UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For quarterly period ended JULY 31, 2009

OR

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

Commission file number 1-8551

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

Delaware	22-1851059
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 62,649,376 shares of Class A Common Stock and 14,574,819 shares of Class B Common Stock were outstanding as of September 1, 2009.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer [ ] Accelerated Filer [X]
Non-Accelerated Filer [ ] (Do not check if smaller reporting company) Smaller Reporting Company [ ]

HOVNANIAN ENTERPRISES, INC.

FORM 10-Q

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

ASSETS	July 31, 2009 (unaudited)	October 31, 2008 (1)
Homebuilding:		
Cash and cash equivalents	$545,591	$838,207
Restricted cash and cash equivalents	19,688	4,324
Inventories - at the lower of cost or fair value:		
Sold and unsold homes and lots under development	760,781	1,342,584
Land and land options held for future development or sale	464,980	644,067
Consolidated inventory not owned:		
Specific performance options	31,554	10,610
Variable interest entities	43,141	77,022
Other options	46,465	84,799
Total consolidated inventory not owned	121,160	172,431
Total inventories	1,346,921	2,159,082
Investments in and advances to unconsolidated joint ventures	35,622	71,097
Receivables, deposits, and notes	62,994	78,766
Property, plant, and equipment – net	79,595	92,817
Prepaid expenses and other assets	123,915	156,595
Total homebuilding	2,214,326	3,400,888
Financial services:		
Cash and cash equivalents	5,538	9,849
Restricted cash	2,627	4,005
Mortgage loans held for sale or investment	60,287	90,729
Other assets	2,672	5,025
Total financial services	71,124	109,608
Income taxes receivable – including net deferred tax benefits	-	126,826
Total assets	$2,285,450	$3,637,322

(1) Derived from the audited balance sheet as of October 31, 2008.

See notes to condensed consolidated financial statements (unaudited).

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

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	July 31, 2009 (unaudited)	October 31, 2008 (1)
Homebuilding:		
Nonrecourse land mortgages	$ -	$820
Accounts payable and other liabilities	313,883	420,695
Customers' deposits	25,669	28,676
Nonrecourse mortgages secured by operating properties	21,711	22,302
Liabilities from inventory not owned	80,882	135,077
Total homebuilding	442,145	607,570
Financial services:		
Accounts payable and other liabilities	8,887	10,559
Mortgage warehouse line of credit	49,820	84,791
Total financial services	58,707	95,350
Notes payable:		
Senior secured notes	624,705	594,734
Senior notes	970,605	1,511,071
Senior subordinated notes	173,495	400,000
Accrued interest	28,977	72,477
Total notes payable	1,797,782	2,578,282
Income tax payable	60,428	-
Total liabilities	2,359,062	3,281,202
Minority interest related to inventory not owned	30,183	24,880
Minority interest in consolidated joint ventures	732	976
Stockholders' (deficit) equity:		
Preferred stock, $.01 par value - authorized 100,000 shares; issued 5,600 shares at July 31, 2009 and at October 31, 2008 with a liquidation preference of $140,000	135,299	135,299
Common stock, Class A, $.01 par value – authorized 200,000,000 shares; issued 74,344,096 shares at July 31, 2009 and 73,803,879 shares at October 31, 2008 (including 11,694,720 shares at July 31, 2009 and October 31, 2008 held in Treasury)	743	738
Common stock, Class B, $.01 par value (convertible to Class A at time of sale) – authorized 30,000,000 shares; issued 15,266,567 shares at July 31, 2009 and 15,331,494 shares at October 31, 2008 (including 691,748 shares at July 31, 2009 and October 31, 2008 held in Treasury)	153	153
Paid in capital - common stock	449,773	418,626
Accumulated deficit	(575,238)	(109,295)
Treasury stock - at cost	(115,257)	(115,257)
Total stockholders'(deficit) equity	(104,527)	330,264
Total liabilities and stockholders' (deficit) equity	$2,285,450	$3,637,322

(1) Derived from the audited balance sheet as of October 31, 2008.

