourth quarter of 2008 compared to the prior year. The decrease in accrued expenses is primarily due to payments made for land options with letters of credit that were terminated and accrued in the fourth quarter of fiscal 2007. The decrease in accrued compensation was primarily due to the significant distributions in the first quarter from our executive deferred compensation plan as well as lower bonus accruals at October 31, 2008 compared to October 31, 2007. The decrease in other liabilities is primarily related to accrued costs paid for resolution of matter with respect to our Fort Myers operations, and the final scheduled payment associated with a 2005 acquisition, offset by an increase in deferred revenue on GMAC model homes.

Nonrecourse Land Mortgages decreased $8.6 million from October 31, 2007 to $0.8 million at October 31, 2008. The decrease is primarily due to purchase money mortgages for a property in our Mid-Atlantic segment that were paid during fiscal 2008.

Customer deposits decreased $36.5 million from October 31, 2007 to $28.7 million at October 31, 2008. The decrease is primarily due to the reduction in the number of homes in backlog from 5,938 at October 31, 2007 to 1,907 at October 31, 2008.

Mortgage warehouse line of credit under our secured Master Repurchase Agreement decreased $86.3 million from $171.1 million at October 31, 2007 to $84.8 million at October 31, 2008. The decrease is directly correlated to the decrease in mortgage loans held for sale from October 31, 2007 to October 31, 2008.

Liabilities from inventory not owned and Minority interest from inventory not owned decreased $54.9 million and $37.4 million, respectively, from $189.9 million and $62.2 million, respectively, at October 31, 2007 to $135.1 million and $24.9 million at October 31, 2008, respectively. These decreases are directly correlated to the decrease in "Consolidated inventory not owned" on the Consolidated Balance Sheets, which is discussed above.

Accrued interest increased $28.5 million from $43.9 million at October 31, 2007 to $72.5 million at October 31, 2008. The increase is primarily due to interest on our new $600 million Senior Secured Notes due 2013.

Results of Operations

Total Revenues

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

	Year Ended		
(Dollars in Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Homebuilding:			
Sale of homes	$ (1,403,522)	$ (1,322,012)	$ 725,732
Land sales	(50,179)	(32,434)	52,130
Other revenues	(13,137)	18,539	4,729
Financial services	(23,972)	(13,407)	17,227
Total change	$ (1,490,810)	$ (1,349,314)	$ 799,818
Total revenues percent change	(31.1)%	(22.0)%	15.0%

Homebuilding

Compared to the same prior period, housing revenues decreased $1,403.5 million, or 30.6%, for the year ended October 31, 2008, decreased $1,322.0 million, or 22.4%, for the year ended October 31, 2007, and increased $725.7 million or 14.0%, for the year ended October 31, 2006. Increases in 2006 were the result of both organic growth and acquisition of other homebuilders. Decreased revenue in 2007 and 2008 are primarily due to weakening market conditions and increased competition in most of our markets. Housing revenues are recorded at the time when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement. Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on land sales and other revenues, see the section titled "Land Sales and Other Revenues" below.

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Information on homes delivered by segment is set forth below:

	Year Ended		
(Housing Revenue in Thousands)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**
Northeast:			
Housing revenues	$ 679,488	$ 935,476	$ 992,713
Homes delivered	1,412	1,999	2,188
Average price	$ 481,224	$ 467,972	$ 453,708
Mid-Atlantic:			
Housing revenues	$ 509,009	$ 885,599	$ 980,691
Homes delivered	1,248	1,926	1,984
Average price	$ 407,860	$ 459,813	$ 494,300
Midwest:			
Housing revenues	$ 209,759	$ 226,804	$ 173,699
Homes delivered	965	1,043	855
Average price	$ 217,367	$ 217,453	$ 203,157
Southeast(1):			
Housing revenues	$ 624,106	$ 745,240	$ 1,243,501
Homes delivered	2,572	2,771	5,074
Average price	$ 242,654	$ 268,943	$ 245,073
Southwest:			
Housing revenues	$ 603,513	$ 828,574	$ 925,918
Homes delivered	2,616	3,643	4,252
Average price	$ 230,701	$ 227,443	$ 217,761
West:			
Housing revenues	$ 551,978	$ 959,682	$ 1,586,865
Homes delivered	1,764	2,182	3,587
Average price	$ 312,913	$ 439,818	$ 442,393
Consolidated total:			
Housing revenues	$ 3,177,853	$ 4,581,375	$ 5,903,387
Homes delivered	10,577	13,564	17,940
Average price	$ 300,449	$ 337,760	$ 329,063
Unconsolidated joint ventures:			
Housing revenues	$ 262,605	$ 535,051	$ 868,222
Homes delivered	704	1,364	2,261
Average price	$ 373,018	$ 392,266	$ 383,999
Total including unconsolidated joint ventures:			
Housing revenues	$ 3,440,458	$ 5,116,426	$ 6,771,609
Homes delivered	11,281	14,928	20,201
Average price	$ 304,978	$ 342,740	$ 335,212

(1) Southeast includes deliveries from our acquisition of CraftBuilt Homes on April 17, 2006.

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The decrease in housing revenues during the year ended October 31, 2008 was primarily due to weakening market conditions in most of our markets. Housing revenues in 2008 decreased in all of our homebuilding segments combined by 30.6%, and average sales prices decreased 11.0%. In our homebuilding segments, homes delivered decreased 29.4%, 35.2%, 7.5%, 7.2%, 28.2% and 19.2% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Unaudited quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2008, 2007 and 2006 are set forth below:

	Quarter Ended			
(In Thousands)	**October 31, 2008**	**July 31, 2008**	**April 30, 2008**	**January 31, 2008**
Housing revenues:				
Northeast	$ 181,158	$ 169,394	$ 168,590	$ 160,346
Mid-Atlantic	133,121	115,836	134,494	125,558
Midwest	57,084	51,003	55,092	46,580
Southeast	51,979	69,763	109,182	393,182
Southwest	153,710	141,970	143,649	164,184
West	100,609	144,724	144,677	161,968
Consolidated total	$ 677,661	$ 692,690	$ 755,684	$ 1,051,818
Sales contracts (net of cancellations):				
Northeast	$ 66,381	$ 90,953	$ 140,651	$ 83,416
Mid-Atlantic	50,477	82,437	107,067	73,424
Midwest	18,866	26,261	43,023	18,737
Southeast	13,314	32,364	44,144	42,423
Southwest	103,626	121,223	169,331	124,385
West	66,032	97,294	142,561	115,405
Consolidated total	$ 318,696	$ 450,532	$ 646,777	$ 457,790

	Quarter Ended			
(In Thousands)	**October 31, 2007**	**July 31, 2007**	**April 30, 2007**	**January 31, 2007**
Housing revenues:				
Northeast	$ 298,039	$ 238,299	$ 185,852	$ 213,286
Mid-Atlantic	258,178	215,363	189,370	222,688
Midwest	81,138	65,563	41,524	38,579
Southeast	155,560	164,111	207,844	217,725
Southwest	255,670	196,681	200,053	176,170
West	259,634	199,209	233,371	267,468
Consolidated total	$ 1,308,219	$ 1,079,226	$ 1,058,014	$ 1,135,916
Sales contracts (net of cancellations):				
Northeast	$ 218,424	$ 206,103	$ 202,884	$ 175,048
Mid-Atlantic	119,188	126,269	239,485	192,639
Midwest	71,678	52,386	68,735	55,945
Southeast	76,451	88,253	107,345	40,021
Southwest	168,440	201,579	222,119	166,202
West	165,023	145,295	248,815	274,853
Consolidated total	$ 819,204	$ 819,885	$ 1,089,383	$ 904,708

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	Quarter Ended			
(In Thousands)	October 31, 2006	July 31, 2006	April 30, 2006	January 31, 2006
Housing revenues:				
Northeast	$ 358,355	$ 234,231	$ 203,828	$ 196,299
Mid-Atlantic	309,148	222,653	251,012	197,878
Midwest	63,353	52,019	29,124	29,203
Southeast	267,762	394,759	311,202	269,778
Southwest	290,159	220,211	232,289	183,259
West	389,039	375,953	452,093	369,780
Consolidated total	$ 1,677,816	$ 1,499,826	$ 1,479,548	$ 1,246,197
Sales contracts (net of cancellations):				
Northeast	$ 178,882	$ 209,478	$ 225,355	$ 195,021
Mid-Atlantic	149,168	190,855	309,773	187,374
Midwest	61,748	43,396	52,226	29,380
Southeast	142,701	179,897	189,762	314,027
Southwest	212,366	199,492	265,790	170,704
West	235,475	271,904	343,303	257,151
Consolidated total	$ 980,340	$ 1,095,022	$ 1,386,209	$ 1,153,657

Our reported level of sales contracts (net of cancellations) has been impacted by a slow down in sales and an increase in our cancellation rates over the past two years, due to weakening market conditions and tighter mortgage loan underwriting criteria. Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures. The more recent spike in the fourth quarter of fiscal 2008 cancellation rate, we believe, is partially due to the significant financial market turmoil that began in mid-September 2008:

Quarter	2008	2007	2006	2005	2004
First	38%	36%	30%	27%	23%
Second	29%	32%	32%	21%	19%
Third	32%	35%	33%	24%	20%
Fourth	42%	40%	35%	25%	24%

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

Quarter	2008	2007	2006	2005	2004
First	16%	17%	11%	15%	14%
Second	24%	19%	15%	17%	18%
Third	20%	18%	14%	15%	13%
Fourth	30%	26%	16%	12%	15%

Historically, most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks. Cancellations also occur as a result of a buyer's failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, in 2008 and 2007, we have experienced a higher than normal number of cancellations later in the construction process. These cancellations are related primarily to falling prices, sometimes due to new discounts offered by us or other builders, leading the buyer to lose confidence in their contract price and due to tighter mortgage underwriting criteria leading to some customer's inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. We expect that cancellation rates will return to a more normal level at some point as prices stabilize, but it is difficult to predict when this will occur, and the timing will vary by market.

An important indicator of our future results is recently signed contracts and our home contract backlog for future deliveries. Our consolidated contract backlog, excluding unconsolidated joint ventures, using base

sales prices by segment is set forth below:

(Dollars In Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Northeast:			
Total contract backlog	$ 215,604	$ 503,445	$ 591,849
Number of homes	497	975	1,218
Mid-Atlantic:			
Total contract backlog	$ 165,871	$ 358,778	$ 562,670
Number of homes	385	753	1,134
Midwest:			
Total contract backlog	$ 61,108	$ 153,171	$ 117,148
Number of homes	291	759	668
Southeast:			
Total contract backlog	$ 45,657	$ 614,575	$ 1,093,299
Number of homes	163	2,151	3,813
Southwest:			
Total contract backlog	$ 100,305	$ 174,206	$ 224,482
Number of homes	420	751	999
West:			
Total contract backlog	$ 57,642	$ 205,716	$ 334,102
Number of homes	151	549	664
Totals:			
Total consolidated contract backlog	$ 646,187	$ 2,009,891	$ 2,923,550
Number of homes	1,907	5,938	8,496

The decline in our backlog from October 31, 2007 to October 31, 2008 is a direct result of a falloff in our contract pace. Our net contracts for the full year of fiscal 2008, excluding unconsolidated joint ventures, declined 40.5% compared to fiscal 2007. In the month of November 2008, excluding unconsolidated joint ventures, we signed an additional 284 net contracts amounting to $63.4 million in contract value.

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

	Year Ended		
(Dollars In Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Sale of homes	$ 3,177,853	$ 4,581,375	$ 5,903,387
Cost of sales, excluding interest expense	2,965,886	3,890,474	4,538,795
Homebuilding gross margin, before cost of sales interest expense and land charges	211,967	690,901	1,364,592
Cost of sales interest expense, excluding land sales interest expense	136,439	130,825	106,892
Homebuilding gross margin, after cost of sales interest expense, before land charges	75,528	560,076	1,257,700
Land charges	710,120	457,773	336,204
Homebuilding gross margin, after cost of sales interest expense and land charges	$ (634,592)	$ 102,303	$ 921,496
Gross margin percentage, before cost of sales interest expense and land charges	6.7%	15.1%	23.1%
Gross margin percentage, after cost of sales interest expense, before land charges	2.4%	12.2%	21.3%
Gross margin percentage after cost of sales interest expense and land charges	(20.0)%	2.2%	15.6%

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

	Year Ended		
	October 31, 2008	October 31, 2007	October 31, 2006
Sale of homes	100%	100.0%	100.0%
Cost of sales, excluding interest:			
Housing, land and development costs	82.1%	74.3%	68.6%
Commissions	2.7%	2.8%	2.5%
Financing concessions	1.7%	1.4%	1.0%
Overheads	6.8%	6.4%	4.8%
Total cost of sales, before interest expense and land charges	93.3%	84.9%	76.9%
Gross margin percentage, before cost of sales interest expense and land charges	6.7%	15.1%	23.1%
Cost of sales interest	4.3%	2.9%	1.8%
Gross margin percentage, after cost of sales interest expense and before land charges	2.4%	12.2%	21.3%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margins, before interest expense and land impairment and option write off charges decreased to 6.7% for the year ended October 31, 2008 compared to 15.1% for the same period last year. Continued declines in percentages in fiscal 2008 are primarily the result of decreased sales prices and increased buyer concessions. The declining pace of sales in our markets in 2006, 2007 and 2008 has led to intense competition in many of our specific community locations. In order to maintain a reasonable pace of absorption, we have increased incentives, reduced lot location premiums, as well as lowered some base prices, all of which have impacted our margins significantly. In addition, homes for which contracts have been cancelled have typically been resold at a lower price, resulting in a further decline in margins. As discussed in "Homebuilding Results by Segment" below, certain of our segments experienced increases in average selling prices for the year ended October 31, 2008 compared to 2007. It should be noted however, that these increases are primarily the result of geographic and community mix of our deliveries, rather than an ability to increase home prices.

Reflected as inventory impairment loss and land option write-offs in cost of sales ("land charges"), we have written-off or written-down certain inventories totaling $710.1 million, $457.8 million, and $336.2 million during the years ended October 31, 2008, 2007, and 2006, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements—Note 13" for an additional discussion. During the years ended October 31, 2008, 2007, and 2006, we wrote-off residential land options and approval and engineering costs amounting to $114.1 million, $126.0 million, and $159.1 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering cost are written-off. Option and approval and engineering costs are written-off when a community's proforma profitability does not produce adequate returns on the investment commensurate with the risk and we cancel the option. Such write-offs were located in all of our segments. The impairments amounting to $596.0 million, $331.8 million and $177.1 million for the years ending October 31, 2008, 2007 and 2006, respectively, were incurred because of recent changes in the value of land in many of our markets and a change in the market strategy to liquidate a particular property or lower sales prices.

Below is a break-down of our lot option walk-aways and impairments by segment for fiscal 2008. In 2008, in total, we walked away from 48.3% of all the lots we controlled under option contracts. The remaining 51.7% of our option lots are in communities that remain economically feasible, including a substantial number that were successfully renegotiated over the past year. The largest concentration of lots we walked away from was in the Mid-Atlantic and Southeast segments.

The following table represents lot option walk-aways by segment for the year ended October 31, 2008:

(In Millions)	Dollar Amount of Walk Away	Number of Walk-Away Lots	% of Walk-Away Lots	Total Option Lots at October 31, 2008(1)	Walk-Away Lots as a % of Total Lots
Northeast	$ 20.7	2,155	14.0%	7,069	30.5%
Mid-Atlantic	45.6	5,017	32.6%	8,183	61.3%
Midwest	0.7	257	1.7%	2,537	10.1%
Southeast	32.2	5,833	38.0%	7,169	81.4%
Southwest	10.4	1,689	11.0%	5,321	31.7%
West	4.5	419	2.7%	1,555	26.9%
Total	$ 114.1	15,370	100.0%	31,834	48.3%

(1) Includes lots optioned that the Company walked-away from in the year ended October 31, 2008.

The following table represents impairments by segment for the year ended October 31, 2008:

(In Millions)	Dollar Amount of Impairment	% of Impairments	Pre-Impairment Value	% of Pre-Impairment Value
Northeast	$ 43.5	7.3%	$ 208.2	20.9%
Mid-Atlantic	38.1	6.4%	155.3	24.5%
Midwest	7.7	1.3%	32.3	23.8%
Southeast	53.4	9.0%	160.5	33.3%
Southwest	81.1	13.6%	212.8	38.1%
West	372.2	62.4%	1,018.2	36.6%
Total	$ 596.0	100.0%	$ 1,787.3	33.3%

Homebuilding selling, general, and administrative expenses decreased to $377.1 million for the year ended October 31, 2008, and decreased to $539.4 million for the year ended October 31, 2007 from $593.9 million for the year ended October 31, 2006. The decrease in expenses in 2008 and 2007 is the result of a reduction of personnel in order to better manage our overhead during the current market decline, partially offset by severance costs associated with involuntary terminations that occured during the year and decreases in incentive compensation, that were based on profitability. Also adding to the decrease is the reduction in the number of open for sale communities of 284 in fiscal 2008 from 431 in fiscal 2007.

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:

	Year Ended		
(In Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Land and lot sales	$ 57,776	$ 107,955	$ 140,389
Cost of sales, excluding interest	45,016	87,179	94,286
Land and lot sales gross margin, excluding interest	12,760	20,776	46,103
Land sales interest expense	9,522	1,132	1,437
Land and lot sales gross margin, including interest	$ 3,238	$ 19,644	$ 44,666

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Profits from land sales for the year ended October 31, 2008 were less than for the year ended October 31, 2007. Although we budget land sales, they are often dependent upon receiving approvals and entitlements, the timing of which can be uncertain. As a result, projecting the amount and timing of land sales is difficult.

Other revenues decreased $13.1 million for the year ended October 31, 2008 compared to the year ended October 31, 2007. Other revenues include income from contract cancellations, where the deposit has been forfeited due to contract terms, interest income, cash discounts and miscellaneous one-time receipts. For fiscal 2007, Other revenues also included $19.1 million related to the termination of our Credit Agreement and Agreement for Letter of Credit with Citicorp USA, Inc. which was the primary reason for the decrease from fiscal 2008 to 2007. This is also the cause of the $18.5 million increase in Other revenue for the year ended October 31, 2007 when compared to the year ended October 31, 2006.

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Homebuilding Operations by Segment

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

Segment Analysis (Dollars in Thousands, except average sales price)

	Years Ended October 31,				
	2008	Variance 2008 Compared to 2007	2007	Variance 2007 Compared to 2006	2006
Northeast					
Homebuilding revenue	$ 704,723	$ (254,110)	$ 958,833	$ (59,151)	$1,017,984
(Loss) income before income taxes	$(114,416)	$ (95,599)	$ (18,817)	$ (98,914)	$ 80,097
Homes delivered	1,412	(587)	1,999	(189)	2,188
Average sales price	$ 481,224	$ 13,252	$ 467,972	$ 14,264	$ 453,708
Contract cancellation rate	30%	4%	26%	4%	22%
Mid-Atlantic					
Homebuilding revenue	$ 513,719	$ (399,994)	$ 913,713	$ (120,760)	$1,034,473
(Loss) income before income taxes	$(142,249)	$ (217,073)	$ 74,824	$ (81,106)	$ 155,930
Homes delivered	1,248	(678)	1,926	(58)	1,984
Average sales price	$ 407,860	$ (51,953)	$ 459,813	$ (34,487)	$ 494,300
Contract cancellation rate	42%	1%	41%	4%	37%
Midwest					
Homebuilding revenue	$ 211,587	$ (16,288)	$ 227,875	$ 55,935	$ 171,940
(Loss) before income taxes	$ (37,415)	$ 42,792	$ (80,207)	$ (20,112)	$ (60,095)
Homes delivered	965	(78)	1,043	188	855
Average sales price	$ 217,367	$ (86)	$ 217,453	$ 14,296	$ 203,157
Contract cancellation rate	34%	7%	27%	(2)%	29%
Southeast					
Homebuilding revenue	$ 632,050	$ (146,454)	$ 778,504	$ (482,835)	$1,261,339
(Loss) before income taxes	$(146,406)	122,096	$(268,502)	$ (266,980)	$ (1,522)
Homes delivered	2,572	(199)	2,771	(2,303)	5,074
Average sales price	$ 242,654	$ (26,289)	$ 268,943	$ 23,870	$ 245,073
Contract cancellation rate	49%	(3)%	52%	15%	37%
Southwest					
Homebuilding revenue	$ 610,045	$ (231,020)	$ 841,065	$ (88,789)	$ 929,854
(Loss) income before income taxes	$(101,470)	$ (127,181)	$ 25,711	$ (49,972)	$ 75,683
Homes delivered	2,616	(1,027)	3,643	(609)	4,252
Average sales price	$ 230,701	$ 3,258	$ 227,443	$ 9,682	$ 217,761
Contract cancellation rate	30%	0%	30%	3%	27%
West					
Homebuilding revenue	$ 577,228	$ (405,904)	$ 983,132	$ (657,937)	$1,641,069
(Loss) income before income taxes	$(524,701)	$ (187,487)	$(337,214)	$ (386,333)	$ 49,119
Homes delivered	1,764	(418)	2,182	(1,405)	3,587
Average sales price	$ 312,913	$ (126,905)	$ 439,818	$ (2,575)	$ 442,393
Contract cancellation rate	31%	(8)%	39%	1%	38%

Homebuilding Results by Segment

Northeast—Homebuilding revenues decreased 26.5% in 2008 compared to 2007 primarily due to a 29.4% decrease in homes delivered offset by a 2.8% increase in average selling price as the mix of communities that had deliveries in 2008 was different than 2007. Loss before income taxes increased $95.6 million to a loss of $114.4 million, which is mainly due to a significant reduction in gross margin percentage before interest expense as the markets in this segment have become much more competitive and a $7.8 million increase in inventory impairment loss and land option write-offs in 2008.

Homebuilding revenues decreased 5.8% in 2007 compared to 2006 primarily due to an 8.6% decrease in homes delivered offset by a 3.1% increase in average selling price as the mix of communities that had deliveries in 2007 was different than 2006. Income before income taxes decreased $98.9 million to a loss of $18.8 million, which was mainly due to a significant

reduction in gross margin percentage before interest expense as the markets in this segment have become much more competitive.

Mid-Atlantic—Homebuilding revenues decreased 43.8% in 2008 compared to 2007 primarily due to a 35.2% decrease in homes delivered and a 11.3% decrease in average selling price due to increased incentives and the mix of communities delivered in 2008 was different than 2007. Income before income taxes decreased $217.1 million to a loss of $142.2 million, which $64.3 million is from the increase in inventory impairment loss and land option write-offs in 2008. Additionally, there was a $15.1 million goodwill impairment charge recorded in 2008. The segment also had a significant reduction in gross margin percentage before interest expense as the markets in this segment have become much more competitive.

Homebuilding revenues decreased 11.7% in 2007 compared to 2006 primarily due to a 2.9% decrease in homes delivered and a 7.0% decrease in average selling price due to increased incentives and the mix of communities delivered in 2007 was different than 2006. Income before income taxes was down $81.1 million to $74.8 million, which is mainly due to a significant reduction in gross margin percentage before interest expense as the markets in this segment have become much more competitive.

Midwest—Homebuilding revenues decreased 7.1% in 2008 compared to 2007 primarily due to a 7.5% decrease in homes delivered, while average selling prices remained flat. The decreases in deliveries was the result of a more competitive and slowing housing market. The segment loss before income taxes decreased $42.8 million to a loss of $37.4 million. This was due to only $8.4 million of inventory impairment loss and land option write-offs in 2008, compared to $28.1 million in 2007 and no intangible impairment in 2008 compared to $14.6 million in 2007.

Homebuilding revenues increased 32.5% in 2007 compared to 2006 primarily due to a 22% increase in homes delivered and a 7.0% increase in average selling price. The increases in deliveries and average selling price were the result of organic growth in this segment in Cleveland. Despite the growth in revenues, the segment loss before income taxes increased $20.1 million to a loss of $80.2 million. This was due to a $14.6 million intangible impairments and a sizable reduction in gross margin percentage before interest expense.

Southeast—Homebuilding revenues decreased 18.8% in 2008 compared to 2007 primarily due to a 7.2% decrease in homes delivered and a 9.8% decrease in average selling price. The primary reason for the decrease in deliveries and average selling price is the continuing declining market conditions in Florida and in the mix of communities delivering homes. The loss before income taxes decreased $122.1 million to a loss of $146.4 million, due mainly to $85.6 million of inventory impairment losses and land option write-offs in 2008 compared to $113.3 million in 2007 and $2.4 million of intangible impairments in 2008 compared to $108.6 million in 2007.

Homebuilding revenues decreased 38.3% in 2007 compared to 2006 primarily due to a 45.4% decrease in homes delivered, partially offset by a 9.7% increase in average selling price. The primary reason for the decrease in deliveries is the continuing declining market conditions in Florida. The average price increase is due to the change in the mix of communities delivering homes. The loss before income taxes increased $267.0 million to a loss of $268.5 million, due mainly to a $7.3 million increase in inventory impairment loss and land option write-offs in 2007 and $108.6 million of intangibles impairments, as well as a significant reduction in gross margin percentage before interest expense as the markets in this segment have become much more competitive.

Southwest—Homebuilding revenues decreased 27.5% in 2008 compared to 2007 primarily due to a 28.2% decrease in homes delivered offset by 1.4% increase in average selling price. The reduction of deliveries resulted from a decline in the activity in the Arizona market, as that market has been impacted by tighter mortgage lending requirements, thus eliminating certain potential homebuyers. The increase in average selling price is due to the mix of communities that had deliveries in 2008 compared to 2007. Income before income taxes decreased $127.2 million to a loss of $101.5 million in 2008 mainly due to a $75.5 million increase in inventory impairment losses and land option write-offs in 2008, a goodwill impairment of $14.9 million and a significant reduction in gross margin percentage before interest expense.

Homebuilding revenues decreased 9.5% in 2007 compared to 2006 primarily due to a 14.3% decrease in homes delivered offset by 4.4% increase in average selling price. The reduction of deliveries resulted from a decline in the activity in the Arizona market, as that market has been impacted by tighter mortgage lending requirements, thus eliminating certain potential homebuyers. The increase in average selling price is due to the mix of communities that had deliveries in 2007 compared to 2006. Income before income taxes decreased $50.0 million to $25.7 million in 2007 mainly due to a $15.4 million increase in land charges in 2007 and a reduction in gross margin percentage before interest expense.

West—Homebuilding revenues decreased 41.3% in 2008 compared to 2007 primarily due to a 19.2% decrease in homes delivered and a 28.9% decrease in average selling price. This reduced revenue was further

compounded by a significant reduction in gross margin percentage before interest expense. The decrease in deliveries and the reduced gross margin was the result of the more competitive and slowing housing market in California throughout 2007 and more so in 2008. As a result of the above and a $152.1 million increase in inventory impairment losses and land option write-offs in 2008, loss before income taxes increased $187.5 million to a loss of $524.7 million in 2008.

Homebuilding revenues decreased 40.1% in 2007 compared to 2006 primarily due to a 39.2% decrease in homes delivered and a 0.6% decrease in average selling price. This reduced revenue was further compounded by a significant reduction in gross margin percentage before interest expense. The decrease in deliveries and the reduced gross margin was the result of the more competitive and slowing housing market in California throughout 2007. As a result of the above and a $123.2 million increase in inventory impairment losses and land option write-offs in 2007, income before income taxes decreased $386.3 million to a loss of $337.2 million in 2007.

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. During the years ended October 31, 2008, October 31, 2007, and October 31, 2006, financial services provided a $16.7 million, $27.9 million, and $31.0 million pretax profit, respectively. In 2008 financial services revenue decreased $24.0 million to $52.2 million due to a decrease in the number of mortgage settlements and a decrease in the average loan amount. Revenues from October 31, 2006 to October 31, 2007 decreased $13.4 million to $76.2 million consistent with our reduction in deliveries. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 75%, 71%, and 63% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2008, 2007, and 2006, respectively. Servicing rights on new mortgages originated by us will be sold as the loans are closed.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. Corporate general and administrative expenses declined $3.0 million for the year ended October 31, 2008 compared to the year ended October 31, 2007 and $10.9 million for the year ended October 31, 2007 compared to the year ended October 31, 2006. The reduction in expenses is due to personnel reductions, reduced bonuses and other overhead cost savings.

Other Interest

Other interest increased $20.6 million to $30.4 million for the year ended October 31, 2008. In 2007, other interest increased $6.2 million to $9.8 million for the year ended October 31, 2007. Beginning in the third quarter of fiscal 2008, our assets that qualify for interest capitalization (inventory under development) no longer exceeded our debt, and therefore a portion of interest not covered by qualifying assets must be directly expensed. The increase for 2007, from 2006, is due to the interest on completed homes in backlog in Fort Myers, unsold homes in completed high rise communities and interest on land in planning being expensed as incurred. The interest related to Fort Myers was capitalized during construction, but in 2007 many of the homes were complete. When we incur interest on completed homes, it is expensed as it no longer qualifies for capitalization.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, earnout payments from homebuilding company acquisitions, minority interest relating to consolidated joint ventures, and corporate owned life insurance. Other operations increased $5.0 million to $9.8 million for the year ended October 31, 2008 and decreased $40.4 million to $4.8 million for the year ended October 31, 2007. The increase in other operations from October 31, 2007 to October 31, 2008, is attributed to the $2.1 million in legal and settlement costs in 2008, related to cases dismissed in Item 3, Legal Proceedings, as well as an increase in rent expense from a new commercial rental property. The decrease from October 31, 2006 to October 31, 2007 is primarily due to decreased accrued earnout obligations, resulting from two earnout agreements ending and lower profits in fiscal 2007, compared to the prior year. Other operations was further decreased by reduced profits from a consolidated joint venture that has finished delivering the homes in its community.

Goodwill and Intangible Amortization and Impairments

We amortized our definite life intangibles over their expected useful life, ranging from one to four years. In fiscal 2008, this expense includes the impairment of the remaining $2.7 million balance of definite life intangibles and $32.7 million of goodwill. Goodwill and Intangible amortization and impairments decreased $125.2 million for the year ended October 31, 2008, when compared to the same period last year. The decrease for the year ended October 31, 2008 was

primarily the result of reduced intangible amortization in 2008 as a result of the extensive write-offs during the fourth quarter of 2007, partially offset by the impairments recorded in 2008. The amortization expense increased $107.3 million to $162.1 million for the year ended October 31, 2007. This increase is primarily due the impairment of intangible assets of $135.2 million previously discussed, as well as additional amortization from our 2006 acquisitions.

(Loss) Income From Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures consists of our share of the losses or earnings of the joint venture. The loss increased $8.4 million to a loss of $36.6 million for the year ended October 31, 2008. Our share of operations decreased $43.6 million to a loss of $28.2 million for the year ended October 31, 2007. The increase in the loss in 2008 is mainly due to our share of the losses from operations on our unconsolidated joint ventures, as well as the write-off of the investment we had in two of our homebuilding joint ventures, as the recoverability of these investments have been deemed unlikely. The loss in 2007 is primarily related to our share of the losses from inventory impairments, land-option and walk-away costs, and the write-off of the intangibles from our joint venture with Blackstone Real Estate Advisors.

Total Taxes

Total tax provision (benefit) as a percentage of the loss before taxes was 3.7% for the twelve months ended October 31, 2008. The rate was significantly below the statutory tax rate, because we recorded an additional $409.6 million charge to our current and deferred tax asset valuation allowance in the twelve months ended October 31, 2008, as discussed further below.

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 or carried forward to future years to recover the deferred tax assets. In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. SFAS 109 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during 2007 and 2008, resulting in additional inventory and intangible impairments, we are now in a three-year cumulative loss position. According to SFAS 109, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable and also precludes relying on projections of future taxable income to support the recovery of deferred tax assets. Therefore, during the fourth quarter of 2007, we recorded a valuation allowance of $265.9 million against our deferred tax assets. Our valuation allowance for current and deferred taxes increased $409.6 million during the twelve months ended October 31, 2008, to $675.5 million at October 31, 2008. Our deferred tax assets at October 31, 2007 and October 31, 2008, for which there is no valuation allowance, relate to amounts that can be realized through future reversals of existing taxable temporary differences or through carrybacks to the 2005 and 2006 years.

Off-Balance Sheet Financing

In the ordinary course of business, we enter into land and lot option purchase contracts in order to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. At October 31, 2008, we had $69.9 million in option deposits in cash and letters of credit to purchase land and lots with a total purchase price of $862.8 million. Our liability is generally limited to forfeiture of the nonrefundable deposits, letters of credit and other nonrefundable amounts incurred. We have no material third party guarantees. However, $9.4 million of the $862.8 million in land and lot option purchase contracts contain specific performance clauses which require us to purchase the land or lots upon satisfaction of certain requirements by both the sellers and the Company. Therefore, this specific performance obligation of $9.4 million, which is the purchase price for these lots net of cash deposits already paid, is recorded on the balance sheet in Liabilities from inventory not owned.

Pursuant to FASB Interpretation No. 46 (FIN 46R), "Consolidation of Variable Interest Entities" ("VIE"), we consolidated $77.0 million of inventory not owned at October 31, 2008, representing the fair value of the optioned property. Additionally, to reflect the fair value of the inventory consolidated under FIN 46R, we eliminated $8.3 million of its related cash deposits for lot option contracts, which are included in Consolidated inventory not owned. Since we do not own an equity interest in any of the unaffiliated variable interest entities that we must consolidate pursuant to FIN 46R, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities have been based on the

remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have no debt obligations and the only asset recorded is the land or lots we have the option to buy with a related offset to minority interest for the assumed third party investment in the variable interest entity. At October 31, 2008, the balance reported in Minority interest from inventory not owned was $24.9 million. At October 31, 2008, we had cash deposits and letters of credit totaling $8.7 million, representing our current maximum exposure associated with the consolidation of lot option contracts. Creditors of these VIEs, if any, have no recourse against us. In addition, see Note 19 to the Consolidated Financial Statements for disclosure related to our investment in unconsolidated joint ventures.

Contractual Obligations

The following summarizes our aggregate contractual commitments at October 31, 2008:

	Payments Due by Period				
(In Thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long term debt(1)	$3,635,738	$ 209,104	$507,209	$1,556,340	$1,363,085
Operating leases	78,493	18,942	27,169	16,534	15,848
Purchase obligations(2)	11,226	10,089	1,137	—	—
Total	$3,725,457	$ 238,135	$535,515	$1,572,874	$1,378,933

(1) Represents our Senior Secured, Senior and Senior Subordinated Notes, Other Notes Payable and related interest payments for the life of the debt of $1,097.1 million. Interest on variable rate obligations is based on rates effective as of October 31, 2008. See Note 23 to the Consolidated Financial Statements for a discussion of the exchange offer completed in December 2008.

(2) Represents obligations under option contracts with specific performance provisions, net of cash deposits.

We had outstanding letters of credit and performance bonds of approximately $197.5 million and $632.5 million, respectively, at October 31, 2008 related principally to our obligations to local governments to construct roads and other improvements in various developments. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Inflation

Inflation has a long-term effect, because increasing costs of land, materials, and labor result in increasing sale prices of our homes. In general, these price increases have been commensurate with the general rate of inflation in our housing markets and have not had a significant adverse effect on the sale of our homes. A significant risk faced by the housing industry generally is that rising house construction costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers. Recently in the more highly regulated markets that have seen significant home price appreciation, customer affordability has become a concern. Our broad product array insulates us to some extent, but customer affordability of our homes is something we monitor closely.

Inflation has a lesser short-term effect, because we generally negotiate fixed price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 59.3% of our homebuilding cost of sales.

Mergers and Acquisitions

On April 17, 2006, we acquired for cash the assets of CraftBuilt Homes, a privately held homebuilder headquartered in Bluffton, South Carolina. The acquisition expands our operations into the coastal markets of South Carolina and Georgia. CraftBuilt Homes designs, markets and sells single family detached homes. Due to its close proximity to Hilton Head, CraftBuilt Homes focuses on first-time, move-up, empty-nester and retiree homebuyers. This acquisition is being accounted for as a purchase with the results of its operations included in our consolidated financial statements as of the date of the acquisition.

In connection with the CraftBuilt Homes acquisition, we have definite life intangible assets equal to the excess purchase price over fair value of net tangible assets of $4.5 million in aggregate. During the fourth quarter of 2008, we determined that these assets were impaired and wrote off the remaining asset balance of $2.7 million. Prior to the impairment, we were amortizing the definite life intangibles over their estimated lives.

On May 1, 2006, we acquired through the issuance of 175,936 shares of Class A common stock substantially all of the assets of two mechanical contracting businesses. These acquisitions were accounted for as purchases with the results of their operations included in our consolidated financial statements as of the date of acquisition.

In connection with the two mechanical contracting business acquisitions, we recorded definite life intangible assets equal to the excess purchase price over fair value of net tangible assets of $4.0 million in aggregate. During the fourth quarter of fiscal 2007, we

determined that these intangible assets were impaired and wrote off the remaining asset balance of $2.8 million. Prior to the impairment, we were amortizing the definite life intangibles over their estimated lives.

All fiscal 2006 acquisitions provide for other payments to be made, generally dependant upon achievement of certain future operating and return objectives, however, we do not expect to make any future payments based on our forecasts for these businesses.

Safe Harbor Statement

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

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

Certain risks, uncertainties, and other factors are described in detail in Item 1 "Business" and Item 1A "Risk Factors" in this Form 10-K. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Form 10-K.

ITEM 7A
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit under our secured master repurchase agreement are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly the risk from mortgage loans is not material. We do not use financial instruments to hedge interest rate risk except with respect to mortgage loans. We are also subject to foreign currency risk but we do not believe this risk is material. The following tables set forth as of October 31, 2008 and 2007, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV").

Long Term Debt Tables

	Long Term Debt as of October 31, 2008 by Year of Debt Maturity							
(Dollars in Thousands)	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**	**FMV at 10/31/08**

Long term debt(1)(2):	$ 1,615	$100,850	$ 910	$250,973	$751,041	$1,432,733	$2,538,122	$1,147,422
Fixed rate								
Weighted average interest rate	6.69%	6.01%	6.77%	8.52%	10.74%	6.99%	8.21%	

(1) *Does not include the mortgage warehouse line of credit made under our secured master repurchase agreement.*

(2) *See Note 23 to the Consolidated Financial Statements for a discussion of the exchange offer completed in December 2008.*

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	Long Term Debt as of October 31, 2007 by Year of Debt Maturity							
(Dollars in Thousands)	2008	2009	2010	2011	2012	Thereafter	Total	FMV at 10/31/07
Long term debt(1)(2):	$10,178	$ 800	$100,855	$ 914	$250,979	$1,583,690	$1,947,416	$1,519,516
Fixed rate								
Weighted average interest rate	5.26%	6.73%	6.01%	6.77%	8.52%	7.06%	7.18%	

(1) *Does not include the mortgage warehouse line of credit made under our secured master repurchase agreement.*
(2) *See Note 23 of the Consolidated Financial Statements for a discussion of the exchange offer completed in December 2008.*

In addition, we have reassessed the market risk for our variable debt at October 31, 2008 under the terms of the May 2008 Amended Credit Agreement, under which interest is based on (1) one, two, three or six month LIBOR, plus 4.50%, (2) a base rate equal to the greater of PNC Bank, National Association's prime rate and the federal funds effective rate plus 0.50%, plus 2.75% or (3) an index rate based on daily LIBOR, plus 4.625%. We believe that a 1% increase in this rate would have resulted in an approximate $1.7 million increase in interest expense for the twelve months ended October 31, 2008, assuming an average of $171.4 million of variable rate debt outstanding from November 1, 2007 to October 31, 2008.

ITEM 8
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements of Hovnanian Enterprises, Inc. and its consolidated subsidiaries are set forth herein beginning on Page F-1.

ITEM 9
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A
CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 31, 2008. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of October 31, 2008.

The effectiveness of the Company's internal control over financial reporting as of October 31, 2008 has been audited by Ernst & Young, LLP, the Company's independent registered public accounting firm, as stated in their report below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Hovnanian Enterprises, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of October 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with the authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hovnanian Enterprises, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Hovnanian Enterprises, Inc. and subsidiaries and our report dated December 23, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York
December 23, 2008

ITEM 9B
OTHER INFORMATION

None.

PART III

ITEM 10
DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by Item 10, except as set forth below in this Item 10, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with the Company's annual meeting of shareholders to be held on March 19, 2009, which will involve the election of directors.

Executive Officers of the Registrant

Our executive officers are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table. Each executive officer holds such office for a one year term.

Name	**Age**	**Position**	**Year Started With Company**
Kevork S. Hovnanian	85	Chairman of the Board and Director of the Company	1967
Ara K. Hovnanian	51	Chief Executive Officer, President and Director of the Company	1979
Paul W. Buchanan	58	Senior Vice President and Chief Accounting Officer	1981
Peter S. Reinhart	58	Senior Vice President and General Counsel	1978
J. Larry Sorsby	53	Executive Vice President, Chief Financial Officer and Director of the Company	1988
David G. Valiaveedan	41	Vice President—Finance	2005

Mr. K. Hovnanian founded the predecessor of the Company in 1959 (Hovnanian Brothers, Inc.) and has served as Chairman of the Board of the Company since its incorporation in 1967. Mr. K. Hovnanian was also Chief Executive Officer of the Company from 1967 to July 1997.

Mr. A. Hovnanian was appointed President in April 1988, after serving as Executive Vice President from March 1983. He has also served as Chief Executive Officer since July 1997. Mr. A. Hovnanian was elected a Director of the Company in December 1981. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

Mr. Buchanan was appointed Senior Vice President and Chief Accounting Officer in December 2007. Mr. Buchanan was Senior Vice President and Corporate Controller from May 1990 until December 2007. Mr. Buchanan resigned as a Director of the Company on September 13, 2002, a position in which he served since March 1982, for the purpose of reducing the number of non-independent board members.

Mr. Reinhart has been Senior Vice President and General Counsel since April 1985. Mr. Reinhart resigned as a Director of the Company on September 13, 2002, a position in which he served since December 1981, for the purpose of reducing the number of non-independent board members.

Mr. Sorsby was appointed Executive Vice President and Chief Financial Officer of the Company in October 2000 after serving as Senior Vice President, Treasurer, and Chief Financial Officer from February 1996 and as Vice President-Finance/Treasurer of the Company since March 1991. Mr. Sorsby was elected a Director of the Company in 1997.

Mr. Valiaveedan joined the Company as Vice President—Finance in September 2005. In August 2008, he was also named as an executive officer of the Company. Prior to joining the Company, Mr. Valiaveedan served as Vice President—Finance for AIG Global Real Estate Investment Corp.

Code of Ethics and Corporate Governance Guidelines

We have adopted a Code of Ethics that applies to Hovnanian's principal executive officer, principal financial officer, controller, and all other associates of the Company, including its directors and other officers. We have posted the text of this Code of Ethics on our website at *www.khov.com* under "Investor Relations/Corporate Governance". We have also adopted Corporate Governance Guidelines and posted them on our website at *www.khov.com* under "Investor Relations/Corporate Governance". A printed copy of the Code of Ethics and Guidelines is also available to the public at no charge by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank,

N.J. 07701 or calling Corporate headquarters at 732-747-7800. We will post amendments to or waivers from our Code of Ethics that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange on our website at *www.khov.com* under "Investor Relations/Corporate Governance".

Audit Committee and Compensation Committee Charters

We have adopted charters that apply to Hovnanian's Audit Committee and Compensation Committee. We have posted the text of these charters on our website at *www.khov.com* under "Investor Relations/Corporate Governance". A printed copy of each charter is available at no charge to any shareholder who requests it by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800.

ITEM 11
EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 19, 2009.

ITEM 12
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12, except as set forth below in this Item 12, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 19, 2009.

The following table provides information as of October 31, 2008 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan Category	**Number of Class A Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)**	**Number of Class Stock B Common securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)**	**Weighted average exercise price of outstanding Class A Common Stock options, warrants and rights(2)**	**Weighted average exercise price of outstanding Class B Common Stock options, warrants and rights(3)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (in thousands)(1)**
	(a)	**(a)**	**(b)**	**(b)**	**(c)**
Equity compensation plans approved by security holders:	6,501	2,188	$16.28	$32.32	11,274
Equity compensation plans not approved by security holders:					
Total	6,501	2,188	$16.28	$32.32	11,274

(1) Under the Company's equity compensation plans, securities may be issued in either Class A Common Stock or Class B Common Stock.

(2) Does not include 1,387 shares to be issued upon vesting of restricted stock, because they have no exercise price.

(3) Does not include 342 shares to be issued upon vesting of restricted stock, because they have no exercise price.

ITEM 13
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 19, 2009.

ITEM 14
PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 19, 2009.

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PART IV

ITEM 15
EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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No schedules have been prepared because the required information of such schedules is not present, is not present in amounts sufficient to require submission of the schedule or because the required information is included in the financial statements and notes thereto.

Exhibits:

3(a)	Certificate of Incorporation of the Registrant.(1)
3(b)	Certificate of Amendment of Certificate of Incorporation of the Registrant.(5)
3(d)	Restated Bylaws of the Registrant.(14)
4(a)	Specimen Class A Common Stock Certificate.(13)
4(b)	Specimen Class B Common Stock Certificate.(15)
4(c)	Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated July 12, 2005.(11)
4(d)	Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
4(e)	Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C.(23)
4(f)	Indenture dated March 26, 2002, relating to 8% Senior Notes, among the Registrant, the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 8% Senior Notes due April 1, 2012.(10)
4(g)	Indenture dated March 26, 2002, relating to 8.875% Senior Subordinated Notes, among the Registrant, the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 8.875% Senior Subordinated Notes due April 1, 2012.(10)
4(h)	Indenture dated May 9, 2003, relating to $7^{3}/4$% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of $7^{3}/4$% Senior Subordinated Notes due May 15, 2013.(4)
4(i)	Indenture dated as of November 3, 2003, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Deutsche Bank Trust Company (as successor trustee), as Trustee.(2)
4(j)	First Supplemental Indenture, dated as of November 3, 2003, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including Form of $6^{1}/2$% Senior Notes.(2)
4(k)	Second Supplemental Indenture, dated as of March 18, 2004, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(19)
4(l)	Third Supplemental Indenture, dated as of July 15, 2004, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(19)
4(m)	Fourth Supplemental Indenture, dated as of April 19, 2005, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(19)
4(n)	Fifth Supplemental Indenture, dated as of September 6, 2005, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(19)
4(o)	Sixth Supplemental Indenture, dated as of February 27, 2006, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee (including form of $7^{1}/2$% Senior Notes due 2016).(20)
4(p)	Seventh Supplemental Indenture, dated as of June 12, 2006, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee (including form of $8^{5}/8$% Senior Notes due 2017).(21)
4(q)	Indenture dated as of March 18, 2004, relating to $6^{3}/8$% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of $6^{3}/8$% Senior Notes due 2014.(16)

4(r)	Indenture dated as of November 30, 2004, relating to 6 1/4% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 6 1/4% Senior Notes due 2015.(6)
4(s)	Indenture dated as of November 30, 2004, relating to 6% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 6% Senior Notes due 2010.(6)
4(t)	Indenture dated as of August 8, 2005, relating to 6.25% Senior Notes due 2016, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee including form of 6.25% Senior Notes due 2016.(7)
4(u)	Indenture dated as of May 27, 2008, relating to 11 1/2% Senior Secured Notes due 2013, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other Guarantors named therein and Wilmington Trust Company (as successor to Deutsche Bank Trust Company), as Trustee, including form of 11 1/2% Senior Secured Notes due 2013.(24)
4(v)	Indenture dated as of December 3, 2008, relating to 18.0% Senior Secured Notes due 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other Guarantors named therein and Wilmington Trust Company, as Trustee, including form of 18.0% Senior Secured Notes due 2017.(25)
10(a)	Seventh Amended and Restated Credit Agreement dated March 7, 2008.(22)
10(b)	Amendment No. 1 to Seventh Amended and Restated Credit Agreement dated as of May 16, 2008.(24)
10(c)	Guaranty and Suretyship Agreement, dated March 7, 2008.(22)
10(d)	Pledge Agreement, relating to the Amended Credit Agreement, dated as of March 7, 2008.(22)
10(e)	Amended and Restated Security Agreement, relating to the Amended Credit Agreement, dated as of May 27, 2008.(24)
10(f)	Intellectual Property Security Agreement, relating to the Amended Credit Agreement, dated as of May 27, 2008.(24)
10(g)	Intercreditor Agreement dated as of May 27, 2008.(24)
10(h)	Second Lien Pledge Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(24)
10(i)	Second Lien Security Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(24)
10(j)	Intellectual Property Security Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(24)
10(k)	Intercreditor Agreement dated as of December 3, 2008.(25)
10(l)	Third Lien Pledge Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(25)
10(m)	Third Lien Security Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(25)
10(n)	Intellectual Property Security Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(25)
10(o)	Description of Non-Employee Director Compensation.(1)
10(p)	Base Salaries of Executive Officers.
10(q)	Description of Savings and Investment Retirement Plan.(3)
10(r)	2008 Hovnanian Enterprises, Inc. Stock Incentive Plan.(17)
10(s)	1983 Stock Option Plan (as amended and restated March 8, 2002).(18)
10(t)	Management Agreement dated August 12, 1983, for the management of properties by K. Hovnanian Investment Properties, Inc.(3)
10(u)	Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(15)
10(v)	Executive Deferred Compensation Plan as amended and restated on December 19, 2008.
10(w)	Senior Executive Short-Term Incentive Plan (as amended and restated).(8)
10(x)	Death and Disability Agreement between the Registrant and Ara K. Hovnanian, dated February 2, 2006.(9)
10(y)	Form of Hovnanian Deferred Share Policy for Senior Executives.
10(z)	Form of Hovnanian Deferred Share Policy.

10(aa)	Form of Non-Qualified Stock Option Agreement.
10(bb)	Form of Incentive Stock Option Agreement.
10(cc)	Form of Stock Option Agreement for Directors.
10(dd)	Form of Restricted Share Unit Agreement.
12	Statements re Computation of Ratios.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32(a)	Section 1350 Certification of Chief Executive Officer.
32(b)	Section 1350 Certification of Chief Financial Officer.

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(1) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2008 of the Registrant.

(2) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K filed on November 7, 2003.

(3) Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.

(4) Incorporated by reference to Exhibits to Registration Statement (No. 333-107164) on Form S-4 of the Registrant.

(5) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K filed December 9, 2008.

(6) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2004 of the Registrant.

(7) Incorporated by reference to Exhibits to Registration Statement (No. 333-127806) on Form S-4 of the Registrant.

(8) Incorporated by reference to Appendix A of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 19, 2008.

(9) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2006 of the Registrant.

(10) Incorporated by reference to Exhibits to Registration Statement (No. 333-89976) on Form S-4 of the Registrant.

(11) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on July 13, 2005.

(12) Incorporated by reference to Item 1.01 of the Current Report on Form 8-K of the Registrant filed on January 19, 2005.

(13) Incorporated by reference to Exhibits to Registration Statement (No. 333-111231) on Form S-3 of the Registrant.

(14) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2007 of the Registrant.

(15) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2003 of the Registrant.

(16) Incorporated by reference to Exhibits to Registration Statement (No. 333-115742) on Form S-4 of the Registrant.

(17) Incorporated by reference to Appendix B of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 19, 2008.

(18) Incorporated by reference to Appendix C of the definitive Proxy Statement of the Registration on Schedule 14A filed February 19, 2008.

(19) Incorporated by reference to Exhibits to Registration Statement (No. 333-131982) on Form S-3 of the Registrant.

(20) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K filed on February 27, 2006.

(21) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on June 15, 2006.

(22) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2008 of the Registrant.

(23) Incorporated by reference to Exhibits to the Registration Statement (No. 001-08551) on Form 8-A of the Registrant filed August 14, 2008.

(24) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant, filed on June 2, 2008.

(25) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant, filed on December 8, 2008.

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SIGNATURES

Pursuant to the requirements of Section l3 or l5(d) of the Securities Exchange Act of l934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.

By: /s/ KEVORK S. HOVNANIAN

Kevork S. Hovnanian
Chairman of the Board
December 24, 2008

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on December 24, 2008 and in the capacities indicated.

Signature	Title
/s/ KEVORK S. HOVNANIAN Kevork S. Hovnanian	Chairman of The Board and Director
/s/ ARA K. HOVNANIAN Ara K. Hovnanian	Chief Executive Officer, President and Director
/s/ PAUL W. BUCHANAN Paul W. Buchanan	Senior Vice President-Chief Accounting Officer
/s/ EDWARD A. KANGAS Edward A. Kangas	Chairman of Audit Committee and Director
/s/ PETER S. REINHART Peter S. Reinhart	Senior Vice President and General Counsel
/s/ J. LARRY SORSBY J. Larry Sorsby	Executive Vice President, Chief Financial Officer and Director
/s/ STEPHEN D. WEINROTH Stephen D. Weinroth	Chairman of Compensation Committee and Director

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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No schedules have been prepared because the required information of such schedules is not present, is not present in amounts sufficient to require submission of the schedule or because the required information is included in the financial statements and notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

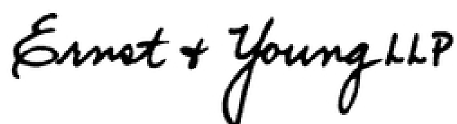
We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries (the "Company") as of October 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hovnanian Enterprises, Inc.'s internal control over financial reporting as of October 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 23, 2008 expressed an unqualified opinion thereon.

As discussed in Note 3 to the consolidated financial statements, effective November 1, 2007, the Company changed its method of accounting for uncertainty in income tax positions upon the adoption of Statements of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," and effective November 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payments" using the modified-prospective transition method.



New York, New York
December 23, 2008

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CONSOLIDATED BALANCE SHEETS

(In Thousands)	October 31, 2008	October 31, 2007
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 838,207	$ 12,275
Restricted cash (Note 6)	4,324	6,594
Inventories—at the lower of cost or fair value (Notes 13 and 14):		
Sold and unsold homes and lots under development	1,342,584	2,792,436
Land and land options held for future development or sale	644,067	446,135
Consolidated inventory not owned:		
Specific performance options	10,610	12,123
Variable interest entities (Note 18)	77,022	139,914
Other options	84,799	127,726
Total consolidated inventory not owned	172,431	279,763
Total inventories	2,159,082	3,518,334
Investments in and advances to unconsolidated joint ventures (Note 19)	71,097	176,365
Receivables, deposits, and notes	78,766	109,856
Property, plant, and equipment—net (Note 5)	92,817	106,792
Prepaid expenses and other assets	156,595	174,032
Goodwill (Note 20)	—	32,658
Definite life intangibles (Note 20)	—	4,224
Total homebuilding	3,400,888	4,141,130
Financial services:		
Cash and cash equivalents	9,849	3,958
Restricted cash (Note 6)	4,005	11,572
Mortgage loans held for sale or investment (Notes 7 and 8)	90,729	182,627
Other assets	5,025	6,851
Total financial services	109,608	205,008
Income taxes receivable—including net deferred tax benefits (Note 12)	126,826	194,410
Total assets	$ 3,637,322	$ 4,540,548

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)	October 31, 2008	October 31, 2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Homebuilding:		
Nonrecourse land mortgages (Note 8)	$ 820	$ 9,430
Accounts payable and other liabilities	420,695	515,422
Customers' deposits (Note 6)	28,676	65,221
Nonrecourse mortgages secured by operating properties (Note 8)	22,302	22,985
Liabilities from inventory not owned (Note 18)	135,077	189,935
Total homebuilding	607,570	802,993
Financial services:		
Accounts payable and other liabilities	10,559	19,597
Mortgage warehouse line of credit (Notes 7 and 8)	84,791	171,133
Total financial services	95,350	190,730
Notes payable:		
Revolving credit agreement (Note 8)	—	206,750
Senior secured notes (Note 9)	594,734	—
Senior notes (Note 9)	1,511,071	1,510,600
Senior subordinated notes (Note 9)	400,000	400,000
Accrued interest (Notes 8 and 9)	72,477	43,944
Total notes payable	2,578,282	2,161,294
Total liabilities	3,281,202	3,155,017
Minority interest from inventory not owned (Note 18)	24,880	62,238
Minority interest from consolidated joint ventures	976	1,490
Stockholders' equity (Notes 15 and 20):		
Preferred stock, $.01 par value—authorized 100,000 shares; issued 5,600 shares with a liquidation preference of $140,000, at October 31, 2008 and October 31, 2007	135,299	135,299
Common stock, Class A, $.01 par value—authorized 200,000,000 shares; issued 73,803,879 shares at October 31, 2008; and 59,263,887 shares at October 31, 2007 (including 11,694,720 shares at October 31, 2008 and October 31, 2007 held in Treasury)	738	593
Common stock, Class B, $.01 par value (convertible to Class A at time of sale)—authorized 30,000,000 shares; issued 15,331,494 shares at October 31, 2008; and issued 15,338,840 shares at October 31, 2007 (including 691,748 shares at October 31, 2008 and October 31, 2007 held in Treasury)	153	153
Paid in capital—common stock	418,626	276,998
(Accumulated deficit)/retained earnings	(109,295)	1,024,017
Treasury stock—at cost	(115,257)	(115,257)
Total stockholders' equity	330,264	1,321,803
Total liabilities and stockholders' equity	$ 3,637,322	$ 4,540,548

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
(In Thousands Except Per Share Data)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**
Revenues:			
Homebuilding:			
Sale of homes	$ 3,177,853	$ 4,581,375	$ 5,903,387
Land sales and other revenues	78,039	141,355	155,250
Total homebuilding	3,255,892	4,722,730	6,058,637
Financial services	52,219	76,191	89,598
Total revenues	3,308,111	4,798,921	6,148,235
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	3,010,902	3,977,653	4,633,081
Cost of sales interest	145,961	131,957	108,329
Inventory impairment loss and land option write-offs (Note 13)	710,120	457,773	336,204
Total cost of sales	3,866,983	4,567,383	5,077,614
Selling, general and administrative	377,068	539,362	593,860
Total homebuilding expenses	4,244,051	5,106,745	5,671,474
Financial services	35,567	48,321	58,586
Corporate general and administrative	82,846	85,878	96,781
Other interest	30,375	9,797	3,615
Other operations	9,837	4,799	45,237
Goodwill and intangible amortization and impairment (Note 20)	36,883	162,124	54,821
Total expenses	4,439,559	5,417,664	5,930,514
(Loss) income from unconsolidated joint ventures (Note 19)	(36,600)	(28,223)	15,385
(Loss) income before income taxes	(1,168,048)	(646,966)	233,106
State and federal income tax (benefit)/provision (Note 12):			
State	13,760	7,088	1,366
Federal	(57,218)	(26,935)	82,207
Total taxes	(43,458)	(19,847)	83,573
Net (loss) income	(1,124,590)	(627,119)	149,533
Less: preferred stock dividends	—	10,674	10,675
Net (loss) income available to common stockholders	$ (1,124,590)	$ (637,793)	$ 138,858
Per share data:			
Basic:			
(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.21
Weighted average number of common shares outstanding	70,131	63,079	62,822
Assuming dilution:			
(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.14
Weighted average number of common shares outstanding	70,131	63,079	64,838

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars In Thousands)	A Common Stock		B Common Stock		Preferred Stock						
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Paid-In Capital	(Accumulated Deficit) Retained Earnings	Deferred Comp	Treasury Stock	Total
Balance, October 31, 2005	46,980,799	$ 580	14,678,502	$ 154	5,600	$135,389	$236,001	$ 1,522,952	$ (19,648)	$ (84,071)	$ 1,791,357
Stock issuances for Company acquisitions	175,936	1					4,188			1,750	5,939
Issuance costs						(90)					(90)
Preferred dividend declared ($1,906.07 per share)								(10,675)			(10,675)
Stock options, amortization and issuances, net of tax	245,596	2					20,342				20,344
Restricted stock amortization, issuances and forfeitures, net of tax	404,832	4					12,379				12,383
Reclass due to SFAS 123R implementation (see Note 3)							(19,648)		19,648		—
Conversion of Class B to Class A common stock	26,840		(26,840)	(1)							(1)
Treasury stock purchases	(675,000)									(26,627)	(26,627)
Net income								149,533			149,533
Balance, October 31, 2006	47,159,003	587	14,651,662	153	5,600	135,299	253,262	1,661,810	—	(108,948)	1,942,163
Preferred dividend declared ($1,906.07 per share)								(10,674)			(10,674)
Stock options, amortization and issuances, net of tax	414,377	4					18,911				18,915
Restricted stock amortization, issuances and forfeitures, net of tax	191,217	2					4,825				4,827
Conversion of Class B to Class A common stock	4,570		(4,570)								—
Treasury stock purchases	(200,000)									(6,309)	(6,309)
Net loss								(627,119)			(627,119)
Balance, October 31, 2007	47,569,167	593	14,647,092	153	5,600	135,299	276,998	1,024,017	—	(115,257)	1,321,803
Adoption of FASB Interpretation No. 48 (Fin 48)								(8,722)			(8,722)
Stock issuance May 14, 2008 offering	14,000,000	140					125,739				125,879
Stock options, amortization and issuances, net of tax	238,448	2					7,553				7,555
Restricted stock, amortization issuances and forfeitures, net of tax	294,198	3					8,336				8,339
Conversion of Class B to Class A common stock	7,346		(7,346)								—
Net loss								(1,124,590)			(1,124,590)
Balance, October 31, 2008	62,109,159	$ 738	14,639,746	$ 153	5,600	$135,299	$418,626	$ (109,295)	—	$(115,257)	$ 330,264

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Year Ended October 31, 2008	Year Ended October 31, 2007	Year Ended October 31, 2006
Cash flows from operating activities:			
Net (loss) income	$ (1,124,590)	$ (627,119)	$ 149,533
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation	18,426	18,283	14,884
Goodwill and intangible amortization and impairment	36,883	162,124	54,821
Compensation from stock options and awards	25,247	24,434	23,428
Amortization of bond discounts and deferred financing costs	8,668	3,223	3,128
Excess tax payments (benefits) from share-based payments	6,312	(2,341)	(7,951)
(Gain) loss on sale and retirement of property and assets	(2,262)	1,849	428
Loss (income) from unconsolidated joint ventures	36,600	28,223	(15,385)
Distributions from unconsolidated joint ventures	7,461	3,998	15,038
Deferred income taxes	105,302	85,612	(151,072)
Impairment and land option deposit write-offs	710,120	457,773	336,204
Decrease (increase) in assets:			
Mortgage notes receivable	91,963	99,354	(70,638)
Restricted cash, receivables, prepaids and other assets	88,745	4,249	56,438
Inventories	666,372	33,625	(920,346)
(Decrease) increase in liabilities:			
State and Federal income taxes	(46,440)	(43,308)	(90,888)
Customers' deposits	(36,545)	(119,690)	(75,409)
Interest and other accrued liabilities	(127,527)	(36,656)	22,630
Accounts payable	(2,669)	(31,667)	4,447
Net cash provided by (used in) operating activities	462,066	61,966	(650,710)
Cash flows from investing activities:			
Net proceeds from sale of property and assets	3,835	1,539	384
Purchase of property, equipment, and other fixed assets and acquisitions	(5,238)	(37,777)	(51,506)
Investment in and advances to unconsolidated joint ventures	(16,837)	(30,088)	(29,113)
Distributions from unconsolidated joint ventures	16,601	33,932	5,691
Net cash (used in) investing activities	(1,639)	(32,394)	(74,544)
Cash flows from financing activities:			
Proceeds from mortgages and notes		8,590	69,386
Net proceeds from Senior Secured Notes (including deferred financing costs)	571,941		
Net (payments) proceeds relating to revolving credit agreement (includes deferred financing costs)	(221,632)	206,750	
Net (payments) proceeds related to mortgage warehouse line of credit	(86,342)	(99,038)	71,315
Proceeds from senior debt			550,000
Payments of issuance costs			(90)
Principal payments on mortgages and notes	(13,338)	(32,034)	(94,303)
Principal payments on senior debt		(140,250)	
Excess tax (payments) benefits from share-based payment	(6,312)	2,341	7,951
Preferred dividends paid		(10,674)	(10,675)
Purchase of treasury stock		(6,309)	(26,627)
Net proceeds from sale of stock and employee stock plan	127,079	2,962	1,347
Net cash provided by (used in) financing activities	371,396	(67,662)	568,304
Net increase (decrease) in cash	831,823	(38,090)	(156,950)
Cash and cash equivalents balance, beginning of year	16,233	54,323	211,273
Cash and cash equivalents balance, end of year	$ 848,056	$ 16,233	$ 54,323
Supplemental disclosures of cash flows:			
Cash paid (received) during the period for:			
Interest, net of capitalized interest	$ 143,537	$ 152,969	$ 87,263
Income taxes	$ (98,176)	$ (64,492)	$ 298,005
Supplemental disclosures of noncash operating activities:			
Consolidated inventory not owned:			
Specific performance options	$ 9,371	$ 10,718	$ 19,310
Variable interest entities	68,680	126,208	190,940
Other options	84,799	127,726	180,243
Total inventory not owned	$ 162,850	$ 264,652	$ 390,493

Supplemental disclosure of noncash investing activities:

In 2006, the Company acquired substantially all of the assets of two mechanical contracting businesses by issuing 175,936 Class A common shares with a fair value of $5.9 million on the date of the transaction.

In 2008, the Company consolidated a previously unconsolidated joint venture, resulting in a reduction in investments in unconsolidated joint ventures and an increase in inventory of $61.5 million.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2008, 2007, and 2006

1. Basis of Presentation

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.

2. Business

Our operations consist of homebuilding, financial services, and corporate. Our homebuilding operations are made up of six reportable segments defined as Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West. Homebuilding operations comprise the substantial part of our business, with approximately 98% of consolidated revenues for the years ended October 31, 2008 and 2007 and 99% for the year ended October 31, 2006 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in 284 consolidated new home communities in New Jersey, Pennsylvania, New York, Ohio, Virginia, West Virginia, Delaware, Washington, D.C., Kentucky, Illinois, Minnesota, Maryland, Georgia, North Carolina, South Carolina, Florida, Texas, Arizona, and California. 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, which are a reportable segment, provide mortgage banking and title services to the homebuilding operations' customers. We do not retain or service the mortgages that we originate but rather sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, accounting, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety.

See Note 10 "Operating and Reporting Segments" for further disclosure of our reportable segments.

3. Summary of Significant Accounting Policies

Use of Estimates—The preparation of financial statements in conformity with U.S. 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 the Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" ("SFAS 141"). Under SFAS 141, we record as our cost the estimated fair value of 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 intangible assets less liabilities is recorded as goodwill. The reported income of the acquired company includes the operations of the acquired company from the date of acquisition.

Income Recognition from Home and Land Sales —We are primarily engaged in the development, construction, marketing and sale of residential single-family and multi-family homes where the planned construction cycle is less than 12 months. For these homes, in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), revenue is recognized when title is conveyed to the buyer, adequate initial and continuing investments have been received and there is no continued involvement. In situations where the buyer's financing is originated by our mortgage subsidiary and the buyer has not made an adequate initial or continuing investment as prescribed by SFAS 66, the profit on such sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed.

Additionally, in certain markets, we sell lots to customers, transferring title, collecting proceeds, and entering into contracts to build homes on these lots. In these cases, we do not recognize the revenue from the lot sale until we deliver the completed home and have no continued involvement related to that home. The cash received on the lot is recorded as customer deposits until the revenue is recognized.

Income Recognition from High-Rise/Mid-Rise Buildings—We are developing several high-rise/mid-rise buildings that will take more than 12 months to complete. If these buildings qualify, revenues and costs are recognized using the percentage of completion method of accounting in accordance with SFAS 66. Under the percentage of completion method, revenues and costs are to be recognized when construction is beyond the preliminary stage, the buyer is committed to the extent of having a sufficient initial and continuing investments that the buyer cannot require be refunded except for non-delivery of the home, sufficient homes in the building have been sold to ensure that the property will not be converted to rental property, the sales prices are collectible and the aggregate sales proceeds and the total cost of the building can be reasonably estimated. We currently do not have any buildings that meet these criteria, therefore the revenues from delivering homes in

high-rise/mid-rise buildings are recognized when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement with respect to that home.