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
Revenues:				
Homebuilding:				
Sale of homes	$367,141	$692,690	$1,107,891	$2,500,192
Land sales and other revenues	11,044	9,750	24,731	45,863
Total homebuilding	378,185	702,440	1,132,622	2,546,055
Financial services	8,929	14,101	26,275	40,626
Total revenues	387,114	716,541	1,158,897	2,586,681
Expenses:				
Homebuilding:				
Cost of sales, excluding interest	337,869	635,533	1,029,693	2,345,942
Cost of sales interest	24,621	35,473	73,790	98,633
Inventory impairment loss and land option write-offs	101,130	110,933	521,505	446,961
Total cost of sales	463,620	781,939	1,624,988	2,891,536
Selling, general and administrative	55,264	90,004	187,130	287,819
Total homebuilding	518,884	871,943	1,812,118	3,179,355
Financial services	6,345	8,234	19,568	27,554
Corporate general and administrative	15,494	20,481	64,763	62,166
Other interest	23,942	10,655	66,696	11,657
Other operations	1,957	3,368	8,550	6,658
Intangible amortization	-	293	-	1,520
Total expenses	566,622	914,974	1,971,695	3,288,910
Gain on extinguishment of debt	37,016	-	427,804	-
Loss from unconsolidated joint ventures	(5,537)	(920)	(38,220)	(9,356)
Loss before income taxes	(148,029)	(199,353)	(423,214)	(711,585)
State and federal income tax provision (benefit):				
State	1,542	1,476	23,318	15,700
Federal	19,341	1,648	19,411	(53,154)
Total taxes	20,883	3,124	42,729	(37,454)
Net loss	$(168,912)	$(202,477)	$(465,943)	$(674,131)
Per share data:				
Basic and assuming dilution:				
Loss per common share	$(2.16)	$(2.67)	$(5.96)	$(9.98)
Weighted average number of common shares outstanding	78,065	75,723	78,208	67,574

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF
STOCKHOLDERS' (DEFICIT) EQUITY
(In Thousands Except Share Amounts)
(unaudited)

	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	Treasury Stock	Total
Balance, November 1, 2008	62,109,159	$738	14,639,746	$153	5,600	$135,299	$418,626	$(109,295)	$(115,257)	$330,264
Stock options amortization and issuances, net of tax							3,851			3,851
Stock option cancellations							12,269			12,269
Restricted stock amortization, issuances and forfeitures, net of tax	475,290	5					15,027			15,032
Conversion of Class B to Class A Common Stock	64,927		(64,927)							-
Net loss								(465,943)		(465,943)
Balance, July 31, 2009	62,649,376	$743	14,574,819	$153	5,600	$135,299	$449,773	$(575,238)	$(115,257)	$(104,527)

See notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended July 31, 2009	Nine Months Ended July 31, 2008
Cash flows from operating activities:		
Net loss	$(465,943)	$(674,131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	13,114	13,603
Intangible amortization	-	1,520
Compensation from stock options and awards	10,968	11,729
Stock option cancellations	12,269	-
Amortization of bond discounts and deferred financing costs	915	490
Excess tax payments from share-based payment	-	2,287
Loss (gain) on sale and retirement of property and assets	320	(2,304)
Loss from unconsolidated joint ventures	38,220	9,356
Distributions of earnings from unconsolidated joint ventures	2,418	4,831
Gain on extinguishment of debt	(427,804)	-
Deferred income taxes	-	105,302
Impairment and land option write-offs	521,505	446,961
Decrease (increase) in assets:		
Mortgage notes receivable	30,458	91,562
Restricted cash, receivables, prepaids, deposits and other assets	36,035	61,929
Inventories	272,123	426,761
State and Federal income tax assets	126,826	(46,644)
(Decrease) increase in liabilities:		
State and Federal income tax liability	60,428	-
Customers’ deposits	(3,007)	(21,873)
Accounts payable, interest and other accrued liabilities	(174,230)	(143,975)
Net cash provided by operating activities	54,615	287,404
Cash flows from investing activities:		
Net proceeds from sale of property and assets	1,009	3,539
Purchase of property, equipment and other fixed assets and acquisitions	(552)	(4,224)
Investments in and advances to unconsolidated joint ventures	(9,637)	(14,793)
Distributions of capital from unconsolidated joint ventures	4,596	13,005
Net cash used in investing activities	(4,584)	(2,473)
Cash flows from financing activities:		
(Payments) proceeds from mortgages and notes	(1,864)	94
Net proceeds from senior secured notes (including deferred financing costs)	-	572,623
Net proceeds related to revolving credit agreement (includes deferred financing costs)	-	(215,780)
Net payments related to mortgage warehouse line of credit	(34,971)	(87,991)
Deferred financing costs from note issuances	(3,987)	-
Principal payments and debt repurchases	(306,136)	(9,237)
Excess tax payments from share-based payment	-	(2,287)
Net proceeds from sale of stock and employee stock plan	-	127,079
Net cash (used in) provided by financing activities	(346,958)	384,501
Net (decrease) increase in cash and cash equivalents	(296,927)	669,432
Cash and cash equivalents balance, beginning of period	848,056	16,233
Cash and cash equivalents balance, end of period	$551,129	$685,665

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

	Nine Months Ended July 31,	
	2009	2008
Supplemental disclosures of cash flow:		
Cash paid (received) during the period for:		
Interest, net of capitalized interest	$181,136	$115,363
Income taxes	$(145,437)	$(95,976)

Supplemental disclosure of noncash financing activities:

In the first quarter of fiscal 2009, the Company issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of unsecured senior notes.

See notes to condensed consolidated financial statements (unaudited).

Hovnanian Enterprises, Inc. (“the Company”, “the Parent”, “we”, “us” or “our”) has reportable segments consisting of six Homebuilding segments (Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West) and the Financial Services segment (see Note 15).

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

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments for interim periods presented have been made, which include normal recurring accruals and deferrals necessary for a fair presentation of our consolidated financial position, results of operations, and cash flows. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements. Results for interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2008 has been derived from the audited Consolidated Financial Statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through September 4, 2009, the date the financial statements were filed with the Securities and Exchange Commission.

2. For the three and nine months ended July 31, 2009, the Company’s total stock-based compensation expense was $2.0 million (net of tax) and $23.2 million (net of tax), respectively. Included in this total stock-based compensation expense was the vesting of stock options of $0.7 million (net of tax) and $16.1 million (net of tax) for the three and nine months ended July 31, 2009, respectively. Included in the three and nine months ended July 31, 2009 is a $0.8 million adjustment for the change in our estimated forfeiture rate. Also, included in the nine months ended July 31, 2009 is $12.3 million (net of tax) for stock option cancellations that occurred in the first quarter of fiscal 2009. The Chief Executive Officer, Chief Financial Officer and each of the non-executive members of the Board of Directors consented to the cancellation of certain of their options (with the full understanding that the Company made no commitment to provide them with any other form of consideration in respect to the cancelled options) in order to reduce a portion of the equity reserve “overhang” under the Company’s equity compensation plans represented by the number of shares of the Company’s common stock remaining available for future issuance under such plans (including shares that may be issued upon the exercise or vesting of outstanding options and other rights).

3. Interest costs incurred, expensed and capitalized were:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2009	2008	2009	2008
Interest capitalized at beginning of period	$179,282	$177,602	$170,107	$155,642
Plus interest incurred (1)	43,944	51,268	145,042	137,390
Less cost of sales interest expensed	(24,621)	(35,473)	(73,790)	(98,633)
Less other interest expensed (2)	(23,942)	(10,655)	(66,696)	(11,657)
Interest capitalized at end of period (3)	$174,663	$182,742	$174,663	$182,742

(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. In addition, interest on completed homes and land in planning, which does not qualify for capitalization is expensed as incurred.
(3) We have incurred significant inventory impairments in recent years, which are determined based on total inventory including capitalized interest. However, the capitalized interest amounts shown above are gross amounts before allocating any portion of the impairments to capitalized interest.

4. Accumulated depreciation at July 31, 2009 and October 31, 2008 amounted to $79.7 million and $70.5 million, respectively, for our homebuilding property, plant and equipment.

5. In accordance with Financial Accounting Standards Board Statement No. 144 ("SFAS 144"), *Accounting for the Impairment 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. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimated the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the nine months ended July 31, 2009, our discount rates used for the impairments recorded range from 14.3% to 20.3%. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. As a result of a continued decline in sales price and general market conditions, we recorded inventory impairments, for the three months ended July 31, 2009 and 2008, of $94.6 million and $80.2 million, respectively, and for the nine months ended July 31, 2009 and 2008, of $491.4 million and $380.4 million, respectively, each of which are presented in the Condensed Consolidated Statements of Operations as part of “Inventory impairment loss and land option write-offs” and deducted from inventories as presented in the Condensed Consolidated Balance Sheets.