Income Recognition from Mortgage Loans —Our Financial Services segment originates mortgages, primarily for our homebuilding customers. We use mandatory mortgage-backed securities ("MBS") forward commitments and investor commitments to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of non-agency and non-governmental loans, including Alt-A (FICO scores below 680 and depending on credit criteria) and sub-prime loans (FICO scores below 580 and depending on credit criteria), we require our Financial Services segment to either presell or broker all of these loans, on an individual loan basis as soon as they are committed to by the customer. However, because of the recent tightening by mortgage lenders, our origination of Alt-A and sub-prime loans has declined to only 7.6% and 0.3%, respectively, of the total loans we originated during fiscal 2008, as compared to 27.3% and 3.7%, respectively, for the same period last year. In addition, of the $87.5 million of mortgage loans held for sale as of October 31, 2008, none were Alt-A or sub-prime loans. There were, however, $3.2 million of mortgage loans held for investment at October 31, 2008, which represent loans that cannot currently be sold at reasonable terms in the secondary market. As Alt-A and sub-prime originations declined, we have seen an increase in our level of FHA/VA loan origination. For the twelve months ended October 31, 2008 and 2007, FHA loans represented 35.5% and 6.5%, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

Interest Income Recognition for Mortgage Loans Receivable and Recognition of Related Deferred Fees and Costs—Interest income is recognized as earned for each mortgage loan during the period from the loan closing date to the loan sale date when legal control passes to the buyer and the sale price is collected. All fees related to the origination of mortgage loans and direct loan origination costs are deferred and recorded as either (a) an adjustment to the related mortgage loans upon the closing of a loan or (b) recognized as a deferred asset or deferred revenue while the loan is in process. These fees and costs include loan origination fees, loan discount, and salaries and wages. Such deferred fees and costs relating to the closed loans are recognized over the life of the loans as an adjustment of yield or taken into operations upon sale of the loan to a permanent investor.

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 maturities of 90 days or less when purchased. Our cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. We believe we mitigate this risk by depositing our cash in major financial institutions. At October 31, 2008, $817.6 million of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

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 and cash equivalents, restricted cash, receivables, deposits and notes, accounts payable and other liabilities, customer deposits, mortgage loans held for sale or investment, nonrecourse land and operating properties mortgages, our revolving credit agreement, mortgage warehouse line of credit, accrued interest, and the Senior Secured, Senior and Senior Subordinated Notes payable. The fair value of both the Senior Secured, Senior and Senior 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 Secured, Senior and Senior Subordinated Notes is estimated at $480.0 million, $483.3 million and $161.0 million respectively, as of October 31, 2008. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

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

We report inventories in our consolidated balance sheets at the lower of cost or fair value. Our inventories consist of the following three components: (1) Sold and unsold homes and lots under

development, which includes all construction, land, and land development costs related to started homes and land under development in our active communities; (2) Land and land options held for future development or sale, which includes all costs related to land in our communities in planning; and (3) Consolidated inventory not owned, which includes all cost related to specific performance options, variable interest entities, and other options, which consists primarily of our GMAC model homes and inventory related to structured lot options.

As a result of the declining homebuilding market, we have decided to mothball (or stop development on) certain communities where we determine the current performance does not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from Sold and unsold homes and lots under development to Land and land options held for future development or sale. As of October 31, 2008, the book value associated with the 54 mothballed communities was $550.4 million, net of an impairment balance of $290.1 million. We continually review communities to determine if mothballing is appropriate.

The recoverability of inventories and other long-lived assets are assessed in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires long-lived assets, including inventories, held for development to be evaluated for impairment based on undiscounted future cash flows of the assets at the lowest level for which there are identifiable cash flows. As such, we evaluate inventories for impairment at the individual community level, the lowest level of discrete cash flows that we measure.

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly, primarily by completing detailed budgets for all of our communities and identifying those communities with a projected operating loss for any projected fiscal year or for the entire projected community life. For those communities with projected losses, we estimate remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

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

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

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

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

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the

estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. Our discount rates used for the impairments recorded to date range from 13.5% to 17.0%. The estimated future cash flow assumptions are the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a straight line basis.

Inventories held for sale, which are land parcels where we have decided not to build homes, are a very small portion of our total inventories, and are reported at the lower of carrying amount or fair value less costs to sell. In determining whether land held for sale is impaired, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

From time to time, we write-off deposits and approval, engineering and capitalized interest costs when we decide not to exercise options to buy land in various locations or when we redesign communities and/or abandon certain engineering costs. In deciding not to exercise a land option, we take into consideration changes in market conditions, the timing of required land takedowns, the willingness of land sellers to modify terms of the land option contract (including timing of land takedowns), and the availability and best use of our capital, among other factors. The write-off is recorded in the period it is deemed probable that the optioned property will not be acquired. In certain instances, we have been able to recover deposits and other preacquisition costs which were previously written off. These recoveries are generally not significant in comparison to the total costs written off.

The impairment of communities under development, communities held for future development and inventories held for sale, and the charge for land option write-offs, are reflected on the Consolidated Statement of Operations in a separate line entitled "Homebuilding—Inventory impairment loss and land option write-offs". See also Note 13 to the Consolidated Financial Statements for inventory impairment and write-off amounts by segment.

Insurance Deductible Reserves—For homes delivered in fiscal 2008 and 2007, our deductible is $20 million per occurrence with an aggregate $20 million for liability claims and an aggregate $21.5 million for construction defect claims under our general liability insurance. Our worker's compensation insurance deductible is $0.5 million per occurrence in fiscal 2008 and fiscal 2007. Reserves have been established based upon actuarial analysis of estimated losses for fiscal 2008 and fiscal 2007. We engage a third party actuary that uses our historical warranty data to estimate our unpaid claims, claim adjustment expenses and incurred but not reported claims reserves for the risks that we are assuming under the general liability and workers compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Interest—In accordance with SFAS 34, "Capitalization of Interest Cost", interest incurred is first capitalized to properties under development during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized because qualifying assets for interest capitalization are less than debt, or interest incurred on borrowings directly related to properties not under development are expensed immediately in "Other interest".

Interest costs incurred, expensed and capitalized were:

	Year Ended		
(Dollars in Thousands)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**
Interest capitalized at beginning of year	$ 155,642	$ 102,849	$ 48,366
Plus interest incurred(1)	190,801	194,547	166,427
Less cost of sales interest expensed	145,961	131,957	108,329
Less other interest expensed (2)(3)	30,375	9,797	3,615
Interest capitalized at end of year(4)	$ 170,107	$ 155,642	$ 102,849

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

(2) Beginning in the third quarter of fiscal 2008, our assets that qualify for interest capitalization (inventory under development) no longer exceed our debt, and therefore the portion of interest not covered by qualifying assets must be directly expensed.

(3) Represents interest on completed homes and land in planning, which does not qualify for capitalization.

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

Land Options—Costs are 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. In accordance with the Financial Accounting Standards Board's ("FASB") revision to Interpretation No. 46 "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51 ("FIN 46-R"), SFAS No. 49 "Accounting for Product Financing Arrangements" ("SFAS 49"), SFAS No. 98 "Accounting for Leases" ("SFAS 98"), and Emerging Issues Task Force ("EITF") No. 97-10 "The Effects of Lessee Involvement in Asset Construction" ("EITF 97-10"), we record on the Consolidated Balance Sheets specific performance options, options with variable interest entities, and other options under "Consolidated inventory not owned" with the offset to "Liabilities from inventory not owned", and "Minority interest from inventory not owned" and "Minority interest from consolidated joint ventures".

Unconsolidated Homebuilding and Land Development Joint Ventures—Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but is generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we consider the guidance in EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-5"), in assessing whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business. In accordance with Accounting Principles Board Opinion 18 ("APB 18"), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write-down the investment to the recoverable value. We evaluate our equity investments for recoverability based on the joint venture's projected cash flows. In fiscal 2008, we wrote-down certain joint venture investments by $11.3 million, based on this recoverability analysis.

Intangible Assets—The intangible assets recorded on our October 31, 2007 balance sheet are goodwill, which has an indefinite life, and definite life intangibles, including trade names, architectural designs, distribution processes, and contractual agreements resulting from our acquisitions. We no longer amortize goodwill but instead assess it periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2008. If the fair value of the applicable business unit is less than the carrying amount of that business unit, the goodwill of that business unit is considered impaired. The amount of the impairment is determined as the excess of the book value of the goodwill over the implied fair value of the goodwill, and the implied fair value of the goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the fair value of the business unit is allocated to all of the assets and liabilities of that business unit as if the business unit had been acquired in a business combination. The excess of the fair value of the business unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The estimates used in the determination of the estimated cash flows and fair value of a business unit are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated cash flows or fair value

decrease or differ from current estimates in the future, we may be required to recognize additional impairments. Despite years of significant income generation in our markets with goodwill, primarily Texas in the Southwest segment and our Mid-Atlantic segment, the current weakening market resulted in financial estimates in 2008 that resulted in fully impairing the remaining $32.7 million of goodwill, based upon present value of cash flow analyses. The goodwill impairment charge was included in "Goodwill and intangible amortization and impairment" on the Consolidated Statement of Operations.

We also assess definite life intangibles for impairment whenever events or changes indicate that their carrying amount may not be recoverable. An intangible impairment is recorded when events and circumstances indicate the undiscounted future cash flows generated from the business unit with the intangible asset are less than the net assets of the business unit. The impairment loss is the lesser of the difference between the net assets of the business unit and the discounted future cash flows generated from the applicable business unit, which approximates fair value and the intangible asset balance. The estimates used in the determination of the estimated cash flows and fair value of a business unit are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. This was the case in fiscal 2008, whereby we wrote off the carrying amount of $2.7 million of intangible assets in our Mid-Atlantic segment, bringing the balance to zero at October 31, 2008. In fiscal 2007, we determined that the intangible assets associated with our Fort Myers, California, Tampa, Orlando, Canton and Building Products operations were impaired and wrote them off for a total reduction of $162.2 million, of which $135.2 million was included in "Goodwill and intangible amortization and impairment" on the Consolidated Statement of Operations and $27.0 million was included in "Accounts payable and other liabilities" on the Consolidated Balance Sheets. The intangible impairment charge is included in "Goodwill and intangible amortization and impairment" on the Consolidated Statements of Operations.

Finance Subsidiary Net Worth—In accordance with Statement of Position 01-6 ("SOP 01-6") of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, we are required to disclose the minimum net worth requirements by regulatory agencies, secondary market investors and states in which our mortgage subsidiary conducts business. At October 31, 2008 and 2007, our mortgage subsidiary's net worth was $68.5 million and $59.2 million, respectively, which exceeded all our regulatory agencies net worth requirements.

Deferred Bond Issuance Costs—Costs associated with the issuance of our Senior Secured, Senior and Senior Subordinated Notes are capitalized and amortized over the associated term of each note issuance.

Debt Issued At a Discount—Debt issued at a discount to the face amount is accreted up to its face amount utilizing the effective interest method over the term of the note and recorded as a component of interest on the Consolidated Statements of Operations.

Post Development Completion and Warranty Costs —In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. In addition, we accrue warranty costs as part of cost of sales for repair costs under $5,000 per occurrence to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs over $5,000 per occurrence as part of our general liability insurance deductible as part of Selling, general and administrative costs. As previously stated, the deductible for our general liability insurance for homes delivered in fiscal 2008 and 2007 is $20 million per occurrence with an aggregate $20 million for liability claims, and an aggregate $21.5 million for construction defect claims. Both of these liabilities are recorded in "Accounts payable and other liabilities" in the Consolidated Balance Sheets.

Advertising Costs—Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2008, 2007, and 2006, advertising costs expensed amounted to $57.3 million, $102.3 million, and $107.9 million, 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. 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 or carried forward to future years to recover the deferred tax assets. In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. SFAS 109 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. See Note 12 for further discussion of the valuation allowances recorded during fiscal 2008 and 2007, as well as discussion of the adoption of FIN 48 for uncertain tax positions on November 1, 2007.

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.

In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2008, approximately 3.4 million shares have been purchased under this program, of which zero and 0.2 million were repurchased during the twelve months ended October 31, 2008 and 2007, respectively.

On August 4, 2008, we announced that our Board of Directors adopted a shareholder rights plan (the "Rights Plan") designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards (NOL) and built-in losses under Section 382 of the Internal Revenue Code. Our ability to use NOLs and built-in losses would be limited, if there was an "ownership change" under Section 382. This would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of our stock increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382. Under the Rights Plan, one right was distributed for each share of Class A Common Stock and Class B Common Stock outstanding as of the close of business on August 15, 2008. Effective August 15, 2008, if any person or group acquires 4.9% or more of the outstanding shares of Class A Common Stock without the approval of the Board of Directors, there would be a triggering event causing significant dilution in the voting power of such person or group. However, existing stockholders who owned, at the time of the Rights Plan's adoption, 4.9% or more of the outstanding shares of Class A Common Stock will trigger a dilutive event only if they acquire additional shares. The approval of the Board of Directors' decision to adopt the Rights Plan may be terminated by the Board at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 15, 2018, unless it is terminated or redeemed earlier by the Board of Directors. The approval of the Board of Directors' decision to adopt the Rights Plan was submitted to a stockholder vote and approved at a Special Meeting of stockholders held on December 5, 2008. Also at the Special Meeting on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our net operating loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code. See Note 23 for additional details.

Preferred Stock—On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000 per share. Dividends on the Series A Preferred Stock are not cumulative and are paid at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing $1/1000^{th}$ of a share of Series A Preferred Stock. The depositary shares are listed on the Nasdaq Global Market under the symbol "HOVNP". In fiscal 2008, 2007 and 2006 we paid zero (due to covenant restrictions in our indentures), $10.7 million and $10.7 million, respectively, as dividends on the Series A Preferred Stock.

Depreciation—Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of the assets ranging from three to forty years.

Prepaid Expenses—Prepaid expenses which relate to specific housing communities (model setup, architectural fees, homeowner warranty program fees, 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—Effective November 1, 2005, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123R, "Share-Based Payments", which revises SFAS 123, "Accounting for Stock-Based Compensation". Prior to fiscal year 2006, the Company accounted for stock awards granted to employees under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As a result, the recognition of stock-based compensation expense was generally limited to the expense attributed to nonvested stock awards, as well as the amortization of certain acquisition-related deferred compensation.

SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date, as well as to the unvested portion of awards outstanding as of the required effective date. The Company uses the Black-Scholes model to value its new stock option grants under SFAS 123R, applying the "modified prospective method" for existing grants which requires the Company to value stock options

prior to its adoption of SFAS 123R under the fair value method and expense the unvested portion over the remaining vesting period. The fair value for options is established at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for October 31, 2008 and October 31, 2007: risk-free interest rate of 4.27% and 5.12%, respectively; dividend yield of zero; historical volatility factor of the expected market price of our common stock of 0.50 for year ended 2008 and 0.44 for year ended 2007; and a weighted average expected life of the option of 5.86 years for 2008 and 5.74 years for 2007. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation (estimated at 8.4%), and requires the Company to reflect the benefits of tax deductions in excess of recognized compensation cost to be reported as both a financing cash inflow and an operating cash outflow upon adoption.

Compensation cost arising from nonvested stock granted to employees and from non-employee stock awards is recognized as expense using the straight-line method over the vesting period.

For the years ended October 31, 2008 and October 31, 2007, the Company's total stock-based compensation expense was $25.2 million ($24.3 million net of tax) and $24.4 million ($23.6 million net of tax), respectively. Included in this total stock-based compensation expense was incremental expense for stock options of $13.1 million ($12.6 million net of tax) and $13.7 million ($13.3 million net of tax) for the years ended October 31, 2008 and October 31, 2007, 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 traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

Per Share Calculations—Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock shares and non-vested common stock of approximately 2.0 million for the year ended October 31, 2006. For the years ended October 31, 2008 and 2007, there were no incremental shares attributed to nonvested stock and outstanding options to purchase common stock because we had a net loss for the year, and any incremental shares would not be dilutive.

Computer Software Development—In accordance with Statements of Position 98-1, we capitalize certain costs incurred in connection with developing or obtaining software for internal use. Once the software is substantially complete and ready for its intended use, the capitalized costs are amortized over the systems estimated useful life.

Recent Accounting Pronouncements—In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which partially defers the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. Implementation of SFAS 157 will apply to our Financial Services segment in fiscal 2009, however, the impact is not expected to be material to our consolidated financial position, results of operations or cash flows. This pronouncement is effective for our other segments' non-financial assets in fiscal 2010. We are currently evaluating the impact, if any, that FAS 157 may have on our consolidated financial positions, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). The statement permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. We do not expect that FAS 159 will have a material impact on our consolidated financial positions, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS 160"). The statement clarifies the accounting for non-controlling interests and establishes accounting and reporting standards for the non-controlling interest in a subsidiary, including classification as a component of equity. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, and earlier adoption is prohibited. We are currently evaluating the impact, if any, that SFAS 160 may have on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). The statement replaces SFAS No. 141, "Business Combinations", and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008, and is to be applied prospectively. We are currently evaluating the impact, if any, that SFAS 141(R) may have on our consolidated financial positions, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 expands the disclosure requirements in SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact, if any, SFAS 161 may have on our consolidated financial positions, results of operations or cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principals." We are currently evaluating the impact, if any, that SFAS No. 162 may have on our consolidated financial positions, results of operations or cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60" ("SFAS No. 163"). SFAS No. 163 clarifies how Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises," applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. SFAS No. 163 also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company does not have any guarantee insurance contracts, and therefore, we do not expect that SFAS No. 163 will have a material impact on our consolidated financial positions, results of operations or cash flows.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP-EITF 03-6-1"). Under FSP-EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP-EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years and requires retrospective application. We are currently evaluating the impact, if any, that FSP-EITF 03-6-1 may have on our consolidated financial positions, results of operations or cash flows.

In December 2008, the FASB issued FASB Staff Position ("FSP") FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.* The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. The purpose of this FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, are finalized and approved by the Board. The FSP amends Statement 140 to require public entities to provide additional disclosures about transferors' continuing involvements with transferred financial

assets. It also amends Interpretation 46(R) to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. This pronouncement is related to disclosure only and will not have an impact on our consolidated financial position, results of operations or cash flows.

Reclassifications—Certain amounts in the 2007 and 2006 Consolidated Financial Statements have been reclassified to conform to the 2008 presentation.

4. Leases

We lease certain property under non-cancelable leases. Office leases are generally for terms of three to five years and generally provide renewal options. Model home leases are generally for shorter terms of approximately one to three years with renewal options on a month-to-month basis. In most cases, we expect that in the normal course of business, leases that will expire will be renewed or replaced by other leases. The future lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

Years Ending October 31,	**(In Thousands)**
2009	$ 19,848
2010	15,807
2011	13,012
2012	10,506
2013	7,111
After 2013	15,848
Total	$ 82,132

Net rental expense for the three years ended October 31, 2008, 2007 and 2006 was $45.2 million, $52.2 million and $49.0 million, respectively. These amounts include rent expense for various month-to-month leases on model homes, furniture and equipment. Certain leases contain renewal or purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

5. Property

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business and are recorded at cost less accumulated depreciation. Homebuilding accumulated depreciation related to these assets at October 31, 2008 and October 31, 2007 amounted to $70.5 million and $57.4 million, respectively.

6. Deposits

We hold escrow cash reflected in "Restricted cash" on the Consolidated Balance Sheets, amounting to $8.3 million and $18.2 million at October 31, 2008 and October 31, 2007, respectively, which primarily represents customers' deposits which are restricted from use by us.

Total "Customer deposits" are shown as a liability on the Consolidated Balance Sheets. These liabilities are significantly more than the applicable years' escrow cash balances because in some states the deposits are not restricted from use and in other states we are able to release the majority of this escrow cash by pledging letters of credit and surety bonds. Escrow cash accounts are substantially invested in short-term certificates of deposit, time deposits, or money market accounts.

7. Mortgage Loans Held for Sale or Investment

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 with servicing released within a short period of time. Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. Loans that have been closed but not committed to a third party investor are matched with forward sales of mortgage-backed securities designed as fair value hedges. Hedged loans are committed to third party investors shortly after origination. Loans held for sale are carried at cost adjusted for changes in fair value after the date of designation of an effective accounting hedge, based on either sale commitments or current market quotes. Loans held for sale, not subject to an effective accounting hedge are carried at the lower of cost or fair value. Any gain or loss on the sale of the loans is recognized at the time of sale. We currently use forward sales of mortgage-backed securities, interest rate commitments from borrowers and mandatory and or best efforts forward commitments to sell loans to investors to protect us from interest rate fluctuations. These short-term instruments, which do not require any payments to be paid to the counter-party or investor in connection with the execution of the commitments, are generally executed simultaneously. Loans held for investment represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market.

At October 31, 2008 and 2007, respectively, $88.3 million and $180.7 million of such mortgages were pledged against our mortgage warehouse line (see Note 8). 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 home. Historically, we have incurred minimal credit losses. We have reserves for potential losses on mortgages we currently hold. The reserve is included in the "Mortgage loans held for sale" balance on the Consolidated Balance Sheet.

8. Mortgages and Notes Payable

We have nonrecourse mortgages for a small number of our communities totaling $0.8 million as well as our Corporate Headquarters totaling $22.3 million which are secured by the real property and any improvements. These loans have installment obligations with annual principal maturities in the following years ending October 31 of approximately: $1.6 million in 2009, $0.9 million in 2010 and 2011, $1.0 million in 2012 and 2013 and $17.7 million after 2013. The interest rate on these obligations range from 5.67% to 8.82% at October 31, 2008.

Our homebuilding bank borrowings are made pursuant to our Revolving Credit Agreement with a group of lenders. We and each of our significant subsidiaries, except for K. Hovnanian, the borrower, certain of our financial services subsidiaries and joint ventures are a guarantor under the Revolving Credit Agreement.

On May 16, 2008, we entered into Amendment No. 1 (the "Amendment") to the Seventh Amended and Restated Credit Agreement (as amended, the "Amended Credit Agreement"). On May 27, 2008, in conjunction with the consummation of the issuance of $600 million of 11 1/2% Senior Secured Notes due 2013 (See Note 9), the Amendment became effective. The Amendment decreased the aggregate amount of commitments under the Amended Credit Agreement from $900 million to $300 million. The maturity date of the facility remains May 31, 2011. Availability under the Amended Credit Agreement equals the lesser of $300 million and the amount available pursuant to the borrowing base and the sub-limit for revolving loans is $100 million. Borrowings under the Amended Credit Agreement bear interest at a rate equal, at the Company's option, to (1) one, two, three or six month LIBOR, plus 4.50%, (2) a base rate equal to the greater of PNC Bank, National Association's prime rate and the federal funds effective rate plus 0.50%, plus 2.75% or (3) an index rate based on daily LIBOR, plus 4.625%. In addition to paying interest on outstanding principal under the revolving facility, the Company is required to pay an unused fee equal to 0.55% per annum on the daily average unused portion of the revolving facility. The Company will also pay a letter of credit fee of 4.50% per annum on the average outstanding face amount of letters of credit issued under the revolving facility. Notwithstanding the foregoing, the interest rate and fees payable under the revolving facility may not be less than the applicable interest rates and fees that would have been payable pursuant to the revolving facility that was in effect prior to March 7, 2008, the date of the Amended Credit Agreement. Borrowings under the Amended Credit Agreement may be used for general corporate purposes and working capital. A portion of the proceeds of the issuance of $600 million of 11 1/2% Senior Secured Notes due 2013 were used to repay the outstanding balance of $325.0 million at May 27, 2008 under the Amended Credit Agreement. As of October 31, 2008, there was zero drawn under the Amended Credit Agreement, excluding letters of credit totaling $197.5 million. As of October 31, 2007, there was $206.8 million drawn under the Revolving Credit Agreement then in effect, excluding letters of credit totaling $306.4 million.

We and each of our subsidiaries are guarantors under the Amended Credit Agreement, except for K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), the borrower, certain of our financial services subsidiaries and joint ventures. All obligations under the Amended Credit Agreement, and the guarantees of those obligations, are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors.

The Amended Credit Agreement has covenants that restrict, among other things, the ability of the Company and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness, pay dividends on, and make distributions with respect to, common and preferred stock and repurchase capital stock, make other restricted payments, make investments, dispose of assets, incur liens, consolidate, merge, sell or otherwise transfer all or substantially all of its assets and enter into certain transactions with affiliates. The Amended Credit Agreement also contains a covenant that requires that as of the last day of each fiscal quarter either (1) the ratio of our adjusted operating cash flow to fixed charges exceed 1.50 to 1.00 or (2) our liquidity, as defined in the Amended Credit Agreement, equals or exceeds $100 million. However, the Amended Credit Agreement does not contain any other financial maintenance covenants. The Amended Credit Agreement contains events of default which would permit the lenders to accelerate the loans if not cured within applicable grace periods, including the failure to make timely payments under the Amended Credit Agreement or other material indebtedness, the failure to satisfy covenants, the failure of the documents granting security for the obligations under the Amended Credit Agreement to be in full force and effect and specified events of bankruptcy and insolvency. As of October 31, 2008, we were in compliance with the covenants under the Amended Credit Agreement.

Average interest rates and average balances outstanding under the Amended Credit Agreement (as in effect at such year end) are as follows:

	Year Ended		
(Dollars in Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Average monthly outstanding borrowings	$ 171,350	$ 371,502	$ 231,381
Average interest rate during period	7.0%	8.0%	7.7%
Average interest rate at end of period(1)	(2)	6.9%	6.6%
Maximum outstanding at any month end	$ 344,375	$ 584,000	$ 405,900

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

(2) *Not applicable as there is no amount outstanding at October 31, 2008.*

On August 8, 2007, we terminated our credit agreement and agreement for letter of credit with Citicorp, USA, Inc. The termination resulted in a fee payable to us of $19.1 million in accordance with the termination provision of the agreement, which stated that upon termination we would pay or receive a fee based on the change in our credit default swap rate. This fee was included in Land sales and other revenues in the fourth quarter of fiscal 2007, since we were only entitled to such a fee in the event the facility was terminated.

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement, which was amended on July 7, 2008 with a group of banks, is a short-term borrowing facility that provides up to $151 million through July 6, 2009. Interest is payable monthly at LIBOR plus 1.50% (4.08% at October 31, 2008). The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. We also had a commercial paper facility which provided for up to $200 million through April 25, 2008 with interest payable monthly at LIBOR plus 0.40%. On November 28, 2007, we paid the outstanding balance in full and terminated the commercial paper facility. We believe that we will be able to extend the Master Repurchase Agreement beyond its expiration date, but there can be no assurance of such extension. As of October 31, 2008, the aggregate principal amount of all borrowings under the Master Repurchase Agreement was $84.8 million. The Master Repurchase Agreement requires K. Hovnanian American Mortgage, LLC to satisfy and maintain specified financial ratios and other financial condition tests. As of October 31, 2008, we were in compliance with the covenants of the master repurchase agreement.

9. Senior Secured, Senior and Senior Subordinated Notes

Senior Secured, Senior and Senior Subordinated Notes balances as of October 31, 2008 and 2007 were as follows:

	Year Ended	
(In Thousands)	October 31, 2008	October 31, 2007
Senior Secured Notes:		
11 1/2% Senior Secured Notes due May 1, 2013 (net of discount)	$ 594,734	—
Senior Notes:		
8% Senior Notes due April 1, 2012 (net of discount)	$ 99,627	$ 99,537
6 1/2% Senior Notes due January 15, 2014	215,000	215,000
6 3/8% Senior Notes due December 15, 2014	150,000	150,000
6 1/4% Senior Notes due January 15, 2015	200,000	200,000
6 1/4% Senior Notes due January 15, 2016 (net of discount)	296,444	296,063
7 1/2% Senior Notes due May 15, 2016	300,000	300,000
8 5/8% Senior Notes due January 15, 2017	250,000	250,000
Total Senior Notes	$ 1,511,071	$ 1,510,600
Senior Subordinated Notes:		
8 7/8% Senior Subordinated Notes due April 1, 2012	$ 150,000	$ 150,000
7 3/4% Senior Subordinated Notes due May 15, 2013	150,000	150,000
6% Senior Subordinated Notes due January 15, 2010	100,000	100,000
Total Senior Subordinated Notes	$ 400,000	$ 400,000

We and each of our subsidiaries are guarantors of the Senior Secured, Senior and Senior Subordinated Notes, except for K. Hovnanian, the issuer of the notes, certain of our financial services subsidiaries and joint ventures (see Note 22). The indentures governing the Senior Secured, Senior and Senior Subordinated Notes contain restrictive covenants that limit, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, the issuer of the Senior Secured, Senior and Senior Subordinated Notes, to incur additional indebtedness, pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates. If our consolidated fixed charge coverage ratio, as defined in the indentures governing our Senior Secured, Senior and Senior Subordinated Notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends into fiscal 2009, and possibly beyond. The restriction on making preferred dividend payments under our bond indentures will not affect our compliance with any of the covenants contained in the Amended Credit Agreement and will not permit the lenders under the Amended Credit Agreement to accelerate the loans. The indentures also contain events of default which would permit the holders of the Senior Secured, Senior and Senior Subordinated Notes to declare those notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to satisfy covenants and specified events of bankruptcy and insolvency and, with respect to the indenture governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of October 31, 2008, we were in compliance with the covenants of the indentures governing our outstanding notes. Under the terms of the indentures, we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We may also make debt purchases and/or exchanges through open market purchases, private transactions or otherwise from time to time depending on market conditions and covenant restrictions.

At October 31, 2008, we had total issued and outstanding $2,515.0 million ($2,505.8 million, net of discount) Senior Secured, Senior and Senior Subordinated Notes. These notes have annual principal maturities in the following years ending October 31; $100.0 million in 2010 $250.0 million in 2012, $750.0 million in 2013 and $1,415.0 million thereafter.

On October 2, 2000, we issued $150 million principal amount of $10^{1}/_{2}$% Senior Notes due October 1, 2007. During the year ended October 31, 2003, we paid down $9.8 million of these notes. We recorded $1.6 million of expenses associated with the early extinguishment of the debt at that time. The $10^{1}/_{2}$% Senior Notes were issued at a discount to yield 11% and have been reflected net of the unamortized discount in the accompanying Consolidated Balance Sheets. In August 2007, we purchased in open market transactions $17.6 million of our $10^{1}/_{2}$% Senior Notes due October 1, 2007 for $17.5 million. The net amount is reported as a gain in Other operations in the fourth quarter of fiscal 2007. In addition, the funds we had deposited in escrow for such purpose were used to pay the remaining principal balance of $122.7 million of the $10^{1}/_{2}$% Senior Notes on October 1, 2007.

On March 26, 2002, we issued $100 million 8% Senior Notes due 2012 and $150 million $8^{7}/_{8}$% Senior Subordinated Notes due 2012. The 8% Senior Notes were issued at a discount to yield 8.125% and have been reflected net of the unamortized discount in the accompanying Consolidated Balance Sheets. Interest on both notes is paid semi-annually. The notes are redeemable in whole or in part, at any time on or after April 1, 2007, at our option at redemption prices expressed as percentages of principal amount that decline to 100% on April 1, 2010. The proceeds were used to redeem the remainder of $9^{3}/_{4}$% Subordinated Notes due June 1, 2005, repay a portion of a term loan facility, repay the current outstanding indebtedness under our Revolving Credit Agreement, and the remainder for general corporate purposes.

On May 9, 2003, we issued $150 million $7^{3}/_{4}$% Senior Subordinated Notes due 2013. The notes are redeemable in whole or in part, at any time on or after May 15, 2008, at redemption prices expressed as percentages of principal amount that decline to 100% on May 15, 2011. The net proceeds of the note offering were used to repay the indebtedness then outstanding under the Revolving Credit Agreement and the remainder for general corporate purposes.

On November 3, 2003, we issued $215 million $6^{1}/_{2}$% Senior Notes due 2014. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price. The net proceeds of the issuance were used for general corporate purposes.

On March 18, 2004, we issued $150 million $6\frac{3}{8}$% Senior Notes due 2014. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price. The net proceeds of the issuance were used to redeem all of our $150 million outstanding $9\frac{1}{8}$% Senior Notes due 2009, which occurred on May 3, 2004 and for general corporate purposes. Also on March 18, 2004, we paid off our $115 million Term Loan with available cash.

On November 30, 2004, we issued $200 million $6\frac{1}{4}$% Senior Notes due 2015 and $100 million 6% Senior Subordinated Notes due 2010. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price. The net proceeds of the issuance were used to repay the outstanding balance on our Revolving Credit Facility and for general corporate purposes.

On August 8, 2005, we issued $300 million $6\frac{1}{4}$% Senior Notes due 2016. The $6\frac{1}{4}$% Senior Notes were issued at a discount to yield 6.46% and have been reflected net of the unamortized discount in the accompanying Consolidated Balance Sheets. The notes are redeemable in whole or in part at our option at 100% of their principal amount plus the payment of a make-whole amount. The net proceeds of the issuance were used to repay the outstanding balance under our Revolving Credit Facility as of August 8, 2005, and for general corporate purposes, including acquisitions.

On February 27, 2006, we issued $300 million of $7\frac{1}{2}$% Senior Notes due 2016. The notes are redeemable in whole or in part at our option at 100% of their principal amount plus the payment of a make-whole amount. The net proceeds of the issuance were used to repay a portion of the outstanding balance under our revolving credit facility as of February 27, 2006.

On June 12, 2006, we issued $250 million of $8\frac{5}{8}$% Senior Notes due 2017. The notes are redeemable in whole or in part at our option at 100% of their principal amount plus the payment of a make-whole amount. The net proceeds of the issuance were used to repay a portion of the outstanding balance under our revolving credit facility as of June 12, 2006.

On May 27, 2008, we issued $600 million ($594.4 million net of discount) of $11\frac{1}{2}$% Senior Secured Notes due 2013. The notes are secured, subject to permitted liens and other exceptions, by a second-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement. The notes are redeemable in whole or in part at our option at 102% of principal commencing November 1, 2010, 101% of principal commencing May 1, 2011 and 100% of principal commencing May 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 111.50% of principal. A portion of the net proceeds of the issuance were used to repay the outstanding balance under the Amended Credit Agreement.

On December 3, 2008, we issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of our unsecured senior notes as follows: $0.5 million aggregate principal amount of the 8% Senior Notes due 2012, $12.0 million aggregate principal amount of the $6\frac{1}{2}$% Senior Notes due 2014, $1.1 million aggregate principal amount of the $6\frac{3}{8}$% Senior Notes due 2014, $3.3 million aggregate principal amount of the $6\frac{1}{4}$% Senior Notes due 2015, $24.8 million aggregate principal amount of the $7\frac{1}{2}$% Senior Notes due 2016, $28.7 million aggregate principal amount of the $6\frac{1}{4}$% Senior Notes due 2016 and $1.0 million aggregate principal amount of the $8\frac{5}{8}$% Senior Notes due 2017. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement and the $11\frac{1}{2}$% Senior Secured Notes due 2013. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011 and 100% of principal commencing November 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 118.0% of principal.

10. Operating and Reporting Segments

SFAS 131, *Disclosures About Segments of an Enterprise and Related Information* ("SFAS 131") defines operating segments as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. The Company has identified its chief operating decision-maker as the Chief Executive Officer. Under the definition, we have more than 36 homebuilding operating segments, and therefore, in accordance with paragraph 24 of SFAS 131, it is impractical to provide segment disclosures for this many segments. As such, we have aggregated the homebuilding operating segments into six reportable segments.