The following table represents inventory impairments by homebuilding segment for the three and nine months ended July 31, 2009 and 2008:

(Dollars in millions)	Three Months Ended July 31, 2009			Three Months Ended July 31, 2008		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)
Northeast	5	$20.3	$65.9	-	$ -	$ -
Mid-Atlantic	9	14.5	36.5	16	20.4	74.1
Midwest	4	1.4	5.0	-	-	-
Southeast	17	2.8	11.8	17	16.7	34.4
Southwest	7	6.0	21.3	13	21.8	59.6
West	9	49.6	72.7	18	21.3	63.8
Total	51	$94.6	$213.2	64	$80.2	$231.9

(Dollars in millions)	Nine Months Ended July 31, 2009			Nine Months Ended July 31, 2008		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)
Northeast	24	$181.9	$392.7	6	$14.7	$105.8
Mid-Atlantic	46	40.8	131.8	22	32.0	125.6
Midwest	8	5.4	17.0	4	5.6	20.2
Southeast	73	28.3	94.1	29	34.5	106.2
Southwest	41	32.4	84.4	24	44.0	117.4
West	49	202.6	372.2	55	249.6	744.0
Total	241	$491.4	$1,092.2	140	$380.4	$1,219.2

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

The Condensed Consolidated Statements of Operations line entitled "Inventory impairment loss and land option write-offs" also includes write-offs of capitalized approval, engineering and interest costs that we record when we redesign communities and/or abandon certain engineering costs or the write-off of the deposit when we do not intend to exercise options (“walk-away”) in various locations because the communities' projected profitability will not produce adequate returns on investment commensurate with the risk. The total aggregate write-offs were $6.5 million and $30.8 million for the three months ended July 31, 2009 and 2008, respectively, and $30.1 million and $66.6 million for the nine months ended July 31, 2009 and 2008, respectively.

The following table represents write-offs of such costs and the related number of lots by homebuilding segment for the three and nine months ended July 31, 2009 and 2008:

(Dollars in millions)	Three Months Ended July 31,				Nine Months Ended July 31,			
	2009		2008		2009		2008	
	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs
Northeast	78	$3.2	121	$4.4	684	$9.7	574	$9.2
Mid-Atlantic	4	(0.3)	1,703	19.8	1,906	8.2	4,231	35.6
Midwest	64	-	257	0.7	222	1.4	257	0.7
Southeast	-	-	1,299	5.1	153	(0.1)	3,053	12.1
Southwest	121	3.6	173	0.4	879	10.3	603	4.9
West	158	-	180	0.4	158	0.6	419	4.1
Total	425	$6.5	3,733	$30.8	4,002	$30.1	9,137	$66.6

As a result of the declining homebuilding market, we have decided to mothball (or stop development on) certain communities in some of our segments where we have determined 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”. During the third quarter of fiscal 2009, we mothballed nine communities with a net book value of $43.0 million, net of an impairment reserve balance of $15.8 million. Also during the third quarter of fiscal 2009, we sold four previously mothballed communities and re-activated four previously mothballed communities, which combined had a net book value of $11.8 million, net of an impairment reserve balance of $23.3 million. As of July 31, 2009, the net book value associated with our 77 total mothballed communities was $376.3 million, net of an impairment reserve balance of $509.1 million.

6. We establish a warranty accrual for repair costs under $5,000 per occurrence to homes, community amenities and land development infrastructure. We accrue for warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. In addition, we accrue for warranty costs over $5,000 per occurrence as part of our general liability insurance deductible, which is expensed as selling, general and administrative costs. For homes delivered in fiscal 2009 and 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 accrual for the three and nine months ended July 31, 2009 and 2008 were as follows:

(In thousands)	Three Months Ended July 31, 2009	2008	Nine Months Ended July 31, 2009	2008
Balance, beginning of period	$118,887	$123,566	$125,738	$120,653
Additions	21,610	15,504	42,657	50,311
Charges incurred	(10,839)	(12,741)	(38,737)	(44,635)
Balance, end of period	$129,658	$126,329	$129,658	$126,329

Warranty accruals are based upon historical experience. 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.