The Company's operating segments are aggregated into reportable segments in accordance with SFAS 131, based primarily upon geographic proximity, similar regulatory environments, land acquisition characteristics

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and similar methods used to construct and sell homes. The Company's reportable segments consist of:

Homebuilding:

Northeast (New Jersey, New York, Pennsylvania)
Mid-Atlantic (Delaware, Maryland, Virginia, West Virginia, Washington, D.C.)
Midwest (Illinois, Kentucky, Minnesota, Ohio)
Southeast (Florida, Georgia, North Carolina, South Carolina)
Southwest (Arizona, Texas)
West (California)
Financial Services

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

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

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

Each reportable segment follows the same accounting policies described in Note 3—"Summary of Significant Accounting Policies" to the consolidated financial statements. Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

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

	Year Ended October 31,		
(In Thousands)	**2008**	**2007**	**2006**
Revenues:			
Northeast	$ 704,723	$ 958,833	$1,017,984
Mid-Atlantic	513,719	913,713	1,034,473
Midwest	211,587	227,875	171,940
Southeast	632,050	778,504	1,261,339
Southwest	610,045	841,065	929,854
West	577,228	983,132	1,641,069
Total homebuilding	3,249,352	4,703,122	6,056,659
Financial services	52,219	76,191	89,598
Corporate and unallocated	6,540	19,608	1,978
Total revenues	$ 3,308,111	$4,798,921	$6,148,235
(Loss) income before income taxes:			
Northeast	$ (114,416)	$ (18,817)	$ 80,097
Mid-Atlantic	(142,249)	74,824	155,930
Midwest	(37,415)	(80,207)	(60,095)
Southeast	(146,406)	(268,502)	(1,522)
Southwest	(101,470)	25,711	75,683
West	(524,701)	(337,214)	49,119
Total homebuilding	(1,066,657)	(604,205)	299,212
Financial services	16,652	27,870	31,012
Corporate and unallocated	(118,043)	(70,631)	(97,118)
(Loss) income before income taxes	$(1,168,048)	$ (646,966)	$ 233,106

	October 31,	
(In Thousands)	**2008**	**2007**
Assets		
Northeast	$ 971,429	$1,240,221
Mid-Atlantic	355,012	606,343
Midwest	79,471	130,360
Southeast	146,621	360,172
Southwest	354,279	553,743
West	483,483	1,083,543
Total homebuilding	2,390,295	3,974,382
Financial services	109,608	205,008
Corporate and unallocated	1,137,419	361,158
Total assets	$3,637,322	$4,540,548

	October 31,	
(In Thousands)	2008	2007
Investments in and advances to unconsolidated joint ventures:		
Northeast	$ 48,327	$ 52,012
Mid-Atlantic	14,788	24,675
Midwest	112	13,925
Southeast	960	11,321
Southwest	5,291	7,646
West	1,619	66,786
Total investments in and advances to unconsolidated joint ventures	$ 71,097	$ 176,365

The following table sets forth additional financial information relating to the Company's reportable operating segments:

	Year Ended October 31,		
(In Thousands)	2008	2007	2006
Homebuilding interest expense:			
Northeast	$ 35,769	$ 32,052	$ 23,769
Mid-Atlantic	20,739	21,729	17,118
Midwest	5,882	6,285	3,023
Southeast	14,628	20,835	8,857
Southwest	20,462	18,044	15,238
West	48,854	41,202	37,633
Total homebuilding	146,334	140,147	105,638
Corporate and unallocated	30,002	1,607	6,306
Financial services interest income, net of expense	(79)	185	(48)
Total interest expense, net	$176,257	$141,939	$111,896

	Year Ended October 31,		
(In Thousands)	2008	2007	2006
Depreciation and goodwill and intangible amortization and impairment:			
Northeast	$ 3,402	$ 5,421	$ 1,805
Mid-Atlantic	16,926	3,549	1,710
Midwest	1,790	22,528	13,617
Southeast	5,084	121,310	25,214
Southwest	16,207	6,940	8,585
West	1,156	10,393	11,024
Total homebuilding	44,565	170,141	61,955
Financial services	521	541	350
Corporate and unallocated	10,222	9,725	7,400
Total depreciation and goodwill and intangible amortization and impairment	$55,308	$180,407	$69,705

	Year Ended October 31,		
(In Thousands)	2008	2007	2006
Net additions to operating properties and equipment:			
Northeast	$ 275	$ 1,364	$ 1,693
Mid-Atlantic	39	160	3,007
Midwest	1,946	3,972	3,486
Southeast	922	456	413
Southwest	—	278	499
West	595	380	1,656
Total homebuilding	3,777	6,610	10,754
Financial services	133	2,494	320
Corporate and unallocated	1,328	9,923	15,808
Total net additions to operating properties and equipment	$5,238	$19,027	$26,882

	Year Ended October 31,		
(In Thousands)	2008	2007	2006
Equity in (losses) earnings from unconsolidated joint ventures:			
Northeast	$ 2,069	$ 4,799	$16,081
Mid-Atlantic	(10,748)	165	(876)
Midwest	(15,836)	(11,966)	4,815
Southeast	(6,908)	(17,691)	(3,249)
Southwest	(37)	241	(192)
West	(5,140)	(3,771)	(1,194)
Total equity in (losses) earnings from unconsolidated joint ventures	$(36,600)	$(28,223)	$15,385

11. Retirement Plan

In December 1982, we established a defined contribution savings and investment retirement plan (a 401K 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 and the Company's operating results. Plan costs charged to operations amount to $2.9 million, $6.4 million, and $14.2 million for the years ended October 31, 2008, 2007, and 2006, respectively. The decreases in 2008 and 2007 are due to a decrease in participants as our workforce has been reduced, refunds to the Company of unvested contributions for terminated associates and no profit sharing payment made in 2008 or 2007.

12. Income Taxes

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

	Year Ended	
(In Thousands)	October 31, 2008	October 31, 2007
State income taxes:		
Current	$ 18,706	$ 6,993
Deferred	0	(13,038)
Federal income taxes:		
Current	(145,532)	(96,101)
Deferred	0	(92,264)
Total	$ (126,826)	$ (194,410)

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

	Year Ended		
(In Thousands)	October 31, 2008	October 31, 2007	October 31, 2006
Current income tax (benefit) expense:			
Federal	$ (146,865)	$ (103,407)	$ 190,132
State(1)	1,157	2,745	24,030
	(145,708)	(100,662)	214,162
Deferred income tax (benefit) expense:			
Federal	89,647	76,472	(107,925)
State	12,603	4,343	(22,664)
	102,250	80,815	(130,589)
Total	$ (43,458)	$ (19,847)	$ 83,573

(1) *The current state income tax expense is net of the use of state net operating losses amounting to $1.1 million, $1.0 million, and $46.3 million for the years ended October 31, 2008, 2007, and 2006, respectively.*

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If, for some reason, the combination of future years' income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years or carried forward to future years to recover the deferred tax assets.

In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. SFAS 109 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during the fourth quarter of 2007, resulting in additional inventory and intangible impairments, we are in a three year cumulative loss position as of October 31, 2008. According to SFAS 109, a three year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable, and also precludes relying on projections of future taxable income to support the recovery of deferred tax assets. Therefore, during 2008, we recorded a valuation allowance of $409.6 million against our deferred tax assets. Our valuation allowance increased from $265.9 million at October 31, 2007 to $675.5 million at October 31, 2008. Our state net operating losses of $99.8 million expire between 2009 and 2028. Our federal net operating losses of $139.0 million expire in 2028.

The deferred tax assets and liabilities have been recognized in the Consolidated Balance Sheets as follows:

	Year Ended	
(In Thousands)	October 31, 2008	October 31, 2007
Deferred tax assets:		
Association subsidy reserves	$	$ 1,494
Inventory impairment loss	262,851	137,879
Uniform capitalization of overhead	12,757	21,987
Warranty, legal and bonding reserves	18,388	18,104
Deferred income	3,180	7,067
Acquisition intangibles	69,264	69,516
Restricted stock bonus	7,115	9,000
Stock options	11,936	10,403
Provision for losses	33,087	33,750
Previously taxed lot sales	230	3,282
Federal net operating losses	139,025	
State net operating losses	99,810	50,171
Joint venture losses	31,115	21,713
Other	1,936	7,826
Total deferred tax assets	690,694	392,192
Deferred tax liabilities:		
Association subsidy reserves	10	
Rebates and discounts	10,871	12,164
Accelerated depreciation	3,715	4,791
Acquisition intangibles	121	3,928
Other	487	149
Total deferred tax liabilities	15,204	21,032
Valuation Allowance	(675,490)	(265,858)
Net deferred income taxes	$ 0	$ 105,302

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

	Year Ended		
	October 31, 2008	October 31, 2007	October 31, 2006
Computed "expected" tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	(0.1)	0.1	0.9
Permanent differences, net	(0.1)	0.1	(0.3)
Deferred tax asset valuation allowance impact	(30.9)	(33.3)	
Other	(0.2)	1.2	0.3
Effective tax rate	3.7%	3.1%	35.9%

In July 2006, the FASB issued Financial Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We recognize tax liabilities in accordance with FIN 48 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. If the tax liabilities relate to tax uncertainties existing at the date of the acquisition of a business, the adjustment of such tax liabilities will result in an adjustment to the goodwill recorded at the date of acquisition.

The Company adopted the provisions of FIN 48, on November 1, 2007. As a result of the adoption of FIN 48, the Company recognized approximately a $8.7 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the November 1, 2007 balance of retained earnings.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheet.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the year (in millions):

Unrecognized tax benefit—November 1, 2007	$25.2
Gross increases—tax positions in prior period	1.2
Gross decreases—tax positions in prior period	0
Gross increases—tax positions in current period	0
Settlements	(2.1)
Lapse of statute of limitations	(2.3)
Unrecognized tax benefit—October 31, 2008	$22.0

Included in the balance of unrecognized tax benefits at November 1, 2007, are $16.5 million of tax benefits that, if recognized, would affect the effective tax rate and would result in adjustments to other tax accounts, primarily deferred taxes.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expense. Related to the unrecognized tax benefits noted above, the Company as of October 31, 2008 has recognized a liability for interest and penalties of $6.1 million. For the years ended October 31, 2008, 2007 and 2006, the Company recognized $(0.3) million, $1.5 million and $2.9 million, respectively, of interest and penalties in income tax benefit/provision.

The Company believes that it is reasonably possible that approximately $2.3 million of its currently remaining unrecognized tax positions, each of which are individually insignificant, may be recognized by the end of 2009 as a result of a lapse of the statute of limitations.

The Company completed it examination by the Internal Revenue Service for years ended through October 2006. The Company has been notified that the Internal Revenue Service will begin a 2007 audit in December 2008. The Company is also subject to various income tax examinations in the states in which it does business. The final outcome of these examinations is not yet determinable but is estimated to be immaterial. The statute of limitations for the Company's major tax jurisdictions remains open for examination for tax years 2004 – 2007. During 2008, the Company completed a number of state examinations without any effect on its fiscal year 2008 net loss.

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13. Reduction of Inventory to Fair Value

In accordance with Financial Accounting Standards No. 144, "Accounting for the Impairment of or Disposal of Long Lived Assets", we record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. As a result of a continued decline in sales pace, sales price and general market conditions, as well as increased cancellation rates during the year ended October 31, 2008, we recorded impairment losses, which are presented in the Consolidated Statements of Operations and deducted from inventory, of $596.0 million, $331.8 million, and $177.1 million for the years ended October 31, 2008, 2007, and 2006, respectively.

The following table represents impairments by segment for fiscal 2008, 2007 and 2006:

(Dollars in millions)	**Year Ended October 31, 2008**		
	Number of Communities	**Dollar Amount of Impairment**	**Pre-Impairment Value $**
Northeast	10	$ 43.5	$ 208.2
Mid-Atlantic	25	38.1	155.3
Midwest	4	7.7	32.3
Southeast	44	53.4	160.5
Southwest	35	81.1	212.8
West	63	372.2	1,018.2
Total	181	$ 596.0	$ 1,787.3

(Dollars in millions)	**Year Ended October 31, 2007**		
	Number of Communities	**Dollar Amount of Impairment**	**Pre-Impairment Value $**
Northeast	14	$ 25.1	$ 135.0
Mid-Atlantic	5	10.4	35.5
Midwest	13	17.9	58.3
Southeast	20	81.6	127.9
Southwest	7	11.8	31.1
West	25	185.0	650.2
Total	84	$ 331.8	$ 1,038.0

(Dollars in millions)	**Year Ended October 31, 2006**		
	Number of Communities	**Dollar Amount of Impairment**	**Pre-Impairment Value $**
Northeast	6	$ 17.4	$ 57.1
Mid-Atlantic	2	1.3	8.0
Midwest	7	15.4	53.1
Southeast	6	92.1	185.4
Southwest	1	0.1	1.3
West	6	50.8	183.2
Total	28	$ 177.1	$ 488.1

The Consolidated Statements of Operations line entitled "Homebuilding-Inventory impairment loss and land option write-offs" also includes write-offs of options, and approval, engineering and capitalized interest costs that we record when we redesign communities and/or abandon certain engineering costs and we do not exercise options in various locations because the communities' pro forma profitability does not produce adequate returns on investment commensurate with the risk. The total aggregate write-offs were $114.1 million, $126.0 million, and $159.1 million for the years ended October 31, 2008, 2007 and 2006, respectively.

The following table represents write-offs of such costs by segment for fiscal 2008, 2007, and 2006:

	Year Ended		
(In millions)	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**
Northeast	$ 20.7	$ 31.3	$ 57.9
Mid-Atlantic	45.6	9.0	21.9
Midwest	0.7	10.2	14.3
Southeast	32.2	31.7	13.9
Southwest	10.4	4.2	0.5
West	4.5	39.6	50.6
Total	$ 114.1	$ 126.0	$ 159.1

14. Transactions with Related Parties

During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately $31.1 million from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer. As of October 31, 2008, we have an option deposit of $3.2 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated $10.3 million in accordance with FIN 46R under "Consolidated inventory not owned" in the Consolidated Balance Sheets. Neither the Company nor the Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer, totaling $26.9 million. As of October 31, 2008, all of this property has been purchased, and during fiscal 2008, the Company delivered the remaining four lots that were in inventory. Neither the Company nor the Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land in Maryland for approximately $3.0 million from a group that consists of relatives of Geaton Decesaris, Jr., formerly a member of our Board of Directors. We had posted a deposit of $100,000 and purchased the property when final approvals were in place. The property was purchased in November 2001 and there are no lots remaining to be sold as of October 31, 2007 of an original 147 lots. During the time he was a member of the Board of Directors, Geaton Decesaris, Jr. had no financial interest in the relatives' ownership and sale of land to the Company.

During the second quarter of 2006, an existing lease on a building occupied by one of our companies in the Southeast was amended. The lessor is a company, whom at the time of the transaction, was owned partly by Geaton A. Decesaris, Jr., formerly a member of the Company's Board of Directors. The amendment provided for an increase in the square footage of the lease space, an increased security deposit related to the square footage increase and an increase in the lease term. In total, the lease is for 39,637 square feet at $18.86 per square foot per year, with a total security deposit of $34,511.

During the years ended October 31, 2008, 2007 and 2006, an engineering firm owned by a relative of our Chairman of the Board and Chief Executive Officer provided services to the Company totaling $2.6 million, $3.6 million, and $5.0 million, respectively. Neither the Company nor Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the services were provided.

In December 2005, we entered into an agreement to purchase land in New Jersey from an entity that is owned by family relatives of our Chairman of the Board and our Chief Executive Officer at a base price of $25 million. The land will be acquired in four phases over a period of 3 years from the date of acquisition of the first phase. On June 11, 2008, the parties amended the purchase agreement and closed title to 43 of the 86 homes in phase one. The purchase of the balance of phase one was deferred, but such purchase must occur simultaneously with the scheduled closing of any of the three remaining phases. The purchase prices for all phases are subject to an increase in the purchase price for the phase of not less than 7% per annum from February 1, 2008. A deposit in the amount of $500,000, however, has been made by the Company. Neither the Company nor the Chairman of the Board or the Chief Executive Officer has a financial interest in the relatives' company from whom the land will be purchased.

15. 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 or its delegee in accordance with the stock option plan. 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 and before June 8, 2007 generally vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. Options granted on or after June 8, 2007 generally vest in four equal installments on the second, third, fourth and fifth anniversaries of the date of the grant. Certain Southeast Region associates were granted and held options to purchase the stock from the acquired company prior to the January 23, 2001 acquisition. These options vest in three installments: 25% on the first and second anniversary, and 50% on the third anniversary of the date of the grant. In connection with the acquisition, the options were exchanged for options to purchase the Company's Class A Common Stock. All options expire ten years after the date of the grant. During the year ended October 31, 2008, each of the five outside directors of the Company was granted options to purchase between 7,000 and 11,000 shares. All shares granted to the outside directors were issued at the same price and terms as those granted to officers and key

employees, except the outside directors' options vest in three equal installments on the first, second and third anniversaries of the date of the grant. Stock option transactions are summarized as follows:

	October 31, 2008	Weighted Average Exercise Price	October 31, 2007	Weighted Average Exercise Price	October 31, 2006	Weighted Average Exercise Price
Options outstanding at beginning of period	6,285,330	$ 23.43	5,874,583	$ 23.48	5,478,854	$ 21.06
Granted	1,128,875	$ 6.46	1,149,750	$ 21.49	927,875	$ 32.29
Exercised	265,000	$ 4.53	408,988	$ 13.45	242,146	$ 9.03
Forfeited	190,000	$ 23.46	208,625	$ 34.19	290,000	$ 17.90
Expired			121,390	$ 22.52		
Options outstanding at end of period	6,959,205	$ 21.17	6,285,330	$ 23.43	5,874,583	$ 23.48
Options exercisable at end of period	2,918,835		2,419,364		2,220,311	

The total intrinsic value of options exercised during fiscal 2008, 2007 and 2006 was $1.6 million, $8.3 million and $8.7 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The intrinsic value of 538,000 options outstanding and exercisable at October 31, 2008 was $0.7 million. The remaining options outstanding and exercisable had no intrinsic value. Exercise prices for options outstanding at October 31, 2008, ranged from $1.84 to $71.16.

The weighted average fair value of grants made in fiscal 2008, 2007 and 2006 was $3.35, $10.46 and $18.63 per share, respectively. The weighted average fair value of options vested in fiscal 2008, 2007 and 2006 was $15.52, $11.34 and $9.94 per share, respectively.

The following table summarizes the exercise price range and related number of options outstanding at October 31, 2008:

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$1.84 – $5.00	538,000	$ 2.95	1.25
$5.01 – $10.00	2,033,125	$ 6.20	6.56
$10.01 – $20.00	897,704	$ 15.89	6.49
$20.01 – $30.00	1,041,625	$ 21.53	4.67
$30.01 – $40.00	1,107,500	$ 32.68	6.98
$40.01 – $50.00	1,035,000	$ 43.04	5.53
$50.01 – $60.00	296,251	$ 56.10	6.53
$60.01 – $70.00	5,000	$ 60.36	6.67
$70.01 – $71.16	5,000	$ 71.16	6.75
	6,959,205	$ 21.40	6.04

The following table summarizes the exercise price range and related number of exercisable options at October 31, 2008:

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$1.84 – $5.00	538,000	$ 2.95	1.25
$5.01 – $10.00	922,250	$ 5.89	2.83
$10.01 – $20.00	702,704	$ 15.81	3.96
$20.01 – $30.00	4,500	$ 25.31	4.67
$30.01 – $40.00	222,942	$ 33.83	5.66
$40.01 – $50.00	423,750	$ 43.45	5.39
$50.01 – $60.00	102,189	$ 55.35	6.48
$60.01 – $70.00	1,250	$ 60.36	6.67
$70.01 – $71.16	1,250	$ 71.16	6.75
	2,918,835	$ 10.73	4.19

A summary of the Company's nonvested options as of and for the year ended October 31, 2008 is as follows:

	Options	Grant Date Fair Value
Nonvested at beginning of period	3,865,966	$ 17.25
Granted	1,128,875	$ 3.35
Vested	(764,471)	$ 15.52
Forfeited	(190,000)	$ 23.46
Nonvested at end of period	4,040,370	$ 16.88

For certain associates, a portion of their bonus is paid by issuing a deferred right to receive our common stock. The number of shares is calculated for each bonus year by dividing the portion of the bonus subject to the deferred right award by our average stock price for the year or the stock price at year end, whichever is lower. Twenty-five percent 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. Participants with 20 years of service or over 58 years of age vest immediately. During the years ended October 31, 2008 and 2007, we issued 284,016 and 184,090 shares under the plan. During the years ended October 31, 2008 and 2007, 86,244 and

55,954 shares were forfeited under this plan, respectively. For the years ended October 31, 2008, 2007, and 2006, approximately 1,289,937, 728,345, and 366,061 rights were awarded in lieu of $5.5 million, $8.3 million, and $11.7 million of bonus payments, respectively. For the years ended October 31, 2008, 2007 and 2006, total compensation cost recognized in the Consolidated Statement of Operations for these deferred compensation awards and other nonvested share awards was $12.1 million, $10.7 million and $9.5 million, respectively.

A summary of the Company's nonvested share awards as of and for the year ended October 31, 2008 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	1,398,698	$ 19.56
Granted	1,233,650	$ 4.41
Vested	(899,676)	$ 22.40
Forfeited	(110,590)	$ 24.89
Nonvested at end of period	1,622,082	$ 10.97

As of October 31, 2008, we have 11.3 million shares authorized for future issuance under our equity compensation plans. In addition, as of October 31, 2008, there was $54.3 million of total unrecognized compensation costs related to nonvested share based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.58 years.

16. Warranty Costs

Over the past several years, general liability insurance for homebuilding companies and their suppliers and subcontractors has become very difficult to obtain. The availability of general liability insurance has been limited due to a decreased number of insurance companies willing to write for the industry. In addition, those few insurers willing to write liability insurance have significantly increased the premium costs. We have been able to obtain general liability insurance but at higher premium costs with higher deductibles. We have been advised that a significant number of our subcontractors and suppliers have also had difficulty obtaining insurance that also provides us coverage. As a result, we introduced an owner controlled insurance program for certain of our subcontractors, whereby the subcontractors pay us an insurance premium based on the value of their services, and we absorb the liability associated with their work on our homes as part of our overall general liability insurance.

We provide a warranty accrual for repair costs under $5,000 per occurrence to homes, community amenities and land development infrastructure. We accrue for warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. In addition, we accrue for warranty costs over $5,000 per occurrence as part of our general liability insurance deductible, which is expensed as selling, general and administrative costs. For homes delivered in fiscal 2008, our deductible under our general liability insurance is $20 million per occurrence with an aggregate $20 million for liability claims and an aggregate $21.5 million for construction defect claims. Additions and charges in the warranty reserve and general liability reserve for the years ended October 31, 2008 and 2007 are as follows:

	Year Ended	
(In Thousands)	October 31, 2008	October 31, 2007
Balance, beginning of year	$ 120,653	$ 93,516
Additions during year	63,107	68,149
Charges incurred during year	(58,022)	(41,012)
Balance, end of year	$ 125,738	$ 120,653

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

Insurance claims paid by our insurance carriers were $36.8 million and $10.6 million for the year ended October 31, 2008 and 2007, respectively, for prior year deliveries.

17. Commitments and Contingent Liabilities

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

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

In March 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (the "EPA"). These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The Department of Justice ("DOJ") is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters. We cannot predict whether those discussions will result in a resolution, or what any resolution of these matters ultimately will require of us.

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

The Company is also involved in the following litigation in different parts of the country:

The Company, Chief Executive Officer and President Ara K. Hovnanian, Executive Vice President and Chief Financial Officer J. Larry Sorsby and a former officer of a Company subsidiary have been named as defendants in a purported class action. The original complaint, which only named Mr. Sorsby as a defendant, was filed on September 14, 2007 in the United States District Court for the Central District of California, captioned *Herbert Mankofsky v. J. Larry Sorsby,* and names only Mr. Sorsby as a defendant. On January 31, 2008, the court appointed Herbert Mankofsky as Lead Plaintiff. On February 19, 2008, the action was transferred to the United States District Court for the District of New Jersey. On March 10, 2008, plaintiff filed an amended complaint, captioned *In re Hovnanian Enterprises, Inc. Securities Litigation*, alleging, among other things, that the defendants violated federal securities laws by making false and misleading statements regarding the Company's business and future prospects in connection with the Company's acquisition of First Home Builders of Florida. The Company filed a Motion to Dismiss the amended complaint on July 14, 2008. On September 11, 2008, plaintiff filed his opposition to the Motion to Dismiss. The Company filed its reply brief on October 28, 2008. The Motion to Dismiss is now fully briefed and is pending before the court.

The Company has been named as a defendant in a purported class action suit filed May 30, 2007 in the United States District Court for the Eastern District of Pennsylvania, *Mark W. Mellar, et al., v. Hovnanian Enterprises, Inc., et al.*, asserting that the Company's sales of homes along with the financing of home purchases and the provision of title insurance by affiliated companies violated the Real Estate Settlement Procedures Act. Plaintiffs seek to represent a class of persons who purchased a home from the Company, who received a mortgage loan via a subsidiary of the Company and/or who bought title insurance from a company affiliated with the Company, and are seeking damages (including treble damages), declaratory and injunctive relief, and attorney's fees and costs. The Company's Motion to Dismiss the complaint was denied by the Court on March 4, 2008 without prejudice. The case was settled in October 2008 (with the Stipulation of Dismissal filed with the Court on November 5, 2008) and the terms of the settlement had no material impact on the Company.

A subsidiary of the Company has been named as a defendant in a purported class action suit filed on May 30, 2007 in the United States District Court for the Middle District of Florida, *Randolph Sewell, et al., v. D'Allesandro & Woodyard, et al.*, alleging violations of the federal securities acts, among other allegations, in connection with the sale of some of the subsidiary's homes in Fort Myers, Florida. Plaintiffs filed an amended complaint on October 19, 2007. Plaintiffs sought to represent a class of certain home purchasers in southwestern Florida and sought damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs. The Company's subsidiary filed a Motion to Dismiss the amended complaint on December 14, 2007. Following oral argument on the motion in September 2008, the court dismissed the amended complaint with leave for plaintiffs to amend. Plaintiffs filed a second amended complaint on October 31, 2008. Plaintiffs seek to represent a class of certain home purchasers in southwestern Florida and seek damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs.

On April 4, 2008, K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), a wholly-owned subsidiary of the Company, initiated arbitration proceedings against GMAC Model Home Finance, LLC ("GMAC") to resolve a dispute arising under a Model Purchase, Construction Management and Rental Agreement dated October 4,

2001 (the "Agreement"). The Company is the guarantor of K. Hovnanian's obligations under the Agreement. On March 31, 2008, GMAC advised K. Hovnanian that it was terminating all model home leases and intended to take possession of all model homes at issue based on the claim that K. Hovnanian had defaulted under the Agreement. In its arbitration demand, K. Hovnanian disputes the existence of any default and claims that GMAC has materially breached the Agreement by failing to fund certain construction costs. On April 25, 2008, GMAC asserted counterclaims against K. Hovnanian and the Company alleging that K. Hovnanian defaulted and that all leases were terminated. On September 4, 2008, parties entered into a settlement and release agreement resolving all disputes between them arising under the Agreement. The terms of the settlement had no material impact on the Company.

18. Variable Interest Entities

In December 2003, the FASB issued revision to Interpretation No, 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46R, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, we have concluded that whenever we option land or lots from an entity and pay a non-refundable deposit, a VIE is created under condition (ii)(b) and (c) of the previous paragraph. We have been deemed to have provided subordinated financial support, which refers to variable interests that will absorb some or all of an entity's expected theoretical losses if they occur. For each VIE created with a significant non-refundable option fee (we currently define significant as greater than $100,000 because we have determined that in the aggregate the VIEs related to deposits of this size or less are not material), we will compute expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If we are deemed to be the primary beneficiary of the VIE, we will consolidate it on our balance sheet. The fair value of the VIEs' inventory will be reported as "Consolidated inventory not owned—variable interest entities".

Typically, the determining factor in whether or not we are the primary beneficiary is the non-refundable deposit amount as a percentage of the total purchase price, because it determines the amount of the first risk of loss we take on the contract. The higher this percentage deposit, the more likely we are to be the primary beneficiary. Other important criteria that impact the outcome of the analysis, are the probability of getting the property through the approval process for residential homes, because this impacts the ultimate value of the property, as well as who is the responsible party (seller or buyer) for funding the approval process and development work that will take place prior to the decision to exercise the option.

Management believes FIN 46R was not clearly thought out for application in the homebuilding industry for land and lot options. Under FIN 46R, we can have an option and put down a small deposit as a percentage of the purchase price and still have to consolidate the entity. Our exposure to loss as a result of our involvement with the VIE is only the deposit, not its total assets consolidated on the balance sheet. In certain cases, we will have to place inventory on our balance sheet the VIE has optioned to other developers. In addition, if the VIE has creditors, its debt will be placed on our balance sheet even though the creditors have no recourse against our Company. Based on these observations we believe consolidating VIEs based on land and lot option deposits does not reflect the economic realities or risks of owning and developing land. Further supporting this position, during fiscal 2008, we terminated 11 option agreements that had been consolidated on our balance sheet as VIEs with a value of $50.6 million. We recorded charges on our books for these terminations of $9.4 million, principally the deposit amount.

At October 31, 2008, all 14 VIEs we were required to consolidate were as a result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these 14 VIEs totaling $8.7 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIEs was $77.0 million. Since we do not own an equity interest in any of the unaffiliated variable interest entities that we must consolidate pursuant to FIN 46R, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities have been based on the remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have no debt obligations and the only asset recorded is the land or lots we have the option to buy with a related offset to minority interest for the assumed third party investment in the variable interest equity. At October 31, 2008, the balance reported in minority interest from inventory not owned

was $24.9 million. Creditors of these VIEs have no recourse against our Company.

We will continue to secure land and lots using options. Including the deposits with the 14 VIEs above, at October 31, 2008, we have total cash and letters of credit deposits amounting to approximately $69.9 million to purchase land and lots with a total purchase price of $862.8 million. Not all our deposits are with VIEs. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met.

19. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

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

	October 31, 2008		
(Dollars In Thousands)	**Homebuilding**	**Land Development**	**Total**
Assets:			
Cash and cash equivalents	$ 18,660	$ 3,458	$ 22,118
Inventories	492,830	83,853	576,683
Other assets	23,410	503	23,913
Total assets	534,900	87,814	622,714
Liabilities and equity:			
Accounts payable and accrued liabilities	43,827	15,792	59,619
Notes payable	276,245	43,912	320,157
Equity of:			
Hovnanian Enterprises, Inc.	58,694	8,732	67,426
Others	156,134	19,378	175,512
Total equity	214,828	28,110	242,938
Total liabilities and equity	$ 534,900	$ 87,814	$622,714
Debt to capitalization ratio	56%	61%	57%

	October 31, 2007		
(Dollars In Thousands)	**Homebuilding**	**Land Development**	**Total**
Assets:			
Cash and cash equivalents	$ 43,789	$ 9,903	$ 53,692
Inventories	574,195	171,067	745,262
Other assets	36,028	5,510	41,538
Total assets	$ 654,012	$ 186,480	$ 840,492
Liabilities and equity:			
Accounts payable and accrued liabilities	$ 76,197	$ 14,309	$ 90,506
Notes payable	292,633	46,546	339,179
Equity of:			
Hovnanian Enterprises, Inc.	75,858	77,129	152,987
Others	209,324	48,496	257,820
Total equity	285,182	125,625	410,807
Total liabilities and equity	$ 654,012	$ 186,480	$ 840,492
Debt to capitalization ratio	51%	27%	45%

As of October 31, 2008 and 2007, we had advances outstanding of approximately $15.6 and $23.4 million to these unconsolidated joint ventures, which were included in the "Accounts payable and accrued liabilities" balances in the table above. On our Hovnanian Enterprises, Inc. Consolidated Balance Sheets our "Investments in and advances to unconsolidated joint ventures" amounted to $71.1 million and $176.4 million at October 31, 2008 and 2007, respectively. A significant portion of the decrease is the result of consolidating a previously unconsolidated land development joint venture in our West segment when our partner in the joint venture decided to terminate its investment. This resulted in reclassing the $61.5 million investment in this joint venture to inventory.

	October 31, 2008		
(Dollars In Thousands)	**Homebuilding**	**Land Development**	**Total**
Revenues	$ 279,815	$ 16,843	$ 296,658
Cost of sales and expenses	(366,856)	(46,072)	(412,928)
Joint venture net loss	(87,041)	(29,229)	(116,270)
Our share of net loss	$ (19,630)	$ (5,133)	$ (24,763)

	October 31, 2007		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Revenues	$ 484,918	$ 40,477	$ 525,395
Cost of sales and expenses	(602,265)	(54,817)	(657,082)
Joint venture net loss	(117,347)	(14,340)	(131,687)
Our share of net losses	$ (21,318)	$ (7,641)	$ (28,959)

	October 31, 2006		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Revenues	$ 882,564	$ 28,530	$ 911,094
Cost of sales and expenses	(828,904)	(28,536)	(857,440)
Joint venture net income/(loss)	$ 53,660	$ (6)	$ 53,654
Our share of net earnings/(losses)	$ 15,427	$ (39)	$ 15,388

(Loss) Income from unconsolidated joint ventures is reflected as a separate line in the accompanying Consolidated Financial Statements and reflects our proportionate share of the income or loss of these unconsolidated homebuilding and land development joint ventures. The difference between our share of the income or loss from these unconsolidated joint ventures disclosed in the tables above compared to the Hovnanian Enterprises, Inc. Consolidated Income Statements is due to the reclass of the intercompany portion of management fee income from certain joint ventures, the deferral of income for lots purchased by us from certain joint ventures and the write-off of our investment in two of our homebuilding joint ventures of $11.3 million. Our ownership interests in the joint ventures vary but are generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the manager of the joint venture, we consider the guidance in EITF 04-5 in assessing whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business. beneficiary, therefore we do not consolidate these entities (See Note 19).

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing for each venture. Generally, the amount of such financing is limited to no more than 50% of the joint venture's total assets, and such financing is obtained on a non-recourse basis, with guarantees from us limited only to performance and completion of development, environmental indemnification, standard warranty and representation against fraud, misrepresentation and other similar actions, including a voluntary bankruptcy filing. In some instances, the joint venture entity is considered a variable interest entity (VIE) under FIN 46R due to the returns being capped to the equity holders; however, in these instances, we are not the primary beneficiary, therefore we do not consolidate these entities (See Note 19).