Insurance claims paid by our insurance carriers were $6.8 million and $11.9 million for the three months ended July 31, 2009 and 2008, respectively, and $26.3 million and $18.9 million for the nine months ended July 31, 2009 and 2008, respectively, for prior year deliveries.

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

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

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:

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*. 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. In March, 2009, the parties agreed that the Motion to Dismiss would be withdrawn and that the Plaintiffs would file a second amended complaint. The Company's insurance carrier has agreed to provide coverage for the case under the Company's insurance policy, therefore the maximum exposure to the Company is the deductible, which has already been incurred and expensed as defense costs. The matter has been resolved, pending court approval, with no further payments from 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. The Company has filed a Motion to Dismiss this second amended complaint. 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. While we have determined that a loss related to this case is not probable, it is not possible to estimate a loss or range of loss related to this matter at this time.

8. Cash and cash equivalents include cash deposited in checking accounts, 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 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. At July 31, 2009, $539.1 million of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

9. 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. 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. As of both July 31, 2009 and October 31, 2008, there was zero drawn under the Amended Credit Agreement, excluding letters of credit totaling $138.3 million and $197.5 million, respectively.

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 prohibit the payment of dividends on, and the making of distributions with respect to, common and preferred stock and that restrict, among other things, the ability of the Company and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness, repurchase capital stock, make other restricted payments, make investments, dispose of assets, incur liens, consolidate, merge, sell or otherwise transfer all or substantially all 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 July 31, 2009, we believe 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 with a group of banks is a short term borrowing facility, which was amended on March 6, 2009, extending the maturity to March 5, 2010 and reducing the capacity to $60 million from $151 million. Interest is payable monthly, at the Company’s option, at either LIBOR plus 2.00% or the prime rate, with a rate floor of 4.25% on both. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. The Master Repurchase Agreement requires K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”) to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the facility, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the Master Repurchase Agreement, we do not consider any of these covenants to be substantive or material. As of July 31, 2009, we believe we were in compliance with the covenants of the Master Repurchase Agreement. As of July 31, 2009, the aggregate principal amount of all borrowings under the Master Repurchase Agreement was $49.8 million.

10. At July 31, 2009, we had $629.3 million ($624.7 million net of discount) of outstanding senior secured notes, comprised of $600.0 million 11 1/2% Senior Secured Notes due 2013 and $29.3 million 18% Senior Secured Notes due 2017. At July 31, 2009 we also had $972.7 million of outstanding senior notes ($970.6 million net of discount), comprised of $43.5 million 8% Senior Notes due 2012, $144.0 million 6 1/2% Senior Notes due 2014, $114.3 million 6 3/8% Senior Notes due 2014, $129.3 million 6 1/4% Senior Notes due 2015, $173.2 million 6 1/4% Senior Notes due 2016, $172.5 million 7 1/2% Senior Notes due 2016 and $195.9 million 8 5/8% Senior Notes due 2017. In addition, we had $173.5 million of outstanding senior subordinated notes, comprised of $11.1 million 6% Senior Subordinated Notes due 2010, $69.0 million 8 7/8% Senior Subordinated Notes due 2012, and $93.4 million 7 3/4% Senior Subordinated Notes due 2013.

On December 3, 2008, the Company issued $29.3 million of 18% Senior Secured Notes due 2017 in exchange for $71.4 million of unsecured senior notes as follows: $0.6 million aggregate principal amount of 8% Senior Notes due 2012, $12.0 million aggregate principal amount of 6 1/2% Senior Notes due 2014, $1.1 million aggregate principal amount of 6 3/8% Senior Notes due 2014, $3.3 million aggregate principal amount of 6 1/4% Senior Notes due 2015, $24.8 million aggregate principal amount of 7 1/2% Senior Notes due 2016, $28.7 million aggregate principal amount of 6 1/4% Senior Notes due 2016 and $1.0 million aggregate principal amount of 8 5/8% Senior Notes due 2017. This exchange resulted in a recognized gain on extinguishment of debt of $41.3 million, net of the write-off of unamortized discounts and fees.