20. Acquisitions

On April 17, 2006, we acquired for cash the assets of CraftBuilt Homes, a privately held homebuilder headquartered in Bluffton, South Carolina. The acquisition expands our operations into the coastal markets of South Carolina and Georgia. CraftBuilt Homes designs, markets and sells single family detached homes. Due to its close proximity to Hilton Head, CraftBuilt Homes focuses on first-time, move-up, empty-nester and retiree homebuyers. This acquisition is being accounted for as a purchase with the results of its operations included in our consolidated financial statements as of the date of the acquisition.

In connection with the CraftBuilt Homes acquisition, we had definite life intangible assets equal to the excess purchase price over fair value of net tangible assets of $4.5 million in aggregate. In the fourth quarter of fiscal 2008, we determined that these intangible assets were impaired and wrote off the remaining asset balance of $2.7 million. Prior to the impairment, we were amortizing the definite life intangibles over their estimated lives.

On May 1, 2006, we acquired through the issuance of 175,936 shares of Class A common stock substantially all of the assets of two mechanical contracting businesses. These acquisitions were accounted for as purchases with the results of their operations included in our consolidated financial statements as of the date of acquisition.

In connection with the two mechanical contracting business acquisitions, we recorded definite life intangible assets equal to the excess purchase price over fair value of net tangible assets of $4.0 million in aggregate. During the fourth quarter of fiscal 2007, we determined that these intangible assets were impaired and wrote off the remaining asset balance of $2.8 million. Prior to the impairment, we were amortizing the definite life intangibles over their estimated lives.

All fiscal 2006 acquisitions provide for other payments to be made, generally dependant upon achievement of certain future operating and return objectives, however, we do not expect to make any future payments based on our forecasts for these businesses.

21. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 2008 and 2007 is as follows:

	Three Months Ended			
(In Thousands Except Per Share Data)	**October 31, 2008**	**July 31, 2008**	**April 30, 2008**	**January 31, 2008**
Revenues	$ 721,430	$ 716,541	$ 776,439	$ 1,093,701
Expenses	1,150,649	914,974	1,116,480	1,257,456
Loss from unconsolidated joint ventures	(27,244)	(920)	(3,397)	(5,039)
Loss before income taxes	(456,463)	(199,353)	(343,438)	(168,794)
State and Federal income tax (benefit) provision	(6,004)	3,124	(2,727)	(37,851)
Net loss	(450,459)	(202,477)	(340,711)	(130,943)
Less: preferred stock dividends				
Net loss available to common stockholders	$ (450,459)	$ (202,477)	$ (340,711)	$ (130,943)
Per share data:				
Basic:				
Loss per common share	$ (5.79)	$ (2.67)	$ (5.29)	$ (2.07)
Weighted average number of common shares outstanding	77,747	75,723	64,410	63,358
Assuming dilution:				
Loss per common share	$ (5.79)	$ (2.67)	$ (5.29)	$ (2.07)
Weighted average number of common shares outstanding	77,747	75,723	64,410	63,358

	Three Months Ended			
(In Thousands Except Per Share Data)	**October 31, 2007**	**July 31, 2007**	**April 30, 2007**	**January 31, 2007**
Revenues	$ 1,391,869	$ 1,130,593	$ 1,110,658	$ 1,165,801
Expenses	1,779,351	1,253,987	1,149,931	1,234,395
(Loss) income from unconsolidated joint ventures	(25,289)	(2,739)	(2,160)	1,965
Loss before income taxes	(412,771)	(126,133)	(41,433)	(66,629)
State and federal income tax (benefit) provision	53,822	(48,274)	(13,374)	(12,021)
Net loss	(466,593)	(77,859)	(28,059)	(54,608)
Less: preferred stock dividends	2,668	2,668	2,669	2,669
Net loss available to common stockholders	$ (469,261)	$ (80,527)	$ (30,728)	$ (57,277)
Per share data:				
Basic:				
Loss per common share	$ (7.42)	$ (1.27)	$ (0.49)	$ (0.91)
Weighted average number of common shares outstanding	63,207	63,199	63,004	62,904
Assuming dilution:				
Loss per common share	$ (7.42)	$ (1.27)	$ (0.49)	$ (0.91)
Weighted average number of common shares outstanding	63,207	63,199	63,004	62,904

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22. Financial Information of Subsidiary Issuer and Subsidiary Guarantors

Hovnanian Enterprises, Inc., the parent company (the "Parent") is the issuer of publicly traded common stock and preferred stock. One of its wholly-owned subsidiaries, K. Hovnanian Enterprises, Inc. (the "Subsidiary Issuer"), acts as a finance entity that as of October 31, 2008 had issued and outstanding approximately $600 million of 11 1/2% Senior Secured Notes ($594.7, net of discount), $400 million Senior Subordinated Notes, $1,515.0 million Senior Notes ($1,511.1 million, net of discount), and had zero drawn under the Amended Credit Agreement. The Senior Secured Notes, Senior Subordinated Notes, Senior Notes, and the Amended Credit Agreement are fully and unconditionally guaranteed by the Parent.

In addition to the Parent, each of the wholly-owned subsidiaries of the Parent other than the Subsidiary Issuer (collectively, the "Guarantor Subsidiaries"), with the exception of certain of our financial service subsidiaries and joint ventures (collectively, the "Non-Guarantor Subsidiaries"), have guaranteed fully and unconditionally, on a joint and several basis, the obligations of the Subsidiary Issuer to pay principal and interest under the Senior Secured Notes, Senior Notes, Senior Subordinated Notes and the Amended Credit Agreement.

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

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

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2008

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$ 20	$ 889,462	$ 2,432,702	$ 78,704	$	$ 3,400,888
Financial services			5,655	103,953		109,608
Income taxes (payable) receivable	(275,737)	35,344	367,045	174		126,826
Investments in and amounts due to and from consolidated subsidiaries	605,981	2,402,526	(2,621,025)	(14,757)	(372,725)	—
Total assets	$ 330,264	$ 3,327,332	$ 184,377	$ 168,074	$ (372,725)	$ 3,637,322
Liabilities and stockholders' equity:						
Homebuilding	$	$ 683	$ 606,613	$ 274	$	$ 607,570
Financial services			5,105	90,245		95,350
Notes payable		2,578,273	9			2,578,282
Minority interest			24,880	976		25,856
Stockholders' equity (deficit)	330,264	748,376	(452,230)	76,579	(372,725)	330,264
Total liabilities and stockholders' equity	$ 330,264	$ 3,327,332	$ 184,377	$ 168,074	$ (372,725)	$ 3,637,322

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2007

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$ 105	$ 62,575	$ 3,833,782	$ 244,668	$	$ 4,141,130
Financial services			448	204,560		205,008
Income taxes receivable (payable)	(92,282)	42,865	244,798	(971)		194,410
Investments in and amounts due to and from consolidated subsidiaries	1,413,980	2,824,461	(2,931,333)	(165,846)	(1,141,262)	—
Total assets	$1,321,803	$ 2,929,901	$ 1,147,695	$ 282,411	$ (1,141,262)	$ 4,540,548
Liabilities and stockholders' equity:						
Homebuilding	$	$ 72,688	$ 706,629	$ 23,676	$	$ 802,993
Financial services			104	190,626		190,730
Notes payable		2,117,350	43,944			2,161,294
Minority interest			62,238	1,490		63,728
Stockholders' equity	1,321,803	739,863	334,780	66,619	(1,141,262)	1,321,803
Total liabilities and stockholders' equity	$1,321,803	$ 2,929,901	$ 1,147,695	$ 282,411	$ (1,141,262)	$ 4,540,548

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED OCTOBER 31, 2008

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$	$ 6,131	$ 3,249,757	$ 4	$	$ 3,255,892
Financial services			9,454	42,765		52,219
Intercompany charges		192,414	194,627		(387,041)	—
Equity in pretax income of consolidated subsidiaries	(1,168,048)				1,168,048	—
Total Revenues	(1,168,048)	198,545	3,453,838	42,769	781,007	3,308,111
Expenses:						
Homebuilding		3,918	4,592,952	26	(192,904)	4,403,992
Financial services			8,290	27,277		35,567
Total expenses		3,918	4,601,242	27,303	(192,904)	4,439,559
Income from unconsolidated joint ventures			(36,630)	30		(36,600)
Income (loss) before income taxes	(1,168,048)	194,627	(1,184,034)	15,496	973,911	(1,168,048)
State and federal income taxes	(43,458)	68,119	(46,313)	2,683	(24,489)	(43,458)
Net (loss) income	$ (1,124,590)	$ 126,508	$ (1,137,721)	$ 12,813	$ 998,400	$ (1,124,590)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED OCTOBER 31, 2007

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$	$ 19,601	$ 4,694,243	$ 8,887	$ (1)	$ 4,722,730
Financial services			3,710	72,481		76,191
Intercompany charges		298,877	316,394		(615,271)	—
Equity in pretax loss of consolidated subsidiaries	(646,966)				646,966	—
Total Revenues	(646,966)	318,478	5,014,347	81,368	31,694	4,798,921
Expenses:						
Homebuilding		2,082	5,545,863	8,232	(186,834)	5,369,343
Financial services			1,289	47,103	(71)	48,321
Total expenses		2,082	5,547,152	55,335	(186,905)	5,417,664
Loss from unconsolidated joint ventures			(28,223)			(28,223)
Income (loss) before income taxes	(646,966)	316,396	(561,028)	26,033	218,599	(646,966)
State and federal income taxes	(19,847)	110,739	8,023	11,321	(130,083)	(19,847)
Net (loss) income	$ (627,119)	$ 205,657	$ (569,051)	$ 14,712	$ 348,682	$ (627,119)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED OCTOBER 31, 2006

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$	$ 481	$ 6,018,119	$ 40,038	$ (1)	$ 6,058,637
Financial services			7,035	82,563		89,598
Intercompany charges		294,717	293,371		(588,088)	—
Equity in pretax income of consolidated subsidiaries	233,106				(233,106)	—
Total Revenues	233,106	295,198	6,318,525	122,601	(821,195)	6,148,235
Expenses:						
Homebuilding		1,828	6,001,028	33,713	(164,641)	5,871,928
Financial services			3,854	54,993	(261)	58,586
Total Expenses		1,828	6,004,882	88,706	(164,902)	5,930,514
Income from unconsolidated joint ventures			15,385			15,385
Income before income taxes	233,106	293,370	329,028	33,895	(656,293)	233,106
State and federal income taxes	83,573	102,680	120,091	8,917	(231,688)	83,573
Net income (elimination)	$ 149,533	$ 190,690	$ 208,937	$ 24,978	$ (424,605)	$ 149,533

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2008

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$(1,124,590)	$ 126,508	$ (1,137,721)	$ 12,813	$ 998,400	$ (1,124,590)
Adjustments to reconcile net income to net cash provided by (used in) operating activities	172,245	(121,575)	2,325,289	209,097	(998,400)	1,586,656
Net cash (used in) provided by operating activities	(952,345)	4,933	1,187,568	221,910	—	462,066
Net cash (used in) provided by investing activities			(1,672)	33		(1,639)
Net cash provided by (used in) financing activities	126,237	387,634	(56,133)	(86,342)		371,396
Intercompany investing and financing activities—net	825,999	421,935	(1,124,488)	(123,446)		—
Net (decrease) increase in cash	(109)	814,502	5,275	12,155	—	831,823
Cash and cash equivalents balance, beginning of period	126	31,993	(21,225)	5,339		16,233
Cash and cash equivalents balance, end of period	$ 17	$ 846,495	$ (15,950)	$ 17,494	$ —	$ 848,056

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2007

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$(627,119)	$ 205,657	$ (569,051)	$ 14,712	$ 348,682	$ (627,119)
Adjustments to reconcile net income to net cash provided by operating activities	120,886	46,202	717,857	152,822	(348,682)	689,085
Net cash provided by (used in) operating activities	(506,233)	251,859	148,806	167,534	—	61,966
Net cash used in investing activities			(24,766)	(7,628)		(32,394)
Net cash provided by (used in) financing activities	49,863	66,500	(84,281)	(99,744)		(67,662)
Intercompany investing and financing activities—net	456,480	(345,895)	(44,862)	(65,723)		—
Net increase (decrease) in cash	110	(27,536)	(5,103)	(5,561)	—	(38,090)
Cash and cash equivalents balance, beginning of period	16	59,529	(16,122)	10,900		54,323
Cash and cash equivalents balance, end of period	$ 126	$ 31,993	$ (21,225)	$ 5,339	—	$ 16,233

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2006

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$149,533	$ 190,690	$ 208,937	$ 24,978	$ (424,605)	$ 149,533
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(99,552)	85,143	(1,090,356)	(120,083)	424,605	(800,243)
Net cash provided by (used in) operating activities	49,981	275,833	(881,419)	(95,105)	—	(650,710)
Net cash used in investing activities			(62,500)	(12,044)		(74,544)
Net cash provided by (used in) financing activities	8,610	550,000	(56,727)	66,421		568,304
Intercompany investing and financing activities—net	(58,591)	(1,064,900)	1,081,548	41,943		—
Net increase (decrease) in cash	—	(239,067)	80,902	1,215	—	(156,950)
Cash and cash equivalents balance, beginning of period	16	298,596	(97,024)	9,685		211,273
Cash and cash equivalents balance, end of period	$ 16	$ 59,529	$ (16,122)	$ 10,900	$ —	$ 54,323

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23. Subsequent Events

At a Special Meeting of stockholders held on December 5, 2008, the approval of the Board of Directors' decision to adopt the Rights Plan was submitted to a stockholder vote and approved. (See Note 3 for further information on the Rights Plan.)

Also at the Special Meeting on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our net operating losses carryforwards (NOL) and built-in losses under Section 382 of the Internal Revenue Code (the "Code"). Subject to certain exceptions pertaining to pre-existing 5-percent stockholders and Class B stockholders, the transfer restrictions generally restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to: (i) increase the direct or indirect ownership of our stock by any person (or public group) from less than 5% to 5% or more of our common stock; (ii) increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or (iii) create a new public group. Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

On December 3, 2008, we issued $29.3 million 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of our unsecured senior notes as follows: $0.5 million aggregate principal amount of the 8% Senior Notes due 2012, $12.0 million aggregate principal amount of the $6^{1}/2$% Senior Notes due 2014, $1.1 million aggregate principal amount of the $6^{3}/8$% Senior Notes due 2014, $3.3 million aggregate principal amount of the $6^{1}/4$% Senior Notes due 2015, $24.8 million aggregate principal amount of the $7^{1}/2$% Senior Notes due 2016, $28.7 million aggregate principal amount of the $6^{1}/4$% Senior Notes due 2016 and $1.0 million aggregate principal amount of the $8^{5}/8$% Senior Notes due 2017. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement and the $11^{1}/2$% Senior Secured Notes due 2013. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011 and 100% of principal commencing November 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 118.0% of principal. If we determine we are able to account for the transaction under the substantial modifications of the debt treatment prescribed by EITF 96-19, we will recognize a gain on the extinguishment of the applicable issue of unsecured senior notes at issuance of the new 18.0% Senior Secured Notes issued in exchange therefore and a reduction in notes payable total of $42.1 million before expenses associated with the transaction. If however, we determine we are required to account for this transaction under SFAS 15 "Accounting by Debtors and Creditors for Troubled Debt Restructurings" and EITF 02-4 "Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of SFAS 15" then we will not recognize a gain or a reduction in notes payable, but instead we would reduce our notes payable balance through the effective interest rate method to the face amount of the newly issued notes over the new notes term to maturity.

Exhibit 10(p)

BASE SALARIES OF EXECUTIVE OFFICERS

As of December 24, 2008, the following are the base salaries (on an annual basis) of the executive officers of Hovnanian Enterprises, Inc.:

Name / Title		
Kevork S. Hovnanian Chairman of the Board and Director of the Company	$	1,128,433
Ara K. Hovnanian Chief Executive Officer, President and Director of the Company	$	1,092,606
Paul W. Buchanan Senior Vice President – Chief Accounting Officer	$	287,000
Peter S. Reinhart Senior Vice President and General Counsel	$	307,500
J. Larry Sorsby Executive Vice President, Chief Financial Officer and Director of the Company	$	500,000
David G. Valiaveedan Vice President – Finance	$	256,250

Exhibit 10(v)

K. HOVNANIAN ENTERPRISES, INC.
Plan Document

AMENDMENT AND RESTATEMENT

EFFECTIVE JANUARY 1, 2005

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K. HOVNANIAN ENTERPRISES, INC.

EXECUTIVE DEFERRED COMPENSATION PLAN

Amendment and Restatement

Effective January 1, 2005

Purpose

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

ARTICLE 1
Definitions

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

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the Company Contribution Account balance, (iii) the Deferred Share Deferral Account balance, (iv) the Pre-2005 Deferral Account balance, (v) the Pre-2005 Company Contribution Account balance, (vi) the Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account balance, and (vii) the Pre-2005 Rollover Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.6 of this Plan, which shall consist of Annual Company Matching Contribution Amounts described in Section 3.6(a) and Annual Company Basic Contribution Amounts described in Section 3.6(b) to the extent the Participant is entitled thereto.

1.3 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary and Bonus (including any Matched 401(k) Continuation Deferral Amount, as elected by the Participant) that is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.4 "Annual Deferred Share Amount" shall mean, with respect to a Participant for any one Fiscal Year, the value of unvested Stock awarded under any Hovnanian Enterprises, Inc. or Company stock incentive plan, deferred in accordance with Section 3.3 of this Plan.

1.5 "Annual Installment Method" shall be an annual installment payment over one of the installment payout alternatives selected by the Participant in accordance with this Plan, calculated as follows (subject to Section 3.14): The Account Balance of the Participant shall be calculated as of the close of business on the date of reference (or, if the date of reference is not a business day, on the immediately following business day), and shall be paid during the ninety (90) day period thereafter unless otherwise provided herein. The date of reference with respect to the first annual installment payment shall be as provided in Section 5.2 and the date of reference with respect to subsequent annual installment payments shall be the anniversary of the first annual installment payment.

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

portion thereof), calculated as described in this definition. Within ninety (90) days after the anniversary of the first annual installment payment, the payment shall be one-fourth (1/4) of the Account Balance (or applicable portion thereof), calculated as described in this definition.

1.6 "Associate" shall mean a person who is an employee of any Employer.

1.7 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar

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year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Associate's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), 403(b), or 132(f)(4) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Associate.

1.8 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 8, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.9 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.10 "Board" shall mean the board of directors of the Company.

1.11 "Bonus" shall mean any compensation, in addition to Base Annual Salary, relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, ordinarily payable in cash to a Participant as an Associate under any Employer's bonus and cash incentive plans, excluding any stock awards.

1.12 "Claimant" shall have the meaning set forth in Section 12.2 of this Plan.

1.13 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.14 "Committee" shall mean the committee described in Article 10 of this Plan.

1.15 "Company" shall mean K. Hovnanian Enterprises, Inc., a California corporation, and any successor to all or substantially all of the Company's assets or business.

1.16 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts credited on or after January 1, 2005, plus (ii) amounts credited or debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or

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her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

1.17 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer reasonably anticipates that, if any distribution hereunder were made as scheduled, the Employer's deduction with respect to that distribution would not be permitted by reason of the limitation under Code Section 162(m), then the Employer may defer that distribution, provided that all distributions that could be deferred in accordance with this Section 1.17 are so deferred, and provided further that the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.12 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the distribution is made during such year, the deduction of such payment will not be limited by Code Section 162(m). To the extent required under Section 409A, where payment to a Specified Employee is delayed pursuant to the preceding to a date on or after the Specified Employee's Separation from Service, the payment will be considered a payment upon a Separation from Service for purposes of the rules under Section 409A(a)(2)(B)(i) (generally requiring a six (6) month delay on distributions upon a Specified Employee's Separation from Service). In no event shall an election be provided to the Participant with respect to the timing of the payment under the preceding. Notwithstanding the foregoing, this Section 1.17 shall apply only to the extent permitted by Section 409A.

1.18 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts deferred on or after January 1, 2005, plus (ii) amounts credited or debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.19 “Deferred Share Deferral Account” shall mean (i) the sum of the Participant’s Annual Deferred Share Amount deferrals deferred on or after January 1, 2005, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant’s Deferred Share Deferral Account, less (iii) all distributions made to the Participant or his or

her Beneficiary pursuant to this Plan that relate to the Participant’s Deferred Share Deferral Account.

1.20 “Deferred Share Award” shall mean unvested shares of Stock selected by the Committee in its sole discretion and awarded (currently, or on a deferred basis) to the Participant under any stock incentive plan of Hovnanian Enterprises, Inc. or the Company.

1.21 “Deferred Shares” shall mean, for any Deferred Share Award, the amount of such Deferred Share Award deferred in accordance with Section 3.3 of this Plan.

1.22 “Election Form” shall mean the form or forms established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan (which form or forms may take the form of an electronic transmission, if required or permitted by the Committee).

1.23 “Employer(s)” shall mean Hovnanian Enterprises, Inc. and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor. For purposes of this Plan, “subsidiary” shall include entities required to be aggregated pursuant to Section 14.20.

1.24 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.25 “Fiscal Year” shall mean a period beginning on November 1 of each calendar year and continuing through October 31 of the following calendar year.

1.26 “401(k) Plan” shall mean the Hovnanian Savings and Investment Retirement Plan, as it may be amended from time to time.

1.27 “In-Kind Stock Bonus Deferral Amount” shall mean, with respect to a Participant, the value of that portion of a Participant’s Stock Bonus deferred prior to January 1, 2005 in accordance with Section 3.8(b) of this Plan.

1.28 “Matched 401(k) Continuation Deferral Amount” shall mean, for any one Plan Year, the amount determined in accordance with Section 3.1 of the Plan.

1.29 “Option Swap Amount” shall mean, with respect to a Participant, the value of any unexercised option to purchase Stock under any Hovnanian Enterprises, Inc. or Company stock incentive plan deferred prior to January 1, 2005 in accordance with Section 3.8(a) of this Plan.

1.30 “Participant” shall mean any Associate (i) who is determined by the Committee to be a member of a select group of management or highly compensated employees

(within the meaning of ERISA), (ii) who is selected to participate in the Plan, and (iii)(A) who elects to participate in the Plan, (B) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (C) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (D) who commences participation in the Plan, and (E) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an Account Balance under the Plan, even if he or she has an interest in the Participant’s benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.31 “Performance-Based Compensation” shall mean that portion of a Participant’s Bonus, the amount of which, or the entitlement to which, is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve (12) consecutive months, and which qualifies as “performance-based compensation” under Section 409A including the requirement that the performance criteria be established in writing by not later than (i) ninety (90) days after the commencement of the period of service to which the criteria relates and (ii) the date the outcome ceases to be substantially uncertain.

1.32 “Plan” shall mean the Company’s Executive Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.33 “Plan Agreement” shall mean a written agreement (which may take the form of an electronic transmission, if required or permitted by the Committee), as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant’s Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must, unless otherwise provided by the Plan Agreement, be agreed to by both the

Employer and the Participant. In the Plan Agreement, each Participant shall acknowledge that he or she accepts all of the terms of the Plan, including the discretionary authority of the Committee as set forth in Article 10.

1.34 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.35 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6 of this Plan.

1.36 "Pre-2005 Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts deferred prior to January 1, 2005, plus (ii) amounts credited or debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Pre-2005 Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Pre-2005 Deferral Account.

1.37 "Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account" shall mean (i) the sum of the Participant's Annual Deferred Share Amounts, Option Swap Amounts, In-Kind Stock Bonus Deferral Amounts and Restricted Share Unit deferrals deferred prior to January 1, 2005, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Pre-2005 Deferred Share/Option Swap/In-Kind Bonus/Restricted Share Unit Deferral Account.

1.38 "Pre-2005 Company Contribution Account" shall mean (i) the sum of the Participant's Company Contribution Amounts credited prior to January 1, 2005, plus (ii) amounts credited or debited in accordance with all of the applicable crediting/debiting provisions of this Plan that relate to the Participant's Pre-2005 Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Pre-2005 Company Contribution Account.

1.39 "Pre-2005 Rollover Account" shall mean (i) the sum of the Participant's Rollover Amount credited prior to January 1, 2005, plus (ii) amounts credited or debited in accordance with all of the applicable crediting/debiting provisions of this Plan that relate to the Participant's Pre-2005 Rollover Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Pre-2005 Rollover Account.

1.40 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Associate, a Separation from Service for any reason other than a leave of absence or death on or after the earlier of the attainment of (a) age sixty-five (65) or (b) age fifty-five (55) with ten (10) Years of Service.

1.41 "Retirement Benefit" shall mean the benefit set forth in Article 5.

1.42 "Rollover Amount" shall mean the amount determined in accordance with Section 3.7 of this Plan.

1.43 "Section 409A" shall mean Code Section 409A and the Treasury regulations or other authoritative guidance issued thereunder. Whenever the terms "subject to Section 409A" or "to the extent permitted by Section 409A" (or any such similar reference so as to indicate that a Plan provision is subject to Section 409A) are used, such terms shall be interpreted to mean that the applicable Plan provision shall be effective only if and to the extent such provision would not trigger penalty taxes or interest under Section 409A; except to the extent that Section 409A requires that such terms be disregarded because they purport to nullify Plan terms that are not in compliance with Section 409A.

1.44 "Separation from Service" shall mean the Participant's separation from service within the meaning of Section 409A, treating as a Separation from Service an anticipated permanent reduction in the level of bona fide services to twenty percent (20%) or less of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period during which the Participant performed services for the Employer, if that is less than thirty-six (36) months). For this purpose, upon a sale or other disposition of the assets of the Employer to an unrelated purchaser, the Employer reserves the right to the extent permitted by Section 409A to determine whether Participants providing services to the purchaser after and in connection with the purchase transaction have experienced a Separation from Service.

1.45 "Short-Term Payout" shall mean the payout set forth in Section 4.1 of this Plan.

1.46 "Specified Employee" shall mean, with respect to an Employer corporation any stock of which is publicly traded on an established securities market or otherwise, an individual who, as of the date of his or her Separation from Service, is a Key Employee, as currently defined in Code Section 416(j) (without regard to paragraph (5) thereof) to mean, as of the Effective Date, an employee of the corporation who, at any time during the twelve (12) month period ending on a Specified Employee identification date, is (a) an officer of the corporation having an annual compensation greater than one hundred thirty-five thousand dollars ($135,000) for 2005 (indexed for inflation in future years), (b) a five-percent (5%) owner of the corporation, or (c) a one-percent (1%) owner of the corporation having an annual compensation from the corporation of more than one hundred fifty thousand dollars ($150,000).

1.47 "Stock" shall mean Hovnanian Enterprises, Inc. Class A or Class B common stock, $.01 par value, or any other equity securities of Hovnanian Enterprises, Inc. or of the Company designated by the Committee.

1.48 "Stock Bonus" shall mean any compensation, in addition to Base Annual Salary and cash Bonus, relating to services performed during any calendar year, whether

or not paid in such calendar year, payable as a bonus in shares of Stock under any Hovnanian Enterprises, Inc. or Company stock incentive plan.

1.49 "Termination Benefit" shall mean the benefit set forth in Article 7 of this Plan.

1.50 "Termination of Employment" shall mean the Separation from Service with all Employers, voluntarily or involuntarily, for any reason other than Retirement, death or an authorized leave of absence.

1.51 "Trust" shall mean the trust established pursuant to this Plan, as amended from time to time. The assets of the Trust shall be the property of the Employer.

1.52 "Unforeseeable Financial Emergency" shall mean a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined in Code Section 152 without regard to Code Section 152(b)(1), (b)(2) and (d)(1)(B)) or, effective August 17, 2006, the Participant's beneficiary, (ii) a loss of the Participant's property due to casualty (including the need to rebuild a home following damage not otherwise covered by insurance, for example, not as a result of a natural disaster), or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant (e.g., imminent foreclosure or eviction from the Participant's primary residence, the need to pay for medical expenses, including non-refundable deductibles and prescription drugs, the need to pay funeral expenses of a spouse, dependent or, effective August 17, 2006, beneficiary), all as determined in the sole discretion of the Committee (which discretion the Committee is bound to exercise, however, within the limits of Section 409A).

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

ARTICLE 2
Selection, Enrollment, Eligibility

2.1 **Selection by Committee**. Participation in the Plan shall be limited to a select group of management and highly compensated Associates of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Associates to participate in the Plan.

2.2 **Enrollment Requirements**. The Committee may require that as a condition to participation, each selected Associate shall complete, execute and return to the

Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form (or to enroll using the Internet enrollment procedures established by the Committee, if any), all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary. Timely enrollment in the Plan for the 2005 Plan Year is intended to constitute good faith operational compliance with Section 409A regardless of whether such enrollment is conducted prior to the date of adoption of this amended and restated Plan.

2.3 **Eligibility; Commencement of Participation**. Provided an Associate selected to participate in the Plan has met all enrollment requirements set forth in this Plan and/or required by the Committee, including returning all required documents to the Committee (or enrolling using the Internet enrollment procedures established by the Committee, if any) within the specified time period, that Associate shall commence participation in the Plan on the first day of the month following the month in which the Associate completes all enrollment requirements. If an Associate fails to meet all such requirements within the period required, in accordance with Section 2.2, that Associate shall not be eligible to participate in the Plan until the first day of the Plan Year (or Fiscal Year with respect to Annual Deferred Share Amount deferrals) following the delivery to and acceptance by the Committee of the required documents. In addition, notwithstanding anything in the Plan to the contrary, a Participant's eligibility to participate in the Annual Company Matching Contribution Amount and/or Annual Company Basic Contribution Amount provisions of the Plan shall be in the sole discretion of the Committee.

2.4 **Termination of Participation and/or Deferrals**. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated Associates, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to prevent the Participant from making future deferral elections and/or from being credited with any further Annual Company Matching Contribution Amounts or Annual Company Basic Contribution Amounts.

2.5 **Freeze of Participation in Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Features of Plan.** Notwithstanding any other provision of this Plan, no individual shall become a Participant in the Option Swap Amounts, In-Kind Stock Bonus Deferral Amounts and/or Restricted Stock Unit deferral features of this Plan after December 31, 2004.

ARTICLE 3
Deferral Commitments/Company Contributions/Crediting/Taxes

3.1 **Matched 401(k) Continuation Deferral Amount.** For each Plan Year, any Participant whose Total Compensation (as defined in Section 3.6(a)) is expected to exceed the limit imposed under Code Section 401(a)(17) on the amount of compensation recognizable under the 401(k) Plan (i.e., $210,000 for 2005) and whom the Committee designates, in its sole discretion, as eligible to make deferrals of Matched 401(k) Continuation Deferral Amounts under this Section for the Plan Year, may elect to defer to this Plan as the Participant's "Matched 401(k) Continuation Deferral Amount" six percent (6%) of that portion of the Participant's Base Annual Salary and/or Bonus exceeding the Code Section 401(a)(17) limit (i.e., $210,000 for 2005). Notwithstanding anything in the Plan or the 401(k) Plan to the contrary, the level of a Participant's Matched 401(k) Contribution Deferral Amount, if any, for a given Plan Year shall be fixed as of the applicable deferral deadline described in Section 3.4(a)(i) for the Plan Year (i.e., generally the last day of the Plan Year prior to the Plan Year in which the Matched 401(k) Contribution Deferral Amount will be earned).

3.2 **Annual Deferral Amount Deferrals**.

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

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

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

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

(b) **Short Plan Year**. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum Base

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Annual Salary deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12. Also notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount, with respect to Base Annual Salary and Bonus, shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance. Finally, any Bonus deferral election made by a new Participant after the beginning of the performance period to which the Bonus relates shall be subject to the pro-ration provisions of Section 3.4(a)(i) describing that portion of the Bonus amounts which are considered as applying to services performed after the deferral election.

3.3 **Annual Deferred Share Amount Deferrals**. Subject to any terms and conditions imposed by the Committee, Participants may elect to defer under the Plan Annual Deferred Share Amounts. A Participant may elect to defer, as his or her Annual Deferred Share Amount, up to 100% of his or her Deferred Share Award. Annual Deferred Share Amounts shall be credited (or continue to be credited) to the Participant on the books of the Company or the Employer in connection with such an election. An Annual Deferred Share Amount shall consist of all Deferred Shares deferred pursuant to this Section 3.3 in any one Fiscal Year.

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

(a) **Timing of Election**.

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

performed during the final payroll period containing the last day of the Plan Year shall be treated as Base Annual Salary for services performed in the subsequent Plan Year.

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

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

In addition, notwithstanding the preceding, to the extent permitted by the Committee and under Section 409A, a Participant may make an election to defer Annual Deferral Amounts that relate all or in part to services performed on or before December 31, 2005 no later than the earlier of (i) March 15, 2005, or (ii) the date such Annual Deferral Amounts are otherwise payable to the Participant.

Notwithstanding the preceding, the Committee shall, in its discretion, be permitted to cause to be paid to the Participant Base Annual Salary and/or Bonus amounts, as applicable, rather than

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

(ii) **Annual Deferred Share Amount Deferrals.** Except as otherwise provided below, a Participant shall make a deferral election with respect to Deferred Shares scheduled to vest during an upcoming twelve (12) month Fiscal Year. Such election must be made during such period as shall be established by the Committee which ends no later than:

1. October 31, 2005 (or any earlier deadline established by the Committee) for any Deferred Shares scheduled to vest on or after November 1, 2005 and prior to November 1, 2007;

2. December 31, 2006 (or any earlier deadline established by the Committee) for any Deferred Shares scheduled to vest on or after November 1, 2007 and prior to November 1, 2008;

3. December 31, 2007 (or any earlier deadline established by the Committee) for any Deferred Shares scheduled to vest on or after November 1, 2008 and prior to November 1, 2009;

4. December 31, 2008 (or any earlier deadline established by the Committee) for any Deferred Shares scheduled to vest on or after November 1, 2009 and prior to November 1, 2010;

5. the last day of the Fiscal Year which precedes by at least twelve (12) months the Fiscal Year in which the Deferred Shares are scheduled to vest for any Deferred Shares scheduled to vest on or after November 1, 2010 (e.g., an election to defer Deferred Shares scheduled to vest during the Fiscal Year beginning November 1, 2010 and

ending October 31, 2011 must be made no later than October 31, 2009; an election to defer Deferred Shares scheduled to vest during the Fiscal Year beginning November 1, 2011 and ending October 31, 2012 must be made no later than October 31, 2010; and so forth), or any earlier deadline established by the Committee.

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

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

(b) **Manner of Election.**

(i) **Base Annual Salary and Bonus Deferrals.** For any Plan Year (or portion thereof), a deferral election for Base Annual Salary and/or Bonus amount(s) earned during that Plan Year (or portion thereof), and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, by the deadline(s) set forth above, an Election Form, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election

Form(s) must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee. If no such Election Form(s) is timely delivered for a Plan Year (or portion thereof), the Annual Deferral Amount shall be zero (0) for that Plan Year (or portion thereof).

(ii) **Deferred Share Award Deferrals.** For any Fiscal Year, a deferral election for Deferred Share Award amount(s) otherwise scheduled to vest during that Fiscal Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, by the deadline(s) set forth above, an Election Form, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form(s) must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee. If no such Election Form(s) is timely delivered for a Fiscal Year, the Annual Deferred Share Amount shall be zero (0) for that Fiscal Year.

(c) **Change in Election**. Once a Plan Year (or Fiscal Year in respect of Annual Deferred Share Amount deferrals) has commenced, a Participant may not elect to change his or her deferral election that is in effect for that Plan Year (or Fiscal Year, if applicable), except if and to the extent permitted by the Committee and made in accordance with the provisions of Section 409A specifically relating to the change and/or revocation of deferral elections (such as, for example, following an Unforeseeable Financial Emergency).

3.5 **Withholding of Annual Deferral Amounts.** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, except as otherwise provided in Section 3.6, as adjusted from time to time for increases and decreases in Base Annual Salary. The Bonus portion of the Annual Deferral Amount shall be withheld at the time the Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.6 **Annual Company Contribution Amount.**

(a) **Annual Company Matching Contribution Amount**. The Company may, but is not required to, credit to the Company Contribution Account of one or more Participants an amount (an “Annual Company Matching Contribution Amount”) for any one or more Plan Years. The Company

shall credit such Annual Company Matching Contribution Amounts for such Participants, with such frequency, and in such amounts, as the Company determines in its sole discretion, including, for example, by crediting to the Participant’s Company Contribution Account of an eligible Participant an amount equal to: (i) the percentage match to which the Participant is entitled under the 401(k) Plan based on the Participant’s years of service determined under the 401(k) Plan (or any other percentage match rate applicable to the Participant, as determined by the Committee in its discretion) multiplied by (ii) the Participant’s Matched 401(k) Continuation Deferral Amount hereunder. The Annual Company Matching Contribution Amounts, if any, shall be withheld by the Company pending the Participant’s satisfaction of the 401(k) Plan’s vesting schedule, but such withheld Annual Company Matching Contribution Amounts shall be made in full (with or without credited interest in the sole and absolute discretion of the Committee) upon satisfaction of the 401(k) Plan’s vesting schedule.

(b) **<u>Annual Company Basic Contribution Amount</u>**. The Company shall make a contribution to each Participant's Company Contribution Account, if the Participant is eligible to receive a basic profit sharing contribution under the 401(k) Plan for the Plan Year, as soon as practicable after the close of each Plan Year, in an amount (an "Annual Company Basic Contribution Amount") equal to (i) minus (ii), where (i) is equal to (A) the percentage basic profit sharing contribution to which the Participant is entitled under the 401(k) Plan, times (B) the Participant's Total Compensation, and (ii) is equal to the basic profit sharing contributions made for the Plan Year to the 401(k) Plan on behalf of the Participant. The Annual Company Basic Contribution Amounts shall be withheld by the Company pending the Participant's satisfaction of the 401(k) Plan vesting schedule, but such withheld Annual Company Basic Contribution Amounts shall be made in full (with or without credited interest in the sole and absolute discretion of the Committee) upon satisfaction of the 401(k) Plan's vesting schedule.

3.7 **<u>Rollover Amount</u>**. If a Participant had an account balance in the K. Hovnanian Enterprises, Inc. Executive Incentive and Excess Benefits Plan (the "EIEBP") as of January 1, 2000, the Participant's EIEBP account balance, as determined as of such date, was transferred to and added to the Participant's Account Balance under this Plan, if so elected by the Participant in accordance with the terms of the Plan prior to this amendment and restatement, is thereafter governed by the terms and conditions of this Plan, and is referred to as the "Rollover Amount." In addition, subject to the distribution restrictions of Section 409A beginning January 1, 2005, any distribution elections made by the Participant with respect to his or her

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account balance under the EIEBP shall apply to the Rollover Amount under this Plan.

3.8 **<u>Option Swaps/In-Kind Stock Bonus/Restricted Share Unit Deferrals</u>**.

(a) **<u>Option Swap Amounts</u>**. Prior to January 1, 2005, subject to any terms and conditions imposed by the Committee, a Participant who had been specifically extended the right to be credited under the Plan with an Option Swap Amount was entitled to elect to have credited to his or her Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account an Option Swap Amount. An Option Swap Amount election must have been made by a Participant with respect to options to purchase Stock no earlier than the date on which the options became exercisable, and must have been made, in accordance with such administrative procedures established by the Committee in its discretion, prior to the date on which the options were exercised. An Option Swap Amount was credited to the Participant's Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account on or soon after the date of such exercise in an amount equal to the difference between the fair market value as of such date of the Stock subject to the option for which an Option Swap Amount election had been made and the exercise price of such option, as set forth in the Option Swap Agreement.

(b) **<u>In-Kind Stock Bonus Deferral Amounts</u>**. Prior to January 1, 2005, subject to any terms and conditions imposed by the Committee, a Participant who had been specifically extended the right under the Plan to defer an In-Kind Stock Bonus Deferral Amount was entitled to elect to defer to his or her Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account an In-Kind Stock Bonus Deferral Amount. An In-Kind Stock Bonus Deferral Amount election must have been made by a Participant, in accordance with such administrative procedures established by the Committee in its discretion and subject to the provisions of the In-Kind Stock Bonus Deferral Agreement, prior to the date to Stock Bonus was due to be paid to the Participant. An In-Kind Stock Bonus Deferral Amount was credited to the Participant's Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account on or soon after the date the Stock Bonus would, but for the election, have been paid to the Participant.

(c) **<u>Restricted Share Units</u>**. Prior to January 1, 2005, subject to any terms and conditions imposed by the Committee, a Participant who had been specifically extended the right under the Plan to defer awards for the future delivery of Stock which were granted under any stock incentive plan of

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Hovnanian Enterprises, Inc. or the Company pursuant to "Restricted Share Unit Agreement" between Hovnanian Enterprises, Inc. and the Participant, was entitled to elect to defer to his or her Pre-2005 Deferral Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account such awards ("Restricted Share Units"). A Restricted Share Unit deferral election must have been made by a Participant in accordance with such administrative procedures established by the Committee in its discretion.

(d) **<u>No Further Option Swaps/In-Kind Stock Bonus/Restricted Share Unit Deferrals After December 31, 2004</u>.** Notwithstanding any other provision of this Plan, no new Participant deferrals shall be permitted under this Section 3.8 after December 31, 2004.

3.9 **<u>Investment of Trust Assets</u>.** The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust agreement, including the disposition of investment vehicles and reinvestment of the proceeds in one or more other investment vehicles designated by the Committee.

3.10 **<u>Sources of Stock</u>.** If Stock is credited under the Plan on the books of the Company or the Employer, or in the Trust in connection with a deferral of an Annual Deferred Share Amount (or, prior to January 1, 2005, a deferral of an Option Swap Amount, In-Kind Stock Bonus Amount or Restricted Share Unit deferral), the shares so credited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement.

3.11 **<u>Vesting</u>**. Unless otherwise provided in the Plan Agreement, a Participant shall at all times be 100% vested in his or her Deferral Account, his or her Company Contribution Account and his or her Deferred Share Deferral Account, his or her Pre-2005 Deferral Account, his or her Pre-2005

Company Contribution Account, his or her Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account and his or her Pre-2005 Rollover Account. Notwithstanding anything to the contrary in any Plan Agreement, in the event of a Change in Control, a Participant's Account Balance, to the extent not then vested, shall immediately become 100% vested. For purposes of this Section 3.11, a "Change in Control" shall mean the first to occur of any of the following events:

(a) Any "person" (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act")) becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of Hovnanian Enterprises, Inc. Stock entitled to vote in the election of directors;

(b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who at the beginning of such period constitute the board of directors of Hovnanian Enterprises, Inc., and any new director (other than a director designated by a person who has entered into an agreement with Hovnanian Enterprises, Inc. to effect a transaction described in clause (a), (c), (d) or (e) of this Section 3.11) whose election by the board of directors or nomination for election by Hovnanian Enterprises, Inc.'s stockholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(c) The shareholders of Hovnanian Enterprises, Inc. approve any consolidation or merger of Hovnanian Enterprises, Inc., other than a consolidation or merger of the Company in which the holders of the Stock of Hovnanian Enterprises, Inc. immediately prior to the consolidation or merger hold more than 50% of the common stock of the surviving corporation immediately after the consolidation or merger;

(d) The shareholders of Hovnanian Enterprises, Inc. approve any plan or proposal for the liquidation or dissolution of Hovnanian Enterprises, Inc.; or

(e) The shareholders of Hovnanian Enterprises, Inc. approve the sale or transfer of all or substantially all of the assets of Hovnanian Enterprises, Inc. to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which Hovnanian Enterprises, Inc. is a member.

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

(a) **Sub-Accounts.** Separate sub-accounts shall be established and maintained with respect to each Participant's Account Balance (together, the "Sub-Accounts"), each attributable to the portion of the Participant's Account Balance representing the same type of credited deferral or contribution. That is, for each Plan Year, if and as applicable, one Sub-Account shall be attributable to the portion of the Participant's Account Balance which represents Matched 401(k) Continuation Deferral Amounts, another attributable to the portion of the Participant's Account Balance which represents other Base Annual Salary deferrals, another attributable to the

portion of the Participant's Account Balance which represents other Bonus deferrals, another attributable to the portion of the Participant's Account Balance which represents Annual Company Matching Contribution Amounts, and another attributable to the portion of the Participant's Account Balance which represents Annual Company Basic Contribution Amounts. The preceding sub-accounts shall all apply to deferrals made by the Participant on or after January 1, 2005. In addition to the preceding, and as described elsewhere in this document, separate Sub-Accounts shall be maintained with respect to the Participant's Pre-2005 Deferral Account balance (if any), Pre-2005 Company Contribution Account balance (if any), Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account balance (if any), and Pre-2005 Rollover Account balance (if any).

(b) **Election of Measurement Funds**. Except as otherwise provided in Section 3.12(f) below, a Participant, in connection with his or her initial deferral election in accordance with Section 3.4(a) above, shall elect, on the Election Form(s), one or more Measurement Fund(s) (as described in Section 3.12(d) below) to be used to determine the additional amounts to be credited or debited to each of his or her Sub-Accounts for the first business day of the Plan Year, continuing thereafter unless changed in accordance with the next sentence. Commencing with the first business day of the Plan Year, and continuing thereafter for the remainder of the Participant's participation in the Plan, the Participant may (but is not required to) elect daily, by submitting an Election Form(s) to the Committee that is accepted by the Committee (which submission may take the form of an electronic transmission, if required or permitted by the Committee), to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited or debited to each of his or her Sub-Accounts, or to change the portion of each of his or her Sub-Accounts allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next business day and continue thereafter for the remainder of the Participant's participation in the Plan, unless changed in accordance with the previous sentence.

(c) **Proportionate Allocation**. In making any election described in Section 3.12(b) above, the Participant shall specify on the Election Form, in increments of one percentage point (1%), the percentage of each of his or her Sub-Accounts to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(d) **Measurement Funds**. Except as otherwise provided in Section 3.12(f) below, the Participant may elect one or more of the Measurement Funds set forth on Schedule A (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. The Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund without the need to formally amend this Plan. Each such action will take effect as of the first business day that follows by thirty (30) days the day on which the Committee gives Participants advanced written notice of such change. If the Committee receives an initial or revised Measurement Fund(s) election which it deems to be incomplete, unclear or improper, the Participant's Measurement Fund(s) election then in effect shall remain in effect (or, in the case of a deficiency in an initial Measurement Fund(s) election, the Participant shall be deemed to have filed no deemed investment direction). If the Committee possesses (or is deemed to possess as provided in the previous sentence) at any time directions as to Measurement Funds of less than all of the Participant's Account Balance, the Participant shall be deemed to have directed that the undesignated portion of the Account Balance be deemed to be invested in a money market, fixed income, or other or similar Measurement Fund made available under the Plan as determined by the Committee in its discretion. Each Participant hereunder, as a condition to his or her participation hereunder, agrees to indemnify and hold harmless the Committee, the Company and the Employer, and their agents and representatives, from any losses or damages of any kind relating to (i) the Measurement Funds made available hereunder and (ii) any discrepancy between the credits and debits to the Participant's Account Balance based on the performance of the Measurement Funds and what the credits and debits otherwise might be in the case of an actual investment in the Measurement Funds.

(e) **Crediting or Debiting Method**. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages elected by the Participant as of such date, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred was invested in the Measurement Fund(s) selected by the Participant, in the percentages elected by the Participant, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary and/or Bonus through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made

to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages elected by the Participant, no earlier than three business days prior to the distribution, at the closing price on such date. The Participant's Annual Company Contribution Amount shall be credited to his or her Company Contribution Account for purposes of this Section 3.12(e) as soon as administratively practicable following the date such amount(s) were credited to the Participant's Account Balance. The Participant's Annual Deferred Share Amount shall be credited to his or her Deferred Share Deferral Account no later than the close of business on the third business day after the day on which the Annual Deferred Share Amount was deferred.

(f) **No Actual Investment**. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company, the Employer or the Trust; the Participant shall at all times remain an unsecured creditor of the Employer.

(g) **Special Rule for Deferred Share Deferral Account and Pre-2005 Deferred Share/Option Swap/In-Kind Bonus/Restricted Share Unit Account**. Notwithstanding anything in this Plan to the contrary, the Deferred Share Deferral Account and the Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account (if any) shall be allocated exclusively to the Stock fund and to no other Measurement Fund.

(h) **Beneficiary Elections.** Each reference in this Section 3.12 to a Participant shall be deemed to include, where applicable, a reference to a Beneficiary.

3.13 **FICA and Other Taxes**.

(a) **Annual Deferral Amounts**. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other

employment taxes on such Annual Deferral Amount, and any other applicable deductions. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.13(a).

(b) **Annual Company Contribution Amounts**. When an Annual Company Contribution Amount is credited to a Participant's Company Contribution Account (or, if later, when a Participant becomes vested in his or her Company Contribution Account), the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes, and any other applicable deductions. If necessary, the Committee may reduce the Participant's Annual Company Contribution Amount in order to comply with this Section 3.13(b).

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

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

ARTICLE 4
Short-Term Payout; Unforeseeable Financial Emergencies; Withdrawal Election

4.1 **Short-Term Payout**.

(a) **Short-Term Payouts of Annual Deferral Amounts and Vested Annual Company Contribution Amounts.** At the same time that a Participant elects to defer an Annual Deferral Amount for a given Plan Year, the Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan. Except as provided in Section 4.5, any Short-Term Payout election must be made by the deadline(s) set forth in Section 3.4(a) for making a deferral election in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount to which it relates, and is irrevocable after that deadline has passed. Subject to such requirements as may be imposed by the Committee, a Participant may make separate Short-Term Payout elections in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount portions of his or her Annual Deferral Amount for a given Plan Year, in respect of any vested Annual Company Matching Contribution Amounts credited for the Plan Year and in respect of any vested Annual Company Basic Contribution Amounts credited for the Plan Year. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount (or applicable portion thereof), vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, as applicable, and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, Section 3.14, Section 4.5 and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years after the Plan Year of the Annual Deferral Amount (or applicable portion thereof), vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, as applicable, as specifically elected by the Participant. By way of example, if a two (2) year Short-Term Payout is elected for 2009 Plan Year Annual Deferral Amounts, vested Annual Company Matching Contribution Amounts and/or vested Annual Company Basic Contribution Amounts, the two (2) year Short-Term Payout would become payable during a sixty (60) day period commencing January 1, 2012.

(b) **Short-Term Payouts of Annual Deferred Share Amounts.** At the same time that a Participant elects to defer an Annual Deferred Share Amount for a given Fiscal Year, the Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferred Share Amount and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, to Section 3.14, to Section 4.5 and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out as follows:

(i) with respect to any Short-Term Payout election in respect of deferrals of Deferred Shares otherwise scheduled to vest prior to November 1, 2005, the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days

after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years after the Fiscal Year for which the Annual Deferred Share Amount deferral is actually credited;

(ii) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares otherwise scheduled to vest on or after November 1, 2005 and prior to November 1, 2006 ("2006 Fiscal Year DSA Deferrals"), the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is no earlier than 2008 (i.e., the earliest Short-Term Payout in respect of 2006 Fiscal Year DSA Deferrals would be during the sixty (60) day period commencing January 1, 2009);

(iii) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares otherwise scheduled to vest on or after November 1, 2006 and prior to November 1, 2007 ("2007 Fiscal Year DSA Deferrals"), the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is no earlier than 2009 (i.e., the earliest Short-Term Payout in respect of 2007 Fiscal Year DSA Deferrals would be during the sixty (60) day period commencing January 1, 2010);

(iv) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares otherwise scheduled to vest on or after November 1, 2007 and prior to November 1, 2008 ("2008 Fiscal Year DSA Deferrals"), the Short-Term Payout elected shall be paid

during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is no earlier than 2010 (i.e., the earliest Short-Term Payout in respect of 2008 Fiscal Year DSA Deferrals would be during the sixty (60) day period commencing January 1, 2011);

(v) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares otherwise scheduled to vest on or after November 1, 2008 and prior to November 1, 2009 ("2009 Fiscal Year DSA Deferrals"), the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is no earlier than 2011 (i.e., the earliest Short-Term Payout in respect of 2009 Fiscal Year DSA Deferrals would be during the sixty (60) day period commencing January 1, 2012);

(vi) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares otherwise scheduled to vest on or after November 1, 2009 and prior to November 1, 2010 ("2010 Fiscal Year DSA Deferrals"), the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is no earlier than 2012 (i.e., the earliest Short-Term Payout in respect of 2010 Fiscal Year DSA Deferrals would be during the sixty (60) day period commencing January 1, 2013);

(vii) with respect to any Short-Term Payout elected in respect of deferrals of Deferred Shares pursuant to a deferral election made after December 31, 2008 (i.e., with respect to any deferral of Deferred Shares otherwise scheduled to vest on or after November 1, 2010 ("2011 and Later Fiscal Year DSA Deferrals")), the Short-Term Payout elected shall be paid during a period beginning one (1) and ending sixty (60) days after the last day of the Plan Year designated by the Participant that results in the 2011 and Later Fiscal Year DSA Deferral remaining in the Plan for at least five (5) full calendar years (i.e., the earliest Short-Term Payout in respect of deferrals of Deferred Shares otherwise scheduled to vest on November 1, 2010 would be during the sixty (60) day period commencing January 1, 2016).

Notwithstanding anything above or elsewhere in the Plan to the contrary, to the extent Section 409A requires that an Annual Deferred Share Amount deferral election satisfy the rules under Section 409A applicable to changes to form and timing of distribution elections in order for such

Annual Deferred Share Amount deferral election to effectively defer tax with respect to the Annual Deferred Share Amounts, that portion of the Participant's Deferred Share Deferral Account attributable to such Annual Deferred Share Amount deferral election shall be distributable as a Short-Term Payout solely at such time(s) and in such manner as the Short-Term Payout does not violate the rules under Section 409A applicable to changes to form and timing of distribution elections.

(d) **Short-Term Payouts of Pre-2005 Deferrals of Option Swap Amounts and/or In-Kind Bonus Deferral Amounts.** Prior to January 1, 2005, at the same time that a Participant elected to defer Option Swap Amounts and/or In-Kind Bonus Deferral Amounts for a given Plan Year, the Participant could have irrevocably elected to receive a future "Short-Term Payout" from the Plan. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Option Swap Amounts and/or In-Kind Bonus Deferral Amounts deferred and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, to Section 3.14, to Section 4.5 and the other terms and conditions of this Plan, the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years after the Plan Year for which the Option Swap Amounts and/or In-Kind Bonus Deferral Amounts were actually credited.

(e) **Short-Term Payouts of Pre-2005 Deferrals of Restricted Share Units.** Prior to January 1, 2005, at the same time that a Participant elected to defer an Restricted Share Units for a given Fiscal Year, the Participant could have irrevocably elected to receive a future "Short-Term Payout" from the Plan. Subject to the Deduction Limitation and to Section 3.14, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Restricted Share Units deferred and amounts credited or debited thereto in the manner provided in Section 3.12 above, determined at the time that the Short-Term Payout becomes payable. Subject to the Deduction Limitation, to Section 3.14, to Section 4.5 and the other terms and conditions of this Plan, the Short-Term Payout elected shall be paid during a period beginning one (1) day and ending sixty (60) days after the last day of the Plan Year designated by the Participant that is at least two (2) Plan Years after the Fiscal Year for which the Restricted Share Unit deferral was actually credited.

(f) **Postponements of Previously Elected Short-Term Payouts**. Notwithstanding the preceding paragraphs or any other provision of this

Plan that may be construed to the contrary, a Participant who is in active service with the Employer may, with respect to each Short-Term Payout, on a form determined by the Committee, make one (1) or more additional deferral elections (a "Subsequent Election") to defer payment of all or a portion of such Short-Term Payout to a Plan Year subsequent to the Plan Year originally (or subsequently) elected; provided, however, that, except as provided in Section 4.5, such Subsequent Election will be null and void unless accepted by the Committee no later than one (1) year prior to the first day of the Plan Year in which, but for the Subsequent Election, such Short-Term Payout would be paid, and such Subsequent Election provides for the deferral of at least five (5) Plan Years following the Plan Year in which the Short-Term Payout, but for the Subsequent Election, would be paid. By way of example, if a two (2) year Short-Term Payout is elected for 2009 Plan Year Annual Deferral Amounts and/or vested Annual Company Contribution Amounts (resulting, as described above, in a Short-Term Payout payable during the sixty (60) day period commencing January 1, 2012), the Participant shall be entitled to make a Subsequent Election prior to the time designated by the Committee (e.g., September 2010 or any such other time designated by the Committee which is no later than December 31, 2010) to have the Short-Term Payout instead paid during the sixty (60) day period commencing January 1, 2017 (or January 1 of any later Plan Year).

4.2 **Other Benefits Take Precedence Over Short-Term Payout**. Should an event occur that triggers a benefit under Article 5, 6 or 7, all Account Balances (or portions thereof) that are subject to Short-Term Payout elections under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 **Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies**. If a Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) halt any deferrals required to be made by the Participant and (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the payouts, after taking into account the extent to which the Unforeseeable Financial Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of assets would not itself cause severe financial hardship) or by termination of deferrals hereunder. If, subject to the sole discretion of the Committee (which discretion the Committee is bound to exercise, however, within the limitations of Section 409A), the petition for a termination of deferrals and payout is approved, cessation shall take effect upon the date of approval and any payout shall be made

within sixty (60) days of the date of approval. The payment of any amount under this Section 4.3 shall be subject to Section 3.14, but shall not be subject to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share Deferral Account under this Section 4.3 shall be in the form of Stock.

4.4 **Withdrawal Election (Not Available After December 31, 2004)**. Prior to January 1, 2005, a Participant (or, after a Participant's death, his or her Beneficiary) could have elected in accordance with the terms, conditions and procedures of this Section 4.4 in effect prior to January 1, 2005 to withdraw all of his or her Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). Effective January 1, 2005, no such elections are permitted under the Plan.

4.5 **Application of Section 409A Distribution Election Transition Relief**. Notwithstanding anything in the Plan to the contrary, in accordance with applicable Section 409A transition relief, including the transition relief prescribed under IRS Notice 2007-86, 2007 IRB 990, 10/22/2007, Participants are permitted to make new payment elections under the Plan on or before December 31, 2008 in accordance with such rules and procedures as are established by the Committee without regard to the otherwise applicable Section 409A payment election requirements reflected in this amended and restated Plan document; provided that:

(a) Any new payment elections made on or after January 1, 2006 and on or before December 31, 2006 may apply only to amounts that would not otherwise be payable in 2006 and may not cause an amount to be paid in 2006 that would not otherwise be payable in 2006;

(b) Any new payment elections made on or after January 1, 2007 and on or before December 31, 2007 may apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007; and

(c) Any new payment elections made on or after January 1, 2008 and on or before December 31, 2008 may apply only to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

For example, notwithstanding anything in the Plan to the contrary, in accordance with the applicable Section 409A transition relief for new payment elections, the Committee permitted each Participant to elect on or before December 31, 2007 to receive a lump sum payment, to be paid during January 2008, of one or more of the following:

(i) his or her entire Deferral Account balance and Company Contribution Account balance (i.e., not including amounts attributable to deferrals/credits made prior to January 1, 2005) not otherwise payable during 2007;

(ii) his or her entire Deferred Share Account balance (i.e., not including amounts attributable to deferrals made prior to January 1, 2005) not otherwise payable during 2007;

(iii) his or her entire Pre-2005 Deferral Account balance, Pre-2005 Company Contribution Account balance and Pre-2005 Rollover Account balance not otherwise payable during 2007; and/or

(iv) his or her entire Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account balance not otherwise payable during 2007.

As another example, notwithstanding anything in the Plan to the contrary, in accordance with the applicable Section 409A transition relief for new payment elections, the Committee shall permit each Participant to elect on or before December 31, 2008 to receive a lump sum payment, to be paid generally during January 2009, of one or more of the following:

(i) his or her entire Deferral Account balance and Company Contribution Account balance not otherwise payable during 2008;

(ii) his or her entire Deferred Share Account balance and entire Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account balance not otherwise payable during 2008;

(iii) that portion of his or her Deferral Account balance attributable to Bonus deferrals to be deferred in early 2009 pursuant to the Participant's Bonus deferral election made during October 2007; and/or

(iv) that portion of his or her Deferred Share Award Account balance attributable to 2009 Deferred Share Award share deferrals deferred pursuant to the Participant's Deferred Share Award deferral election made during October 2007.

Furthermore, to the extent permitted by the Committee and Section 409A transition relief, each Participant may elect on or before December 31, 2008 to change his or her payment election(s) in respect of any other portion of the Participant's Account Balance not otherwise payable during 2008.

ARTICLE 5
Retirement Benefit

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

5.2 **Payment of Retirement Benefit**.

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

Retirement Benefit distribution elections in respect of the Base Annual Salary, Bonus and/or Matched 401(k) Continuation Deferral Amount portions of his or her Annual Deferral Amount for a given Plan Year, in respect of any vested Annual Company Matching Contribution

Amounts credited for the Plan Year and in respect of any vested Annual Company Basic Contribution Amount credited for the Plan Year. The preceding applies only to Annual Deferral Amounts, Annual Company Matching Contribution Amounts and Annual Company Basic contribution Amounts deferred/credited on or after January 1, 2005.

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

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

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

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

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

(d) **Changes to Retirement Benefit Distribution Elections.** The Participant may change his or her election(s) to an allowable alternative payout period date by submitting a new Election Form to the Committee, provided that, effective January 1, 2005, and except as provided in Section 4.5, any such Election Form is submitted at least one (1) year prior to the distribution date then in effect and, if required by Section 409A, provides for a distribution (or commencement of distributions) date which is at least five (5) years from the distribution date then in effect. Subject to the foregoing, the Election Form most recently accepted by the Committee

shall govern the payout of the Retirement Benefit with respect to the portion of the Participant's Account Balance to which it pertains.

Notwithstanding anything above or elsewhere in the Plan to the contrary (except Section 4.5), effective January 1, 2005, no change submitted on an Election Form shall be accepted by the Committee if the change accelerates the time over which distributions shall be made to the Participant (except as otherwise permitted under Section 409A) and the Committee shall deny any change made to an election if the Committee determines that the change violates the requirement under Section 409A that the first payment with respect to which such election is made be deferred for a period of not less than five (5) years from the date the payment would otherwise have been made. For these purposes, installment payments shall be treated as a single payment, with the result that an election to change from installments to a lump sum (or to a different Annual Installment Method) will require that the lump sum be postponed until a date which is at least five (5) years from the previously scheduled payment date of the first installment.

ARTICLE 6
Pre-Retirement Survivor Benefit

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

6.2 **Payment of Pre-Retirement Survivor Benefit**. The Participant's Beneficiary shall receive the Pre-Retirement Survivor Benefit in a lump sum during the sixty (60) day period immediately following the close of the calendar quarter in which the Committee receives proof that is satisfactory to the Committee of the Participant's death, in accordance with the procedures established by the Committee. Any payment made shall be subject to Section 3.14 and to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share Deferral Account and/or the Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account under this Section 6.2 shall be in the form of Stock.

6.3 **Death Prior to Completion of Termination Benefit or Retirement Benefit**. If a Participant dies after Termination of Employment or Retirement but before the Termination Benefit or Retirement Benefit is paid in full, the Participant's unpaid Termination Benefit or Retirement Benefit shall be paid to the Participant's Beneficiary in a lump sum during the sixty (60) day period immediately following

the close of the calendar quarter in which the Committee receives proof that is satisfactory to the Committee of the Participant's death, in accordance with the procedures established by the Committee. Any payment made hereunder shall be subject to Section 3.14, but shall not be subject to the Deduction Limitation. Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share Deferral Account and/or the Pre-2005 Deferred Share/Option Swap/In-Kind Stock Bonus/Restricted Share Unit Deferral Account under this Section 6.3 shall be in the form of Stock.

ARTICLE 7
Termination Benefit

7.1 **Termination Benefit**. Subject to the Deduction Limitation and to Section 3.14, and any other conditions imposed by the Committee, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement or death.

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

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

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

ARTICLE 8
Beneficiary Designation

8.1 **Beneficiary**. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a Beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

8.2 **Beneficiary Designation; Change**. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee or its designated agent of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee or its designated agent prior to his or her death.

8.3 **Acceptance**. No designation or change in designation of a Beneficiary shall be effective until received and accepted by the Committee or its designated agent.

8.4 **No Beneficiary Designation**. If a Participant fails to designate a Beneficiary as provided in Sections 8.1, 8.2 and 8.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

8.5 **Doubt as to Beneficiary**. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

8.6 **Discharge of Obligations**. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

Neither the Committee nor the Employer shall be obliged to search for any Participant or Beneficiary beyond the sending of a registered letter to such person's last known address.

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

ARTICLE 9
Termination, Amendment or Modification

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

Without limiting the generality of the foregoing, the Employer specifically reserves the right to terminate and liquidate the Plan with respect to all of its participating Associates, in its discretion and by action of the Committee, within the thirty (30) days preceding or the twelve (12) months following a "change in control event" (as defined in Section 409A); provided, however, that such termination and liquidation must be irrevocable and shall be permitted only if all

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arrangements sponsored by the Employer that are required to be aggregated with the Plan pursuant to Section 14.21 are also irrevocably terminated and liquidated with respect to each participant therein that has experienced a change in control event, so that Associates participating under the Plan and all participants under those other arrangements that have experienced a change in control event are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date the Employer takes irrevocable action to terminate and liquidate the arrangements.

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

9.2 **Amendment**. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors and the Committee may, at any time, amend or modify the Plan in whole or in part with respect to one or more Employers; provided, however, that no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.

9.3 **Plan Agreement**. Despite the provisions of Sections 9.1 and 9.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer or the Committee may only amend or terminate such provisions with the consent of the Participant, unless otherwise provided in the Plan Agreement.

9.4 **Effect of Payment**. The full payment of the applicable benefit under Articles 4, 5, 6 or 7 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

9.5 **Amendment to Ensure Proper Characterization of the Plan**. Notwithstanding the previous Sections of this Article 9, the Plan may be amended at any time, retroactively if required, if found necessary, in the opinion of the Committee, in order to ensure that the Plan is characterized as a non-tax-qualified "top hat" plan of deferred

compensation maintained for a select group of management or highly compensated employees, as described under ERISA Sections 201(2), 301(a)(3) and 401(a)(1), to conform the Plan to the provisions of Section 409A, to ensure that amounts under the Plan are not considered to be taxed to a Participant under the Federal income tax laws prior to the Participant's receipt of the amounts or to conform the Plan and the Trust to the provisions and requirements of any applicable law (including ERISA and the Code).

ARTICLE 10
Administration

10.1 **Committee Duties**. This Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

10.2 **Agents**. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

10.3 **Binding Effect of Decisions**. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

10.4 **Indemnity of Committee**. All Employers shall indemnify and hold harmless the members of the Committee, and any Associate to whom the duties of the Committee may be delegated, against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, or any such Associate.

10.5 **Employer Information**. To enable the Committee to perform its functions, the Company and each Employer shall supply full and timely information to the Committee on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, death or Termination of Employment of its

Participants, and such other pertinent information as the Committee may reasonably require.

ARTICLE 11
Other Benefits and Agreements

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

ARTICLE 12
Claims Procedures

12.1 **Scope of Claims Procedures**. This Article is based on final regulations issued by the Department of Labor and published in the Federal Register on November 21, 2000 and codified at 29 C.F.R. section 2560.503-1. If any provision of this Article conflicts with the requirements of those regulations, the requirements of those regulations will prevail.

12.2 **Initial Claim**. A Participant or Beneficiary who believes he or she is entitled to any benefit under the Plan (a "Claimant") may file a claim with the Committee. The Committee shall review the claim itself or appoint an individual or an entity to review the claim.

(a) **Decision on Initial Claim**. The Claimant shall be notified within ninety (90) days after the claim is filed whether the claim is allowed or denied, unless the Claimant receives written notice from the Committee or appointee of the Committee prior to the end of the ninety (90) day period stating that special circumstances require an extension of the time for decision, such extension not to extend beyond the day which is one hundred eighty (180) days after the day the claim is filed.

(b) **Manner and Content of Denial of Initial Claims**. If the Committee denies a claim, it must provide to the Claimant, in writing or by electronic communication:

(i) The specific reasons for the denial;

(ii) A reference to the Plan provision or insurance contract provision upon which the denial is based;

(iii) A description of any additional information or material that the Claimant must provide in order to perfect the claim;

(iv) An explanation of why such additional material or information is necessary;

(v) Notice that the Claimant has a right to request a review of the claim denial and information on the steps to be taken if the Claimant wishes to request a review of the claim denial; and

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

12.3 **Review Procedures**.