During the nine months ended July 31, 2009, we repurchased in open market transactions $11.3 million principal amount of 8% Senior Notes due 2012, $58.9 million principal amount of 6 1/2% Senior Notes due 2014, $33.6 million principal amount of 6 3/8% Senior Notes due 2014, $61.3 million principal amount of 6 1/4% Senior Notes due 2015, $88.9 million principal amount of 6 1/4% Senior Notes due 2016, $78.5 million principal amount of 7 1/2% Senior Notes due 2016, $41.8 millions principal amount of 8 5/8% Senior Notes due 2017, $71.1 million principal amount of 6% Senior Subordinated Notes due 2010, $79.1 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $53.8 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $223.1 million, plus accrued and unpaid interest. There were no open market repurchases during the three months ended July 31, 2009. These repurchases resulted in a gain on extinguishment of debt of $349.5 million for the nine months ended July 31, 2009, net of the write-off of unamortized discounts and fees. The gains from the exchanges and repurchases are included in the Condensed Consolidated Statement of Operations for the nine months ended July 31, 2009 as “Gain on extinguishment of debt”.

On July 21, 2009, we completed cash tender offers whereby we purchased (1) in a fixed price tender offer, approximately $17.8 million principal amount of 6% Senior Subordinated Notes due 2010 for approximately $17.5 million, plus accrued and unpaid interest, (2) in a modified “Dutch Auction,” a total of approximately $49.5 million principal amount of 8% Senior Notes due 2012, 8 7/8% Senior Subordinated Notes due 2012 and 7 3/4% Senior Subordinated Notes due 2013 for approximately $36.1 million, plus accrued and unpaid interest and (3) in a modified “Dutch Auction,” a total of approximately $51.9 million of 6 1/2% Senior Notes due 2014, 6 3/8% Senior Notes due 2014, 6 1/4% Senior Notes due 2015, 6 1/4% Senior Notes due 2016, 7 1/2% Senior Notes due 2016 and 8 5/8% Senior Notes due 2017 for approximately $26.9 million, plus accrued and unpaid interest. These tender offers resulted in a gain on extinguishment of debt of $37.0 million, net of the write-off of unamortized discounts and fees.

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 and our foreign subsidiary (see Note 21). The indentures governing the Senior Secured, Senior and Senior Subordinated Notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior notes and senior subordinated notes (with respect to the Senior Secured Notes indentures), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the 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 comply with agreements and covenants and specified events of bankruptcy and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of July 31, 2009, we believe 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 continue to make debt purchases and/or exchanges from time to time, through tender offers, open market purchases, private transactions or otherwise, however, going forward our debt covenants will limit our ability to repurchase more debt.

The 11 1/2% Senior Secured Notes due 2013 are secured by a second-priority lien and the 18% Senior Secured Notes due 2017 are secured by a third-priority lien, in each case, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian (the issuer of the senior secured notes) and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement and, in the case of the 18% Senior Secured notes due 2017, the 11 1/2% Senior Secured Notes due 2013. At July 31, 2009, the aggregate book value of the real property collateral securing these notes was approximately $983.6 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was $561.6 million as of July 31, 2009.

Because of the prohibition in the Amended Credit Agreement and covenant restrictions in our bond indentures, we are currently unable to pay dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. Even if the Amended Credit Agreement were to allow us to pay dividends, if current market trends continue or worsen, we will continue to be restricted from paying dividends in fiscal 2009 and possibly beyond as a result of covenant restrictions in our bond indentures. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under the Amended Credit Agreement or our bond indentures or otherwise affect compliance with any of the covenants contained in the Amended Credit Agreement or the bond indentures.

11. 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.

Basic earnings per share is computed by dividing income available to common shareholders (the “numerator”) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (the “denominator”) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of options and non-vested shares of restricted stock. Any options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. For the three and nine months ended July 31, 2009 and 2008, all stock options and non-vested restricted stock were excluded from the calculation as they were anti-dilutive due to the net loss recorded during the periods. As a result, the calculation of diluted earnings per share excludes 3.0 million and 1.8 million stock options and shares of restricted stock for the three and nine months ended July 31, 2009, respectively.

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 July 31, 2009, 3.4 million shares of Class A Common Stock have been purchased under this program.