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

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

(b) **Manner and Content of Notice of Decision on Review**. Upon completion of its review of an adverse initial claim determination, the Committee will give the Claimant, in writing or by electronic notification, a notice containing:

(i) its decision;

(ii) the specific reasons for the decision;

(iii) the relevant Plan provisions or insurance contract provisions on which its decision is based;

(iv) a statement that the Claimant is entitled to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information in the Plan's files which is relevant to the Claimant's claim for benefits;

(v) a statement describing the Claimant's right to bring an action for judicial review under ERISA Section 502(a); and

(vi) if an internal rule, guideline, protocol or other similar criterion was relied upon in making the adverse determination on review, a statement that a copy of the rule, guideline, protocol or other similar criterion will be provided without charge to the Claimant upon request.

12.4 **Calculation of Time Periods**. For purposes of the time periods specified in this Article, the period of time during which a benefit determination is required to be made begins at the time a claim is filed in accordance with the Plan procedures without regard to whether all the information necessary to make a decision accompanies the claim. If a period of time is extended due to a Claimant's failure to submit all information necessary, the period for making the determination shall be tolled from the date the notification is sent to the Claimant until the date the Claimant responds.

12.5 **Legal Action**. If the Plan fails to follow the claims procedures required by this Article, a Claimant shall be deemed to have exhausted the administrative remedies available under the Plan and shall be entitled to pursue any available remedy under ERISA Section 502(a) on the basis that the Plan has failed to provide a reasonable claims procedure that would yield a decision on the merits of the claim. A Claimant's compliance with the foregoing provisions of this Article is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claims for benefits under the Plan. However, notwithstanding anything herein that may suggest otherwise, with respect to any claim pertaining to a Participant who is not subject to ERISA, following the Claimant's exhaustion of the foregoing provisions of this Article, all disputes in connection with such claim shall be resolved by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association.

ARTICLE 13
Trust

13.1 **Establishment of the Trust**. The Company has established the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide for its respective future liabilities created with respect to the Annual Deferral Amounts and Annual Company Contribution Amounts for such Employer's Participants.

13.2 **Interrelationship of the Plan and the Trust**. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

13.3 **Distributions From the Trust**. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 14
Miscellaneous

14.1 **Status of Plan**. The Plan is not qualified within the meaning of Code Section 401(a) and "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

14.2 **Unsecured General Creditor**. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

14.3 **Employer's Liability**. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

14.4 **Nonassignability**. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. Subject to Section 14.15, no part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

14.5 **Not a Contract of Employment**. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no

reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

14.6 **Furnishing Information**. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

14.7 **Terms**. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

14.8 **Captions**. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

14.9 **Governing Law**. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Delaware without regard to its conflicts of laws principles.

14.10 **Notice**. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if it is in accordance with the procedures established by the Committee for notice or filing delivery via electronic transmission or if it is in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Treasurer
K. Hovnanian Enterprises, Inc.
10 Highway 35
Red Bank, New Jersey 07701
(732) 747-7800

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

14.11 **Successors**. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

14.12 **Spouse's Interest**. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

14.13 **Validity**. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein; except to the extent that Section 409A requires that this Section 14.13 be disregarded because it purports to nullify Plan terms that are not in compliance with Section 409A.

14.14 **Incompetent**. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

14.15 **Court Order**. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion but solely if and to the extent permitted by Section 409A, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

14.16 **Acceleration of Distribution.**

(a) **In General**. The Employer may, its discretion, accelerate the date of distribution or commencement of distributions hereunder, or accelerate installment payments by paying the vesting Account Balance in a lump sum or pursuant to a Annual Installment Method using fewer years, to the extent

permitted under Section 409A (such as, for example, as provided in Section 1.409A-3(j)(4) of the Treasury regulations to comply with domestic relations orders or certain conflict of interest rules, to pay employment taxes, or to pay certain de minimus amount, or to make payments upon income inclusion under Section 409A). Notwithstanding anything in this Plan to the contrary, any distribution from the Deferred Share Deferral Account under this Section 14.16 shall be in the form of Stock.

(b) **Trust**. If the Trust terminates in accordance with the provisions of the Trust and benefits are distributed from the Trust to a Participant in accordance with such provisions, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

14.17 **Delay in Payment**. If the Employer reasonably anticipates that any payment scheduled to be made hereunder would violate securities laws (or other applicable laws) or jeopardize the ability of the Employer to continue as a going concern if paid as scheduled, then the Employer may defer that payment, provided the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. In addition, the Employer may, in its discretion, delay a payment upon such other events and conditions as the IRS may prescribe, provided the Employer treats payments to all similarly situated Participants on a reasonably consistent basis. Any amounts deferred pursuant to this Section shall continue to be credited or debited with additional amounts in accordance with Section 3.12 above, even if such amount is being paid out in installments. The amounts so deferred and amounts credited or debited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date on which the Employer reasonably anticipates that such violation or material harm would be avoided or as otherwise prescribed by the IRS.

14.18 **Prohibited Acceleration/Distribution Timing.** This Section shall take precedence over any other provision of the Plan or this Article 14 to the contrary. If the timing of any deferral or distribution election would result in any tax or other penalty (other than ordinarily payable Federal, state or local income or payroll taxes), which tax or penalty can be avoided by payment of the distribution at a later time, then the distribution shall be made (or commence, as the case may be) on the first date on which such distributions can be made (or commence) without such tax or penalty; except to the extent that Section 409A requires that this Section 14.18 be disregarded because it purports to nullify Plan terms that are not in compliance with Section 409A.

14.19 **Insurance**. The Employers, on their own behalf or on behalf of the Trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the Trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no

interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

14.20 **Aggregation of Employers**. If the Employer is a member of a controlled group of corporations or a group of trades or business under common control (as described in Code §414(b) or (c)), but substituting a twenty-five percent (25%) ownership level for the eighty percent (80%) level set forth in those Code Sections, all members of the group shall be treated as a single Employer for purposes of whether there has occurred a Separation from Service and for any other purposes under the Plan as Section 409A shall require. For purposes of Section 9.1, in the case of a change in control event, the entities to be treated as a single Employer shall be determined immediately following the change in control event.

14.21 **Aggregation of Plans**. If the Employer offers other account balance deferred compensation plans in addition to the Plan, those plans together with the Plan shall be treated as a single plan to the extent required under Section 409A for purposes of determining whether an Employee may make a deferral election pursuant to Section 3.4(a) within thirty (30) days of becoming eligible to participate in the Plan and for any other purposes under the Plan as Section 409A shall require.

14.22 **USERRA**. Notwithstanding anything herein to the contrary, any election provided to a Participant as necessary to satisfy the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended, shall be permissible hereunder.

14.23 **Legal Fees To Enforce Rights After Change in Control**. Hovnanian Enterprises, Inc. and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of Hovnanian Enterprises, Inc. or the Participant's Employer, or of any successor corporation might then cause or attempt to cause Hovnanian Enterprises, Inc., the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause Hovnanian Enterprises, Inc. or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that Hovnanian Enterprises, Inc., the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if Hovnanian Enterprises, Inc., such Employer or any other person takes any action to declare

the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then Hovnanian Enterprises, Inc. and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of Hovnanian Enterprises, Inc. and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against Hovnanian

Enterprises, Inc., the Participant's Employer or any director, officer, shareholder or other person affiliated with Hovnanian Enterprises, Inc., the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Plan document as of January 1, 2005.

K. HOVNANIAN ENTERPRISES, INC., a
California corporation

By: ______________________________

Title: Sr. Vice President Human Resources

SCHEDULE A

MEASUREMENT FUNDS

Pursuant to Section 3.12(d), the Participant may elect one or more of the Measurement Funds:

Fund Class	Measurement Fund
Money Market Fund	Vanguard VIF Money Market
Income	PIMCo (VIT) Total Return Bond
Income	Vanguard VIF Hi-Yield Bond
Balanced	Vanguard VIF Balanced
Large Blend	PIMCo (VIT) Stocks Plus
Large Growth	Vanguard VIF Capital Growth
Large Value	T. Rowe Price Equity Income Portfolio
Mid Cap	T. Rowe Price Mid-Cap Growth
Small/Mid Value	First Eagle Overseas
Small Value	Royce Micro-Cap
Small Growth	Vanguard VIF Small Company
Aggressive-Growth	INVESCO (VIF) Dynamics
Foreign Large Blend	T. Rowe Price International
Phantom Stock	Company Stock

Exhibit 10(y)

HOVNANIAN DEFERRED SHARE POLICY
FOR SENIOR EXECUTIVES

THIS POLICY, dated as of , relates to one or more Deferred Share Awards which may be granted by Hovnanian Enterprises, Inc., a Delaware corporation (the "Company") to (the "Grantee").

The Company may grant the Grantee from time to time during one or more November 1st through October 31st fiscal years incentive profit sharing awards ("Incentives") pursuant to the Company's Incentive Profit Sharing Program applicable to the Grantee. The Grantee will receive in cash such percentage of each Incentive as is specified under the Incentive Profit Sharing Program*. The remainder of each Incentive will be deferred (all such deferred awards made on behalf of the Grantee for service performed in a given fiscal year referred to herein as a "Deferred Share Award"), and, when vested, will be paid in the form of shares of Class A or Class B Common Stock of the Company ("Common Stock").

The number of shares of Class A or Class B Common Stock to be paid under a Deferred Share Award will be determined by dividing the dollar amount of the Deferred Share Award by the lesser of (i) the closing price of a share of Class A or Class B Common Stock, as reported in the Wall Street Journal, on the last day of the fiscal year during which the service giving rise to the Deferred Share Award was performed, or (ii) the average of the closing prices of a share of Class A or Class B Common Stock, as reported in the Wall Street Journal, on the last day of the 5 fiscal quarters ending on the last day of the fiscal year during which the service giving rise to the Deferred Share Award was performed. In addition, the Company will increase the number of shares of Class A or Class B Common Stock under the Deferred Share Award by 20%. Delivery of the shares of Class A or Class B Common Stock will be deferred, and will become vested and payable, as described below.

1. **Crediting of Deferred Share Award**. The Deferred Share Award, which is granted under and subject to the terms of the 1999 Company Stock Incentive Plan or the Senior Executive Short-Term Incentive Plan (the "Stock Plans"), the terms of which are incorporated herein by reference, shall be credited to a Deferred Share Account maintained on the books of the Company.

2. **Vesting of Deferred Share Award.**

The following vesting schedule shall apply for so long as the Grantee has not attained age 58 or performed 20 years of service with the Company or any respective subsidiary thereof:

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* Notwithstanding the general rule that the terms of the Company's Incentive Profit Sharing Program applicable to the Grantee determine the percentage of Incentive paid in cash and the percentage of Incentive paid as a Deferred Share Award, if, but for this paragraph, the dollar value of the Deferred Share Award portion of the Grantee's Incentive for a given fiscal year is expected to exceed five hundred thousand dollars ($500,000), the Grantee may elect, pursuant to such rules and procedures established by the Company and no later than fifteen (15) days following the end of the fiscal year, to have the dollar value of the Deferred Share Award portion of his or her Incentive for the fiscal year capped at five hundred thousand dollars ($500,000). If the Grantee so elects, any portion of his or her Incentive in excess of five hundred thousand dollars ($500,000) which would, but for the election, have been payable as part of the Deferred Share Award shall instead be payable in cash.

- On the second November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2006 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.

- On the third November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2007 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in an additional 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.

- On the fourth November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2008 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in an additional 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.

- On the fifth November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2009 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in 100% of his or her then unvested Deferred Share Award for that fiscal year.

Notwithstanding the preceding vesting schedule, if the Grantee either attains age 58 or completes 20 years of service with the Company, K. Hovnanian Enterprises, Inc. or any respective subsidiary thereof, the Grantee shall become immediately vested in 100% of his or her then unvested Deferred Share Award upon the later of (i) the January 15th following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on January 15, 2006 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), or (ii) the date the Grantee attains age 58 or completes 20 years of service with the Company, K. Hovnanian Enterprises, Inc. or any respective subsidiary thereof.

3. **Effects of Termination of Employment on Deferred Share Award**. In the event that the Grantee's employment terminates for any reason other than the Grantee's death or Disability (as such term is defined in the Stock Plans), the unvested Deferred Share Award shall be cancelled immediately without payment therefor. In the event that the Grantee's employment terminates due to the Grantee's death or Disability, any unvested portion of the Deferred Share Award shall become fully vested upon such termination.

4. **Dividend Equivalents**. In the event that any cash dividend is paid on shares of Class A or Class B Common Stock as of a record date prior to the day on which the shares are delivered to the Grantee hereunder, the Company shall credit to the Grantee's Deferred Share Account

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an additional number of shares equal to (x) the number of shares under the Deferred Share Award credited to the Deferred Share Account as of any applicable record date multiplied by (y) the dividend per share, divided by (z) the Fair Market Value of a share of Class A or Class B Common Stock on the applicable dividend payment date.

5. **Distributions**.

(a) Distribution of the Deferred Share Account shall be made in the form of Class A or Class B Common Stock as soon as practicable after an applicable vesting date, unless the Grantee is eligible and has elected to defer the distribution pursuant to the terms a nonqualified deferred compensation plan maintained by the Company ("Deferred Compensation Plan"); provided that any such deferred amount, when paid from such Deferred Compensation Plan, shall be paid in the form of shares of Class A or Class B Common Stock. Once any shares are deferred under any Deferred Compensation Plan, the rights and privileges of the Grantee with respect thereto shall be determined solely with reference to such Deferred Compensation Plan and not to this Policy.

(b) The Grantee shall not have any of the rights or privileges of a holder of Class A or Class B Common Stock (including any voting rights) of the Company unless and until such time as shares of Class A or Class B Common Stock are distributed to the Grantee hereunder or, if later, are distributed to the Grantee from the Deferred Compensation Plan.

(c) If the Grantee dies before the Deferred Share Account has been distributed hereunder, payment shall be made to the beneficiary or beneficiaries designated on the beneficiary designation form on file with the Company. In the absence of any such designation, the Deferred Share Account shall be distributed to the Grantee's spouse (or if no spouse is then living, to the Grantee's estate).

6. **Adjustments**. Subject to the terms of the Stock Plans, in the event that the outstanding shares of the Class A or Class B Common Stock are, from time to time, changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares, or otherwise, the Committee (as defined in the Stock Plans) shall make an appropriate and equitable adjustment in the number of shares under the Deferred Share Award credited to the Deferred Share Account. Any such adjustment made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons.

7. **Miscellaneous**.

(a) All capitalized terms used herein shall have the meaning set forth in the Stock Plans, unless the context requires a different meaning.

(b) Except as determined by the Company, no person shall have any right to receive a Deferred Share Award. The eligibility, amount and the grant of the Deferred Share Award are entirely at the discretion of the Company.

(c) The Company reserves the right to amend this Policy in writing unilaterally so long as no such amendment adversely affects any accrued and vested rights of the Grantee with respect to this Policy.

(d) The execution and delivery of this Policy and the granting of one or more Deferred Share Awards hereunder shall not constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its affiliates to employ the Grantee for any specific period or in any particular capacity and shall not prevent the Company or its affiliate from terminating the Grantee's employment at any time with or without cause, subject to applicable law.

(e) Any federal, state or local taxes required by the applicable taxing authorities to be withheld by the Company by reason of the Deferred Share Award shall be paid to the Company by the Grantee within the requisite time such taxes are required to be paid or deposited by the Company. The Company reserves the right to retain the value of the Deferred Share Award sufficient to equal the amount of the taxes required to be withheld.

(f) This Policy shall be subject to all applicable laws, rules and regulations, and to such approvals of any governmental agencies as may be required. Unless otherwise required by law (without the application of local conflict of law rules), the interpretation and administration of this Policy shall be governed by the laws of the State of Delaware.

(g) Unless the Committee determines otherwise, neither the Deferred Share Award nor the Deferred Share Account shall be secured by any specific assets of the Company or its subsidiaries, nor shall any assets of the Company or any of its subsidiaries be designated as attributable or allocated to the satisfaction of the Company's obligations under this Policy or the Deferred Compensation Plan with respect to the Deferred Share Award granted hereunder.

(h) The execution and delivery of this Policy and the granting of the Deferred Share Award hereunder shall not give the Grantee or any other person the right to participate or to continue to participate in any Deferred Compensation Plan of the Company. Such rights shall be governed exclusively by the terms of such Plan.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Policy.

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

Title: ______________________________

Date: ______________________________

HOVNANIAN DEFERRED SHARE POLICY

THIS POLICY, dated as of , relates to one or more Deferred Share Awards which may be granted by Hovnanian Enterprises, Inc., a Delaware corporation (the "Company") to (the "Grantee").

The Company may grant the Grantee from time to time during one or more November 1st through October 31st fiscal years incentive profit sharing awards ("Incentives") pursuant to the Company's Incentive Profit Sharing Program applicable to the Grantee. The Grantee will receive in cash such percentage of each Incentive as is specified under the Incentive Profit Sharing Program. The remainder of each Incentive will be deferred (all such deferred awards made on behalf of the Grantee for service performed in a given fiscal year referred to herein as a "Deferred Share Award"), and, when vested, will be paid in the form of shares of Class A Common Stock of the Company ("Common Stock").

The number of shares of Common Stock to be paid under a Deferred Share Award will be determined by dividing the dollar amount of the Deferred Share Award by the lesser of (i) the closing price of a share of Common Stock, as reported in the Wall Street Journal, on the last day of the fiscal year during which the service giving rise to the Deferred Share Award was performed, or (ii) the average of the closing prices of a share of Common Stock, as reported in the Wall Street Journal, on the last day of the 5 fiscal quarters ending on the last day of the fiscal year during which the service giving rise to the Deferred Share Award was performed. In addition, the Company will increase the number of shares of Common Stock under the Deferred Share Award by 20%. Delivery of the shares of Common Stock will be deferred, and will become vested and payable, as described below.

1. **Crediting of Deferred Share Award**. The Deferred Share Award, which is granted under and subject to the terms of the 1999 Company Stock Incentive Plan (the "Stock Plan"), the terms of which are incorporated herein by reference, shall be credited to a Deferred Share Account maintained on the books of the Company.

2. **Vesting of Deferred Share Award.**

The following vesting schedule shall apply for so long as the Grantee has not attained age 58 or performed 20 years of service with the Company or any respective subsidiary thereof:

- On the second November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2006 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.

- On the third November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2007 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in an additional 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.
- On the fourth November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2008 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in an additional 25% (rounded up to the nearest whole share) of his or her Deferred Share Award for that fiscal year.
- On the fifth November 1st following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on November 1, 2009 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), the Grantee shall become vested in 100% of his or her then unvested Deferred Share Award for that fiscal year.

Notwithstanding the preceding vesting schedule, if the Grantee either attains age 58 or completes 20 years of service with the Company, K. Hovnanian Enterprises, Inc. or any respective subsidiary thereof, the Grantee shall become immediately vested in 100% of his or her then unvested Deferred Share Award upon the later of (i) the January 15th following the fiscal year during which the service giving rise to the Deferred Share Award was performed (e.g., on January 15, 2006 for a Deferred Share Award in respect of service performed during the November 1, 2004 through October 31, 2005 fiscal year), or (ii) the date the Grantee attains age 58 or completes 20 years of service with the Company, K. Hovnanian Enterprises, Inc. or any respective subsidiary thereof.

3. **Effects of Termination of Employment on Deferred Share Award**. In the event that the Grantee's employment terminates for any reason other than the Grantee's death or Disability (as such term is defined in the Stock Plan), the unvested Deferred Share Award shall be cancelled immediately without payment therefor. In the event that the Grantee's employment terminates due to the Grantee's death or Disability, any unvested portion of the Deferred Share Award shall become fully vested upon such termination.

4. **Dividend Equivalents**. In the event that any cash dividend is paid on shares of Common Stock as of a record date prior to the day on which the shares are delivered to the Grantee hereunder, the Company shall credit to the Grantee's Deferred Share Account an additional number of shares equal to (x) the number of shares under the Deferred Share Award credited to the Deferred Share Account as of any applicable record date multiplied by (y) the dividend per share, divided by (z) the Fair Market Value of a share of Common Stock on the applicable dividend payment date.

5. **Distributions**.

(a) Distribution of the Deferred Share Account shall be made in the form of Common Stock as soon as practicable after an applicable vesting date, unless the Grantee is eligible and has elected to defer the distribution pursuant to the terms a nonqualified deferred compensation plan maintained by the Company ("Deferred Compensation Plan"); provided that any such deferred amount, when paid from such Deferred Compensation Plan, shall be paid in the form of shares of Common Stock. Once any shares are deferred under any Deferred Compensation Plan, the rights and privileges of the Grantee with respect thereto shall be determined solely with reference to such Deferred Compensation Plan and not to this Policy.

(b) The Grantee shall not have any of the rights or privileges of a holder of Common Stock (including any voting rights) of the Company unless and until such time as shares of Common Stock are distributed to the Grantee hereunder or, if later, are distributed to the Grantee from the Deferred Compensation Plan.

(c) If the Grantee dies before the Deferred Share Account has been distributed hereunder, payment shall be made to the beneficiary or beneficiaries designated on the beneficiary designation form on file with the Company. In the absence of any such designation, the Deferred Share Account shall be distributed to the Grantee's spouse (or if no spouse is then living, to the Grantee's estate).

6. **Adjustments**. Subject to the terms of the Stock Plan, in the event that the outstanding shares of the Common Stock are, from time to time, changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares, or otherwise, the Committee (as defined in the Stock Plan) shall make an appropriate and equitable adjustment in the number of shares under the Deferred Share Award credited to the Deferred Share Account. Any such adjustment made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons.

7. **Miscellaneous**.

(a) All capitalized terms used herein shall have the meaning set forth in the Stock Plan, unless the context requires a different meaning.

(b) Except as determined by the Company, no person shall have any right to receive a Deferred Share Award. The eligibility, amount and the grant of the Deferred Share Award are entirely at the discretion of the Company.

(c) The Company reserves the right to amend this Policy in writing unilaterally so long as no such amendment adversely affects any accrued and vested rights of the Grantee with respect to this Policy.

(d) The execution and delivery of this Policy and the granting of one or more Deferred Share Awards hereunder shall not constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its affiliates to employ the Grantee for any specific period or in any particular capacity and shall not prevent the Company or its affiliate from terminating the Grantee's employment at any time with or without cause, subject to applicable law.

(e) Any federal, state or local taxes required by the applicable taxing authorities to be withheld by the Company by reason of the Deferred Share Award shall be paid to the Company by the Grantee within the requisite time such taxes are required to be paid or deposited by the Company. The Company reserves the right to retain the value of the Deferred Share Award sufficient to equal the amount of the taxes required to be withheld.

(f) This Policy shall be subject to all applicable laws, rules and regulations, and to such approvals of any governmental agencies as may be required. Unless otherwise required by law (without the application of local conflict of law rules), the interpretation and administration of this Policy shall be governed by the laws of the State of Delaware.

(g) Unless the Committee determines otherwise, neither the Deferred Share Award nor the Deferred Share Account shall be secured by any specific assets of the Company or its subsidiaries, nor shall any assets of the Company or any of its subsidiaries be designated as attributable or allocated to the satisfaction of the Company's obligations under this Policy or the Deferred Compensation Plan with respect to the Deferred Share Award granted hereunder.

(h) The execution and delivery of this Policy and the granting of the Deferred Share Award hereunder shall not give the Grantee or any other person the right to participate or to continue to participate in any Deferred Compensation Plan of the Company. Such rights shall be governed exclusively by the terms of such Plan.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Policy.

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

Title:
Date:

Exhibit 10(aa)

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

Participant:	*Date of Grant:*
______________________	______________________
Number of Class B Shares:	*Grant Price:*
______________________	______________________

Vesting Schedule:

Date	*Number of Shares*
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

Option Termination Date: ______________________

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (The "Company"), hereby grants the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class B Shares set forth above. This grant is made subject to the terms and conditions of the 2008 Company Stock Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and subject to amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is not an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

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

3. Exercise of Option.

(a) Period of Exercise.

(i) In General. The Option must be exercised before the Option Termination Date set forth above (the "Option Termination Date"). The Participant may exercise less than the full installment available to him or her under this Option, but the Participant must exercise this

Option in full shares of the Common Stock of the Company. The Participant is limited to ten exercises during the term of this Option.

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

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

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

(v) Termination of Employment Due to Retirement. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof due to Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

(b) Method of Exercise. Subject to the provisions of the Plan, this Option may be exercised by written notice to the Company stating the number of shares with respect to which it is being exercised and accompanied by payment of the Option Price (a) by certified or bank cashier's check payable to the order of the Company in New York Clearing House Funds, (b) by surrender or delivery to the Company of shares of its Common Stock that have been held by the Participant for at least six months (or such other period of time as may be determined by the Board of Directors), or (c) in any other form acceptable to the Company together with payment or arrangement for payment of any federal income or other tax required to be withheld by the Company. As soon as

practical after receipt of such notice and payment, the Company, shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant at the offices of the Company at 110 West Front Street, Red Bank, New Jersey, or such other place as may be mutually acceptable, or, at the election of the Company, by first-class insured mail addressed to the Participant at his or her address shown in the employment records of the Company or at the location at which he or she is employed by the Company or a subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery.

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

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

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

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

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

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

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

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

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary

in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

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

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

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

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

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

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

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

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

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

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

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

PARTICIPANT

By: ______________________________

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT

Participant:	*Date of Grant:*
______________________	______________________
Number of Class A Shares:	*Grant Price:*
______________________	______________________

Vesting Schedule:

Date	*Number of Shares*
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

Option Termination Date: ______________________

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (The "Company"), hereby grants the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class A Shares set forth above. This grant is made subject to the terms and conditions of the 2008 Company Stock Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and subject to amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

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

3. Exercise of Option.

(a) Period of Exercise.

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

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

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

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

(v) Termination of Employment Due to Retirement. If prior to the Option Termination Date the Participant ceases to be employed by the Company or a subsidiary thereof due to Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

(b) Method of Exercise. Subject to the provisions of the Plan, this Option may be exercised by written notice to the Company stating the number of shares with respect to which it is being exercised and accompanied by payment of the Option Price (a) by certified or bank cashier's check payable to the order of the Company in New York Clearing House Funds, (b) by surrender or delivery to the Company of shares of its Common Stock that have been held by the Participant for at least six months (or such other period of time as may be determined by the Board of Directors), or (c) in any other form acceptable to the Company together with payment or arrangement for payment of any federal income or other tax required to be withheld by the Company. As soon as practical after receipt of such notice and payment, the Company,

shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant at the offices of the Company at 110 West Front Street, Red Bank, New Jersey, or such other place as may be mutually acceptable, or, at the election of the Company, by first-class insured mail addressed to the Participant at his or her address shown in the employment records of the Company or at the location at which he or she is employed by the Company or a subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery.

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

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

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

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

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

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

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

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

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

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

12. Non-Solicitation Covenants.

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

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

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

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

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

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

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

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

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

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

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

PARTICIPANT

By: ______________________________

Exhibit 10(cc)

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
(Directors)

Participant:	*Date of Grant:*
______________________	______________________
Number of Class A Shares:	*Grant Price:*
______________________	______________________

Vesting Schedule:

Date	*Number of Shares*
______________________	______________________
______________________	______________________
______________________	______________________

Option Termination Date: ______________________

1. Grant of the Option. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the right to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of Class A Shares set forth above. This grant is made subject to the terms and conditions of the 2008 Company Stock Incentive Plan, (the "Plan"), which Plan is incorporated herein by reference and subject to the amendments to the Plan. The purchase price of the Shares subject to the Option (the "Grant Price") shall be the price per Share set forth above. This Option is not an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

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

3. Exercise of Option.

(a) Period of Exercise.

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

(ii) Termination of Board of Directors Membership Other than Due to Death, Disability or Retirement. If, prior to the Option Termination Date, the Participant ceases to be a

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

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

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

(v) Termination of Board of Directors Membership Due to Retirement. If prior to the Option Termination Date the Participant ceases to be a member of the Board of Directors due to the Participant's Retirement, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the earlier of (i) the Option Termination Date and (ii) the first anniversary of the Participant's Retirement, and thereafter all Options, to the extent not previously exercised, shall terminate together with all other rights hereunder.

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

such other place as may be mutually acceptable, or, at the election of the Company, by first class insured mail addressed to the Participant at his address shown in the employment records of the Company or at the location at which he is employed by the Company or subsidiary, a certificate or certificates for previously unissued shares or reacquired shares of its Common Stock as the Company may elect.

(c) Delivery of Shares.

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

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

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

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

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

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

8. Transferability. The Options shall, during the Participant's lifetime, be exercisable only by the Participant, and neither it nor any right hereunder shall be transferable otherwise than by will or the laws of descent and distribution or be subject to attachment, execution or other similar process. Notwithstanding the foregoing, an Participant may transfer the

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

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

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

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

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

HOVNANIAN ENTERPRISES, INC.

____
Ara K. Hovnanian
President
Chief Executive Officer

PARTICIPANT:

____

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

RESTRICTED SHARE UNIT AGREEMENT

Participant: ________________________ *Date of Grant:* ________________________

Number of RSUs: ________________________

Dates of Vesting of Class A Shares:

Date	*Number of RSUs*

1. Grant of RSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the number of restricted share units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2008 Company Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

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

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

nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement.

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

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

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

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

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

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

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

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

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

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

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such

taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

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

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

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

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

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

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

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

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

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

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

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

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

PARTICIPANT

By: ______________________________

RATIO OF EARNINGS TO FIXED CHARGES

(Dollars In Thousands)	Actual Year 10/08	Actual Year 10/07	Actual Year 10/06	Actual Year 10/05	Actual Year 10/04
Net (loss) income	$ (1,124,590)	$ (627,119)	$ 149,533	$ 471,847	$ 348,681
Add:					
Federal and state income tax (benefit) provision	(43,458)	(19,847)	83,573	308,738	201,091
Interest expensed	176,336	141,754	111,944	89,721	75,042
Interest expensed mortgage and financing subsidiaries	3,601	6,009	7,767	5,801	2,765
Distributions of earnings of unconsolidated joint ventures, net of income/(loss) from unconsolidated joint ventures	44,061	32,221	(347)	(6,171)	(334)
Amortization of bond prepaid expenses	3,863	2,151	2,089	2,012	10,999
Amortization of bond discounts	821	1,084	1,039	715	571
Total (loss) earnings	$ (939,366)	$ (463,747)	$ 355,598	$ 872,663	$ 638,815
Fixed Charges:					
Interest incurred	$ 190,801	$ 194,547	$ 166,427	$ 102,930	$ 87,674
Interest incurred mortgage and financing subsidiaries	3,601	6,009	7,767	5,801	2,765
Amortization of bond prepaid expenses	3,863	2,151	2,089	2,012	10,999
Amortization of bond discounts	821	1,084	1,039	715	571
Total fixed charges	$ 199,086	$ 203,791	$ 177,322	$ 111,458	$ 102,009
Ratio of earnings to fixed charges	(a)	(a)	2.0	7.8	6.3

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Dollars In Thousands)	Actual Year 10/08	Actual Year 10/07	Actual Year 10/06	Actual Year 10/05	Actual Year 10/04
Total (loss) earnings—above	$ (939,366)	$ (463,747)	$ 355,598	$ 872,663	$ 638,815
Total fixed charges—above	$ 199,086	$ 203,791	$ 177,322	$ 111,458	$ 102,009
Preferred stock dividends (adjusted to pre-tax dollars)		11,012	16,641	4,563	
Combined fixed charges and preferred stock dividends	$ 199,086	$ 214,803	$ 193,963	$ 116,021	$ 102,009
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	1.8	7.5	6.3

(a) *Earnings for the year ended October 31, 2008 and 2007 were insufficient to cover fixed charges for such period by $1,138.5 million and $667.5 million, respectively.*

(b) *Earnings for the year ended October 31, 2008 and 2007 were insufficient to cover fixed charges and preferred stock dividends for such period by $1,138.5 million and $678.6 million, respectively.*

Exhibit 21

LEGAL ENTITY NAME	STATE OF FORMATION
12TH* STREET RESIDENTIAL, LTD.	TX
77 HUDSON STREET JOINT DEVELOPMENT, L.L.C.	DE
Alford, L.L.C.	VA
Auddie Enterprises, L.L.C.	NJ
BRIGHTBEACH DEVELOPMENT, LTD.	TX
BRIGHTCHASE, LTD.	TX
BRIGHTON HOMES AT WALDEN MANAGEMENT, L.L.C.	DE
BRIGHTON HOMES AT WALDEN, LTD.	TX
Builder Services NJ, L.L.C.	NJ
Builder Services NY, L.L.C.	NY
Builder Services PA, L.L.C.	PA
COBBLESTONE SQUARE DEVELOPMENT, L.L.C.	VA
Dulles Coppermine, L.L.C.	VA
EASTERN TITLE AGENCY, INC.	NJ
F&W MECHANICAL SERVICES, L.L.C.	NJ
FIRST MORTGAGE LENDERS OF FLORIDA, L.L.C.	FL
Founders Title Agency of Maryland, L.L.C.	MD
FOUNDERS TITLE AGENCY, INC.	VA
Governor's Abstract Co., Inc.	PA
Greenway Farms Utility Associates, L.L.C.	MD
HERITAGE PINES, L.L.C.	NC
HEXTER-FAIR LAND TITLE COMPANY I, INC.	TX
Homebuyers Financial Services, L.L.C.	MD
HOVNANIAN DEVELOPMENTS OF FLORIDA, INC.	FL
Hovnanian Enterprises, Inc. (PARENT COMPANY)	DE
Hovnanian Land Investment Group of California, L.L.C.	CA
HOVNANIAN LAND INVESTMENT GROUP OF FLORIDA, L.L.C.	FL
Hovnanian Land Investment Group of Georgia, L.L.C.	GA
Hovnanian Land Investment Group of Maryland, L.L.C.	MD
Hovnanian Land Investment Group of New Jersey, L.L.C.	NJ
Hovnanian Land Investment Group of North Carolina, L.L.C.	NC
Hovnanian Land Investment Group of Pennsylvania, L.L.C.	PA
Hovnanian Land Investment Group of Texas LLC	TX
Hovnanian Land Investment Group of Virginia, L.L.C.	VA
Hovnanian Land Investment Group, L.L.C.	MD
HOVSTONE HOLDINGS, L.L.C.	DE
HOVSTONE PROPERTIES FLORIDA, L.L.C.	DE
HOVSTONE PROPERTIES ILLINOIS, L.L.C.	DE
HOVSTONE PROPERTIES MINNESOTA, L.L.C.	DE
JAEGER ROAD 530, L.L.C.	CA
K. H. San Marcos Conservancy Holdings, L.L.C.	CA
K. HOV INTERNATIONAL, INC.	NJ
K. HOV IP, II, Inc.	CA
K. HOV IP, INC.	CA
K. HOVNANIAN 77 HUDSON STREET INVESTMENTS, L.L.C.	NJ
K. Hovnanian Acquisitions, Inc.	NJ
K. HOVNANIAN AMERICAN MORTGAGE, L.L.C.	NJ
K. HOVNANIAN AT 3 CHAPMAN, L.L.C.	CA
K. Hovnanian at 4S, LLC	CA
K. HOVNANIAN AT 77 HUDSON STREET URBAN RENEWAL COMPANY, L.L.C.	NJ
K. Hovnanian at Aberdeen Urban Renewal, L.L.C.	NJ
K. Hovnanian at Acqua Vista, LLC	CA
K. Hovnanian at Aliso, LLC	CA
K. Hovnanian at Allenberry, L.L.C.	PA
K. Hovnanian at Allendale, L.L.C.	NJ
K. Hovnanian at Allentown, L.L.C.	PA
K. Hovnanian at Arbor Heights, LLC	CA
K. HOVNANIAN AT AVENUE ONE, L.L.C.	CA
K. Hovnanian at Barnegat I, L.L.C.	NJ
K. Hovnanian at Barnegat II, L.L.C.	NJ
K. HOVNANIAN AT BARNEGAT III, L.L.C.	NJ
K. Hovnanian at Bella Lago, LLC	CA

K. Hovnanian at Berkeley, L.L.C.	NJ
K. Hovnanian at Bernards IV, Inc.	NJ
K. Hovnanian at Bernards V, L.L.C.	DE
K. Hovnanian at Blue Heron Pines, L.L.C.	NJ
K. HOVNANIAN AT BRANCHBURG III, INC.	NJ
K. Hovnanian at Bridgeport, Inc.	CA
K. Hovnanian at Bridgewater I, L.L.C.	NJ
K. Hovnanian at Bridgewater VI, Inc.	NJ
K. HOVNANIAN AT BRIDLEWOOD, L.L.C.	CA
K. Hovnanian at Broad and Walnut, L.L.C.	PA
K. Hovnanian at Burlington III, Inc.	NJ
K. HOVNANIAN AT BURLINGTON, INC.	NJ
K. Hovnanian at Calabria, Inc.	CA
K. Hovnanian at Camden I, L.L.C.	NJ
K. Hovnanian at Cameron Chase, Inc.	VA
K. HOVNANIAN AT CAMP HILL, L.L.C.	PA
K. HOVNANIAN AT CAPISTRANO, L.L.C.	CA
K. Hovnanian at Carmel Del Mar, Inc.	CA
K. Hovnanian at Carmel Village, LLC	CA
K. Hovnanian at Castile, Inc.	CA
K. Hovnanian at Cedar Grove III, L.L.C.	NJ
K. Hovnanian at Cedar Grove IV, L.L.C.	NJ
K. Hovnanian at Chaparral, Inc.	CA
K. Hovnanian at Chester I, L.L.C.	DE
K. Hovnanian At Chesterfield II, L.L.C.	NJ
K. Hovnanian at Chesterfield, L.L.C.	NJ

K. Hovnanian at Cielo, L.L.C.	CA
K. HOVNANIAN AT CLARKSTOWN, INC.	NY
K. Hovnanian at Clifton II, L.L.C.	NJ
K. Hovnanian at Clifton, L.L.C.	NJ
K. Hovnanian at Coastline, L.L.C.	CA
K. Hovnanian at Cortez Hill, LLC	CA
K. Hovnanian at Cranbury, L.L.C.	NJ
K. Hovnanian at Crestline, Inc.	CA
K. Hovnanian at Curries Woods, L.L.C.	NJ
K. Hovnanian at Denville, L.L.C.	NJ
K. Hovnanian at Deptford Township, L.L.C.	NJ
K. Hovnanian at Dominguez Hills, Inc.	CA
K. Hovnanian at Dover, L.L.C.	NJ
K. Hovnanian at East Brandywine, L.L.C.	PA
K. Hovnanian At East Whiteland I, Inc.	PA
K. Hovnanian at Eastlake, LLC	CA
K. Hovnanian at Edgewater II, L.L.C.	NJ
K. Hovnanian at Edgewater, L.L.C.	NJ
K. Hovnanian at Egg Harbor Township II, L.L.C.	NJ
K. Hovnanian at Egg Harbor Township, L.L.C.	NJ
K. Hovnanian at Elk Township, L.L.C.	NJ
K. Hovnanian at Encinitas Ranch, LLC	CA
K. Hovnanian at Evergreen, L.L.C.	CA
K. Hovnanian at Ewing, L.L.C.	NJ
K. Hovnanian at Fifth Avenue, L.L.C.	NJ
K. Hovnanian at Florence I, L.L.C.	NJ
K. Hovnanian at Florence II, L.L.C.	NJ
K. Hovnanian at Forest Meadows, L.L.C.	NJ
K. HOVNANIAN AT FORKS TWP. I, L.L.C.	PA
K. Hovnanian at Franklin, L.L.C.	NJ
K. Hovnanian at Freehold Township I, Inc.	NJ
K. Hovnanian at Freehold Township, L.L.C.	NJ
K. Hovnanian at Galloway, L.L.C.	NJ
K. HOVNANIAN AT GASLAMP SQUARE, L.L.C.	CA
K. Hovnanian at Great Notch, L.L.C.	NJ
K. Hovnanian at Guttenberg, L.L.C.	NJ
K. Hovnanian at Hackettstown II, L.L.C.	NJ
K. Hovnanian at Hackettstown, Inc.	NJ
K. Hovnanian at Hamburg Contractors, L.L.C.	NJ
K. Hovnanian at Hamburg, L.L.C.	NJ
K. Hovnanian at Hawthorne, L.L.C.	NJ
K. Hovnanian at Hazlet, L.L.C.	NJ
K. Hovnanian at Hershey’s Mill, Inc.	PA
K. HOVNANIAN AT HIGHLAND SHORES, L.L.C.	MN
K. Hovnanian at Highland Vineyards, Inc.	CA

K. HOVNANIAN AT HIGHWATER, L.L.C.	CA
K. Hovnanian at Hilltop, L.L.C.	NJ
K. Hovnanian at Hopewell IV, Inc.	NJ
K. Hovnanian at Hopewell VI, Inc.	NJ
K. Hovnanian at Howell Township, Inc.	NJ
K. HOVNANIAN AT HUDSON POINTE, L.L.C.	NJ

K. Hovnanian at Jackson I, L.L.C.	NJ
K. Hovnanian at Jackson, L.L.C.	NJ
K. Hovnanian at Jersey City IV, L.L.C.	NJ
K. Hovnanian at Jersey City V Urban Renewal Company, L.L.C.	NJ
K. Hovnanian at Keyport, L.L.C.	NJ
K. Hovnanian at King Farm, L.L.C.	MD
K. Hovnanian at Kings Grant I, Inc.	NJ
K. Hovnanian at La Costa Greens, L.L.C.	CA
K. Hovnanian at La Costa, LLC	CA
K. Hovnanian at La Habra Knolls, LLC	CA
K. Hovnanian at La Terraza, Inc.	CA
K. Hovnanian At Lafayette Estates, L.L.C.	NJ
K. Hovnanian at Lake Hills, L.L.C.	CA
K. Hovnanian at Lake Rancho Viejo, LLC	CA
K. Hovnanian at Lake Ridge Crossing, L.L.C.	VA
K. Hovnanian at Lake Terrapin, L.L.C.	VA
K. Hovnanian at Lakewood, Inc.	NJ
K. Hovnanian at Lawrence V, L.L.C.	DE
K. Hovnanian at Linwood, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor Contractors, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor III, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor Township II, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor, L.L.C	NJ
K. Hovnanian at Long Branch I, L.L.C.	NJ
K. Hovnanian at Lower Macungie Township I, L.L.C.	PA
K. Hovnanian at Lower Macungie Township II, L.L.C.	PA
K. Hovnanian at Lower Makefield Township I, L.L.C.	PA
K. Hovnanian at Lower Moreland I, L.L.C.	PA
K. Hovnanian at Lower Moreland II, L.L.C.	PA
K. Hovnanian at Lower Moreland III, L.L.C.	PA
K. Hovnanian at Lower Saucon, Inc.	PA
K. Hovnanian at Macungie, L.L.C.	PA
K. HOVNANIAN AT MAHWAH II, INC.	NJ
K. Hovnanian at Mahwah VI, Inc.	NJ
K. Hovnanian at Mahwah VII, Inc.	NJ
K. HOVNANIAN AT MANALAPAN II, L.L.C.	NJ
K. Hovnanian at Manalapan III, L.L.C.	NJ
K. Hovnanian at Manalapan, Inc.	NJ
K. Hovnanian at Mansfield I, L.L.C.	DE
K. Hovnanian at Mansfield II, L.L.C.	DE
K. Hovnanian at Mansfield III, L.L.C.	NJ
K. Hovnanian at Maple Avenue, L.L.C.	NJ
K. Hovnanian at Marlboro II, Inc.	NJ
K. Hovnanian at Marlboro Township III, Inc.	NJ
K. Hovnanian at Marlboro Township IV, Inc.	NJ

K. Hovnanian at Marlboro Township IX, L.L.C.	NJ
K. Hovnanian at Marlboro Township V, L.L.C.	NJ
K. Hovnanian at Marlboro Township VIII, L.L.C.	NJ
K. Hovnanian at Marlboro VI, L.L.C.	NJ
K. Hovnanian at Marlboro VII, L.L.C.	NJ
K. Hovnanian at Matsu, L.L.C.	CA
K. Hovnanian at Mendham Township, L.L.C.	NJ
K. HOVNANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.	CA
K. Hovnanian at Menifee, LLC	CA
K. Hovnanian at Middle Township II, L.L.C.	NJ

K. Hovnanian at Middle Township, L.L.C.	NJ
K. Hovnanian at Middletown II, L.L.C.	NJ
K. Hovnanian at Middletown, L.L.C.	DE
K. Hovnanian at Millville I, L.L.C.	NJ
K. Hovnanian at Millville II, L.L.C.	NJ
K. Hovnanian at Millville III, L.L.C.	NJ
K. Hovnanian at Mockingbird Canyon, L.L.C.	CA
K. HOVNANIAN AT MONROE II, INC.	NY
K. Hovnanian at Monroe III, L.L.C.	NJ
K. Hovnanian at Monroe IV, L.L.C.	NJ
K. Hovnanian at Monroe NJ, L.L.C.	NJ
K. Hovnanian at Montgomery I, Inc.	PA
K. Hovnanian at Montvale, L.L.C.	NJ
K. Hovnanian at Mosaic, LLC	CA
K. Hovnanian at Mt. Olive Township, L.L.C.	NJ
K. HOVNANIAN AT NEW BRUNSWICK URBAN RENEWAL, L.L.C.	NJ
K. Hovnanian at New Windsor, L.L.C.	NY
K. Hovnanian at North Bergen. L.L.C.	NJ
K. HOVNANIAN AT NORTH BRUNSWICK VI, L.L.C.	DE
K. Hovnanian at North Caldwell II, L.L.C.	NJ
K. Hovnanian at North Caldwell III, L.L.C.	NJ
K. Hovnanian at North Caldwell, L.L.C.	NJ
K. Hovnanian at North Haledon, L.L.C.	NJ
K. Hovnanian at North Wildwood, L.L.C.	NJ
K. Hovnanian at Northampton. L.L.C.	PA
K. HOVNANIAN AT NORTHERN WESTCHESTER, INC.	NY
K. Hovnanian at Northfield, L.L.C.	NJ
K. Hovnanian at Northlake, Inc.	CA
K. Hovnanian at Ocean Township, Inc	NJ
K. HOVNANIAN AT OCEAN WALK, INC.	CA
K. Hovnanian at Oceanport, L.L.C.	NJ
K. Hovnanian at Old Bridge, L.L.C.	NJ
K. Hovnanian at Olde Orchard, LLC	CA
K. Hovnanian at Orange Heights, L.L.C.	CA
K. Hovnanian at Pacific Bluffs, LLC	CA
K. Hovnanian at Paramus, L.L.C.	NJ
K. Hovnanian at Park Lane, LLC	CA

K. Hovnanian at Parsippany-Troy Hills, L.L.C.	NJ
K. Hovnanian at Peapack-Gladstone, L.L.C.	NJ
K. Hovnanian at Perkiomen I, Inc.	PA
K. Hovnanian at Perkiomen II, Inc.	PA
K. HOVNANIAN AT PHILADELPHIA I, L.L.C.	PA
K. Hovnanian at Philadelphia II, L.L.C.	PA
K. Hovnanian at Philadelphia III, L.L.C.	PA
K. Hovnanian at Philadelphia IV, L.L.C.	PA
K. Hovnanian at Piazza D'Oro, L.L.C.	CA
K. Hovnanian at Pittsgrove, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL II, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL III, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL IV, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL V, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL VI, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL VII, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL VIII, L.L.C.	NJ
K. Hovnanian at Prado, L.L.C.	CA
K. Hovnanian at Princeton Landing, L.L.C.	NJ
K. Hovnanian at Princeton NJ, L.L.C.	NJ
K. Hovnanian at Rancho Cristianitos, Inc.	CA
K. Hovnanian at Rancho Santa Margarita, LLC	CA
K. Hovnanian at Randolph I, L.L.C.	NJ
K. HOVNANIAN AT RAPHO, L.L.C	PA
K. Hovnanian at Readington II, L.L.C.	NJ
K. Hovnanian at Red Bank, L.L.C.	NJ
K. Hovnanian at Reservoir Ridge, Inc.	NJ
K. Hovnanian at Ridgemont, L.L.C.	NJ
K. Hovnanian at Ridgestone, L.L.C.	MN
K. Hovnanian at Riverbend, LLC	CA
K. Hovnanian at Roderuck, L.L.C.	MD

K. HOVNANIAN AT ROSEMARY LANTANA, L.L.C.	CA
K. Hovnanian at Rowland Heights, LLC	CA
K. Hovnanian at Sage, L.L.C.	CA
K. Hovnanian at San Sevaine, Inc.	CA
K. Hovnanian at Saratoga, Inc.	CA
K. Hovnanian at Sawmill, Inc.	PA
K. Hovnanian at Sayreville, L.L.C.	NJ
K. HOVNANIAN AT SCOTCH PLAINS II, INC.	NJ
K. Hovnanian at Scotch Plains, L.L.C.	NJ
K. Hovnanian at Silver Spring, L.L.C.	PA
K. Hovnanian at Skye Isle, LLC	CA
K. Hovnanian at Smithville III, L.L.C.	NJ

K. Hovnanian at Smithville, Inc.	NJ
K. Hovnanian at Somers Point, L.L.C.	NJ
K. Hovnanian at South Brunswick V, Inc.	NJ
K. Hovnanian at South Brunswick, L.L.C.	NJ
K. Hovnanian at Sparta, L.L.C.	NJ
K. HOVNANIAN AT SPRINGCO, L.L.C.	NJ
K. Hovnanian at Stone Canyon, Inc.	CA
K. HOVNANIAN AT STONY POINT, INC.	NY
K. Hovnanian at Sunsets, LLC	CA
K. Hovnanian at Sycamore, Inc.	CA
K. Hovnanian at Tannery Hill, Inc.	NJ
K. Hovnanian at Teaneck, L.L.C.	NJ
K. Hovnanian at The Bluff, Inc.	NJ
K. Hovnanian at The Crosby, LLC	CA
K. Hovnanian at The Gables, LLC	CA
K. Hovnanian at The Monarch, L.L.C.	NJ
K. Hovnanian at The Preserve, LLC	CA
K. Hovnanian at Thompson Ranch, LLC	CA
K. Hovnanian at Thornbury, Inc.	PA
K. Hovnanian at Tierrasanta, Inc.	CA
K. Hovnanian at Trail Ridge, LLC	CA
K. Hovnanian at Trenton II, L.L.C.	NJ
K. Hovnanian at Trenton Urban Renewal, L.L.C.	NJ
K. Hovnanian at Trenton, L.L.C.	NJ
K. Hovnanian at Trovata, Inc.	CA
K. HOVNANIAN AT TUXEDO, INC.	NY
K. Hovnanian at Union Township I, Inc.	NJ
K. Hovnanian at Union Township II, L.L.C.	NJ
K. Hovnanian at Upper Freehold Township I, Inc.	NJ
K. Hovnanian at Upper Freehold Township II, L.L.C.	NJ
K. Hovnanian at Upper Freehold Township III, L.L.C.	NJ
K. Hovnanian at Upper Makefield I, Inc.	PA
K. Hovnanian at Upper Uwchlan II, L.L.C.	PA
K. Hovnanian at Upper Uwchlan, L.L.C.	PA
K. Hovnanian at Vail Ranch, Inc.	CA
K. HOVNANIAN AT VERONA URBAN RENEWAL, L.L.C.	NJ
K. HOVNANIAN AT VINELAND, L.L.C.	NJ
K. Hovnanian at Wall Township VI, Inc.	NJ
K. Hovnanian at Wall Township VIII, Inc.	NJ
K. Hovnanian at Wanaque, L.L.C.	DE
K. Hovnanian at Warren Township, L.L.C.	NJ
K. Hovnanian at Washington, L.L.C.	NJ
K. HOVNANIAN AT WASHINGTONVILLE, INC.	NY
K. Hovnanian at Wayne III, Inc.	NJ
K. Hovnanian at Wayne IX, L.L.C.	NJ
K. Hovnanian at Wayne V, Inc.	NJ
K. HOVNANIAN AT WAYNE, VIII, L.L.C.	DE
K. Hovnanian at West Bradford, L.L.C.	PA
K. Hovnanian at West Milford, L.L.C.	NJ

K. Hovnanian at West Windsor, L.L.C.	DE
K. Hovnanian at Wildrose, Inc.	CA

K. Hovnanian at Wildwood Bayside, L.L.C.	NJ
K. Hovnanian at Willow Brook, L.L.C.	MD
K. HOVNANIAN AT WINCHESTER, LLC	CA
K. Hovnanian at Woodhill Estates, L.L.C.	NJ
K. Hovnanian at Woolwich I, L.L.C.	NJ
K. Hovnanian Cambridge Homes, L.L.C.	FL
K. HOVNANIAN CENTRAL ACQUISITIONS, L.L.C.	DE
K. Hovnanian Chesterfield Investment, L.L.C.	NJ
K. Hovnanian Classics CIP, L.L.C.	NJ
K. Hovnanian Classics, L.L.C.	NJ
K. Hovnanian Communities, Inc.	CA
K. Hovnanian Companies Metro D.C. North, L.L.C.	MD
K. Hovnanian Companies Northeast, Inc.	NJ
K. Hovnanian Companies of California, Inc.	CA
K. HOVNANIAN COMPANIES OF MARYLAND, INC.	MD
K. HOVNANIAN COMPANIES OF NEW YORK, INC.	NY
K. Hovnanian Companies of Pennsylvania, Inc.	PA
K. Hovnanian Companies of Southern California, Inc.	CA
K. Hovnanian Companies of Virginia, Inc.	VA
K. Hovnanian Companies, LLC	CA
K. Hovnanian Connecticut Acquisitions, L.L.C.	CT
K. Hovnanian Construction II, Inc	NJ
K. Hovnanian Construction III, Inc	NJ
K. Hovnanian Construction Management, Inc.	NJ
K. Hovnanian CraftBuilt Homes of South Carolina, L.L.C.	SC
K. Hovnanian Delaware Acquisitions, L.L.C.	DE
K. HOVNANIAN DEVELOPMENTS OF ARIZONA, INC.	AZ
K. Hovnanian Developments of California, Inc.	CA
K. Hovnanian Developments of Connecticut, Inc.	CT
K. HOVNANIAN DEVELOPMENTS OF D.C., INC.	DC
K. HOVNANIAN DEVELOPMENTS OF DELAWARE, INC.	DE
K. Hovnanian Developments of Georgia, Inc.	GA
K. Hovnanian Developments of Illinois, Inc.	IL
K. Hovnanian Developments of Indiana, Inc.	IN
K. Hovnanian Developments of Kentucky, Inc.	KY
K. HOVNANIAN DEVELOPMENTS OF MARYLAND, INC.	MD
K. Hovnanian Developments of Michigan, Inc.	MI
K. Hovnanian Developments of Minnesota, Inc.	MN
K. Hovnanian Developments of New Jersey II, Inc.	CA
K. Hovnanian Developments of New Jersey, Inc.	CA
K. HOVNANIAN DEVELOPMENTS OF NEW YORK, INC.	NY

K. Hovnanian Developments of North Carolina, Inc.	NC
K. Hovnanian Developments of Ohio, Inc.	OH
K. Hovnanian Developments of Pennsylvania, Inc.	PA
K. Hovnanian Developments of South Carolina, Inc.	SC
K. Hovnanian Developments of Texas, Inc.	TX
K. Hovnanian Developments of Virginia, Inc.	VA
K. Hovnanian Developments of West Virginia, Inc.	WV
K. Hovnanian Eastern Pennsylvania, L.L.C.	PA
K. Hovnanian Enterprises, Inc.	CA
K. HOVNANIAN FIRST HOMES, L.L.C.	FL
K. Hovnanian Florida Realty, L.L.C.	FL
K. Hovnanian Forecast Homes Northern, Inc.	CA
K. Hovnanian Four Seasons @ Historic Virginia, LLC	VA
K. Hovnanian Four Seasons at Gold Hill, LLC	SC
K. HOVNANIAN GREAT WESTERN BUILDING COMPANY, LLC	AZ
K. HOVNANIAN GREAT WESTERN HOMES, LLC	AZ
K. Hovnanian Holdings NJ, L.L.C.	NJ
K. Hovnanian Homes - DFW, L.L.C.	TX
K. Hovnanian Homes at Belmont Overlook, L.L.C.	VA
K. Hovnanian Homes at Cameron Station, LLC	VA
K. Hovnanian Homes at Camp Springs, L.L.C.	MD
K. Hovnanian Homes at Cider Mill, L.L.C.	MD

K. Hovnanian Homes at Fairwood, L.L.C.	MD
K. Hovnanian Homes at Forest Run, L.L.C.	MD
K. Hovnanian Homes at Greenway Farm Park Towns, L.L.C.	MD
K. Hovnanian Homes at Greenway Farm, L.L.C.	MD
K. Hovnanian Homes at Jones Station 1, L.L.C.	MD
K. Hovnanian Homes at Jones Station 2, L.L.C.	MD
K. Hovnanian Homes at Maxwell Place, L.L.C.	MD
K. Hovnanian Homes at Nassau Grove, L.L.C.	DE
K. HOVNANIAN HOMES AT PAYNE STREET, L.L.C.	VA
K. Hovnanian Homes at Primera, L.L.C.	MD
K. Hovnanian Homes at Renaissance Plaza, L.L.C.	MD
K. Hovnanian Homes at Russett, L.L.C.	MD
K. Hovnanian Homes at Victoria Station, L.L.C.	VA
K. Hovnanian Homes of D.C., L.L.C.	DC
K. HOVNANIAN HOMES OF DELAWARE, L.L.C.	DE
K. Hovnanian Homes of Georgia, L.L.C.	GA
K. Hovnanian Homes of Houston, L.L.C.	TX
K. Hovnanian Homes of Indiana, L.L.C.	IN
K. Hovnanian Homes of Maryland, L.L.C.	MD
K. Hovnanian Homes of Minnesota, L.L.C.	MN
K. HOVNANIAN HOMES OF NORTH CAROLINA, INC.	NC
K. HOVNANIAN HOMES OF PENNSYLVANIA, L.L.C.	PA

K. Hovnanian Homes of South Carolina, LLC	SC
K. Hovnanian Homes of Virginia, Inc.	VA
K. Hovnanian Homes of West Virginia, L.L.C.	WV
K. HOVNANIAN INTERNATIONAL, L.L.C.	CA
K. HOVNANIAN INVESTMENTS, L.L.C.	NJ
K. Hovnanian JV Holdings, L.L.C.	CA
K. HOVNANIAN MANALAPAN INVESTMENT, L.L.C.	NJ
K. HOVNANIAN MORTGAGE FUNDING, L.L.C.	DE
K. Hovnanian North Central Acquisitions, L.L.C.	DE
K. Hovnanian North Jersey Acquisitions, L.L.C.	DE
K. Hovnanian Northeast Services, L.L.C.	NJ
K. Hovnanian of Houston II, L.L.C.	TX
K. Hovnanian Ohio Realty, L.L.C.	OH
K. HOVNANIAN OSTER HOMES, L.L.C.	OH
K. Hovnanian PA Real Estate, Inc.	PA
K. Hovnanian Pennsylvania Acquisitions, L.L.C.	PA
K. HOVNANIAN POLAND, SP .Z.O.O.	INT”L
K. Hovnanian Port Imperial Urban Renewal, Inc.	NJ
K. Hovnanian Properties of Red Bank, Inc.	NJ
K. Hovnanian Shore Acquisitions, L.L.C.	DE
K. Hovnanian South Jersey Acquisitions, L.L.C.	DE
K. Hovnanian Southern New Jersey, L.L.C.	NJ
K. HOVNANIAN STANDING ENTITY, L.L.C.	FL
K. Hovnanian Summit Holdings, L.L.C.	VA
K. Hovnanian Summit Homes of Kentucky, L.L.C.	KY
K. Hovnanian Summit Homes of Michigan, L.L.C.	MI
K. Hovnanian Summit Homes of Pennsylvania, L.L.C.	PA
K. Hovnanian Summit Homes of West Virginia, L.L.C.	WV
K. Hovnanian Summit Homes, L.L.C.	OH
K. Hovnanian T&C Homes at Florida, L.L.C.	FL
K. Hovnanian T&C Homes at Illinois, L.L.C.	IL
K. Hovnanian T&C Homes at Minnesota, L.L.C.	MN
K. HOVNANIAN T&C INVESTMENT, L.L.C.	NJ
K. Hovnanian T&C Management Co., L.L.C.	CA
K. Hovnanian Venture I, L.L.C.	NJ
K. HOVNANIAN WINDWARD HOMES, LLC	FL
K. Hovnanian’s Four Seasons at Ashburn Village, L.L.C.	VA
K. Hovnanian’s Four Seasons at Bailey’s Glenn, L.L.C.	NC
K. HOVNANIAN’S FOUR SEASONS AT BAKERSFIELD, L.L.C.	CA
K. Hovnanian’s Four Seasons at Beaumont, LLC	CA

K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, L.L.C.	VA
K. Hovnanian's Four Seasons at Dulles Discovery Condominium, L.L.C.	VA
K. Hovnanian's Four Seasons at Dulles Discovery, L.L.C.	VA
K. Hovnanian's Four Seasons at Hamptonburgh, L.L.C.	NY
K. Hovnanian's Four Seasons at Hemet, LLC	CA
K. Hovnanian's Four Seasons at Huntfield,L.L.C.	WV
K. Hovnanian's Four Seasons at Kent Island Condominiums, L.L.C.	MD
K. Hovnanian's Four Seasons at Kent Island, L.L.C.	MD
K. Hovnanian's Four Seasons at Menifee Valley, L.L.C.	CA
K. Hovnanian's Four Seasons at New Kent Vineyards, L.L.C.	VA
K. Hovnanian's Four Seasons at Palm Springs, LLC	CA
K. HOVNANIAN'S FOUR SEASONS AT RENAISSANCE, L.L.C.	NC
K. Hovnanian's Four Seasons at Rush Creek, L.L.C.	MN
K. Hovnanian's Four Seasons at St. Margarets Landing, L.L.C.	MD
K. Hovnanian's Four Seasons at Vint Hill, L.L.C.	VA
K. Hovnanian's Four Seasons, LLC	CA
K. Hovnanian's Parkside at Towngate, L.L.C.	CA
K. Hovnanian's Private Home Portfolio, L.L.C.	NJ
KHIP, L.L.C.	NJ
LANDARAMA, INC.	NJ
LAUREL HIGHLANDS, LLC	VA
M & M at Kensington Woods, L.L.C.	NJ
M & M at Long Branch, Inc	NJ
M&M AT APPLE RIDGE, LLC	NJ
M&M at Chesterfield, LLC	NJ
M&M AT Copper Beech, L.L.C.	NJ
M&M AT Crescent Court, L.L.C.	NJ
M&M at East Mill, L.L.C.	NJ
M&M at East Rutherford, L.L.C.	NJ
M&M AT MONROE WOODS, L.L.C.	NJ
M&M AT MORRISTOWN, L.L.C.	NJ
M&M AT SHERIDAN, L.L.C.	NJ
M&M AT SPINNAKER POINTE, L.L.C.	NJ
M&M AT SPRUCE HOLLOW, L.L.C.	NJ
M&M AT SPRUCE RUN, L.L.C.	NJ
M&M at Station Square, L.L.C.	NJ
M&M at Tamarack Hollow, L.L.C.	NJ
M&M at the Chateau, L.L.C.	NJ
M&M AT THE HIGHLANDS, L.L.C.	NJ
M&M AT UNION, L.L.C.	NJ
M&M at West Orange, L.L.C.	NJ
M&M at Westport, L.L.C.	NJ
M&M at Wheatena Urban Renewal, L.L.C.	NJ
M&M INVESTMENTS, L.P.	NJ
Matzel & Mumford at Egg Harbor, L.L.C.	NJ
MATZEL & MUMFORD AT MONTGOMERY, L.L.C.	NJ
Matzel & Mumford at South Bound Brook Urban Renewal, L.L.C.	NJ
MCNJ, Inc.	NJ
Midwest Building Products & Contractor Services of Kentucky, L.L.C.	KY
Midwest Building Products & Contractor Services of Michigan, L.L.C.	MI
Midwest Building Products & Contractor Services of Pennsylvania, L.L.C.	PA
Midwest Building Products & Contractor Services of West Virginia, L.L.C.	WV
MIDWEST BUILDING PRODUCTS & CONTRACTOR SERVICES, L.L.C.	OH
MILLENNIUM TITLE AGENCY, LTD.	OH
MM-BEACHFRONT NORTH I, L.L.C.	NJ
MM-BEACHFRONT NORTH II, L.L.C.	NJ
MMIP, L.L.C.	NJ
MSHOV HOLDING COMPANY, L.L.C.	DE
Natomas Central Neighborhood Housing, L.L.C.	CA
New Land Title Agency, L.L.C.	AZ
NORTH MANATEE, L.L.C.	DE
OLD CITY DELAWARE, L.L.C.	DE
OLD CITY DEVELOPMENT, INC.	DE
OLD CITY JOINT DEVELOPMENT, L.L.C.	PA
PADDOCKS, L.L.C.	MD

PARK TITLE COMPANY, LLC	TX
PI INVESTMENTS I, L.L.C.	DE
Pine Ayr, LLC	MD
PRESTON GRANDE HOMES, INC.	NC
PRESTON PARKER, L. P.	DE
RIDGEMORE UTILITY ASSOCIATES OF PENNSYLVANIA, L.L.C.	PA
Ridgemore Utility, L.L.C.	MD
RR HOUSTON DEVELOPERS, LLC	TX
RR HOUSTON DEVELOPMENT, L.P.	TX
RR HOUSTON INVESTMENT, L.P.	TX
RR HOUSTON INVESTORS, LLC	TX
SEABROOK ACCUMULATION CORPORATION	CA
STONEBROOK HOMES, INC.	CA
Terrapin Realty, L.L.C.	NJ
THE LANDINGS AT SPINNAKER POINTE, L.L.C.	NJ
The Matzel & Mumford Organization, Inc	NJ
THOMPSON RANCH JOINT DEVELOPMENT, L.L.C.	DE
TOWN HOMES AT MONTGOMERY, L.L.C.	NJ
Washington Homes at Columbia Town Center, L.L.C.	MD
Washington Homes, Inc.	DE
Westminster Homes of Alabama, L.L.C.	AL

Westminster Homes of Mississippi, LLC	MS
Westminster Homes of Tennessee, Inc.	TN
WESTMINSTER HOMES, INC.	NC
WH LAND I, INC	MD
WH PROPERTIES, INC.	MD
WH/PR Land Company, L.L.C.	DE
WHI-REPUBLIC, LLC	VA
WINDWARD HOME MORTGAGE, L.L.C.	DE
Woodland Lake Condominiums at Bowie New Town, L.L.C.	MD
WOODMORE RESIDENTIAL, L.L.C.	DE
WRIGHT FARM, LLC	VA
WTC VENTURES, L.L.C.	DE

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statements (Form S-3 No. 333-125738, Form S-3 No. 333-68528, Form S-3 No. 333-75939, Form S-3 No. 333-51991 and Form S-3 No. 333-106761) of Hovnanian Enterprises, Inc. and in the related Prospectuses,

2. Registration Statements (Form S-8 No. 333-113758, No. 333-106756 and No. 333-92977) pertaining to the 2008 Stock Incentive Plan (which superseded and replaced the 1999 Stock Incentive Plan), and Senior Executive Short-Term Incentive Plan, as amended and restated, of Hovnanian Enterprises, Inc.,

3. Registration Statement (Form S-8 No. 333-56972, Form S-8 No. 033-36098 and Form S-8 No. 002-92773) pertaining to the 1983 Stock Option Plan as amended and restated of Hovnanian Enterprises Inc.,

4. Registration Statement (Form S-8 No. 333-56640) pertaining to the Employee Stock Option Plan of Washington Homes,

of our reports dated December 23, 2008, with respect to the consolidated financial statements of Hovnanian Enterprises, Inc., and the effectiveness of internal control over financial reporting of Hovnanian Enterprises Inc., included in this Annual Report (Form 10-K) for the year ended October 31, 2008.

/s/ ERNST & YOUNG LLP

New York, New York
December 23, 2008

Exhibit 31(a)

CERTIFICATIONS

I, Ara K. Hovnanian, President and Chief Executive Officer of Hovnanian Enterprises, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Hovnanian Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 24, 2008

/s/ ARA K. HOVNANIAN

Ara K. Hovnanian
President and Chief Executive Officer

Exhibit 31(b)

CERTIFICATIONS

I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of Hovnanian Enterprises, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Hovnanian Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 24, 2008

/s/ J. LARRY SORSBY

J. Larry Sorsby
Executive Vice President and Chief Financial Officer

Exhibit 32(a)

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

In connection with the Annual Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-K for the year ended October 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 24, 2008

/s/ ARA K. HOVNANIAN

Ara K. Hovnanian
President and Chief Executive Officer

Exhibit 32(b)

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

In connection with the Annual Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-K for the year ended October 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 24, 2008

/s/ J. LARRY SORSBY

J. Larry Sorsby
Executive Vice President and Chief Financial Officer