12. 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”. During the nine months ended July 31, 2009 and 2008, we did not make any dividend payments on the Series A Preferred Stock as a result of covenant restrictions in the Amended Credit Agreement and in the indentures governing our senior secured, senior and senior subordinated notes (See Note 10) and the payment date of April 15, 2009 was the sixth dividend payment date for which dividends on the Series A Preferred Stock have not been paid. As a result, and in accordance with the Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock, we held a meeting of the holders of the Series A Preferred Stock (and hence the depositary shares) on June 24, 2009, for the purpose of nominating two persons to serve as non-voting “Advisory Directors” to attend the portion of meetings of the Board of Directors discussing the agenda item relating to the Series A Preferred Stock until such time as full dividends on the Series A Preferred Stock have been paid for four consecutive quarterly dividend periods. A quorum was not obtained at this meeting. As a result, we were precluded from conducting any business at the meeting and no “Advisory Directors” were nominated.

13. 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. Subject to certain exceptions pertaining to pre-existing 5% 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.

14. Total tax provision was $20.9 million and $42.7 million for the three and nine months ended July 31, 2009, respectively. During fiscal 2009, we recorded $23.0 million for estimated income taxes for amounts that should have been recorded in prior reporting periods. These amounts principally relate to an increase in tax liabilities to eliminate the assumed federal benefit of certain tax accruals. In fiscal 2009, we also recorded an accrual for federal taxes and related interest for a change in estimate of certain temporary differences amounting to $19.3 million. A valuation allowance was established for the entire deferred tax asset resulting from these timing differences. As more fully described in the next paragraph, we fully reserve our net deferred tax assets. We do not expect to record any additional net tax benefits unless there is a tax law change or we begin to generate profits.

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 future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to income in prior years, if available or carried forward to income in 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. Due to the continued downturn in the homebuilding industry during 2007, 2008 and into 2009, we are in a cumulative loss position over the most recent three year period. Based on the requirements of SFAS 109, this three year cumulative loss and the uncertainty of the timing of our ability to generate profits required us to provide a valuation allowance for our deferred tax assets. Our valuation allowance for current and deferred tax assets increased $76.7 million and $198.3 million, respectively, during the three and nine months ended July 31, 2009. At July 31, 2009, our total valuation allowance amounted to $873.8 million. In the first quarter of 2009, we received a tax refund of $145.2 million thus realizing the tax assets recorded as of October 31, 2008.

We recognize tax liabilities in accordance with Financial Accounting Standards Board ("FASB") Financial Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes*, 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 liability that is materially different from our current estimate. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. Interest expense related to unrecognized tax benefits are recognized in the financial statements as a component of provision/benefit for income taxes.

15. Our operating segments are components of our business for which discrete financial information is available and reviewed regularly by the chief operating decision-maker, our Chief Executive Officer, to evaluate performance and make operating decisions. We have more than 34 homebuilding operating segments, and therefore, it is impractical to provide segment disclosures for this many segments. As such, we have aggregated the homebuilding operating segments into six reportable segments.

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

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

Financial Services

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

Corporate and unallocated primarily represents operations at our headquarters in Red Bank, New Jersey. This includes our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. It also includes interest income and interest expense resulting from interest incurred that cannot be capitalized in inventory in the Homebuilding segments. In 2009, corporate and unallocated also included the gain on extinguishment of debt of $427.8 million and cancellation of stock options of $12.3 million.

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, (loss) income from unconsolidated entities, management fees and other income, less the cost of homes and land sold, selling, general and administrative expenses and minority interest expense. 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.

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2009	2008	2009	2008
Revenues:				
Northeast	$86,163	$170,680	$259,610	$522,453
Mid-Atlantic	76,521	116,165	217,362	379,516
Midwest	30,075	51,229	81,069	154,280
Southeast	23,617	70,018	92,404	574,120
Southwest	113,403	142,261	317,370	455,083
West	48,070	149,744	161,438	457,324
Total homebuilding revenues	377,849	700,097	1,129,253	2,542,776
Financial services	8,929	14,101	26,275	40,626
Corporate and unallocated	336	2,343	3,369	3,279
Total revenues	$387,114	$716,541	$1,158,897	$2,586,681
Loss before income taxes:				
Northeast	$(43,201)	$(11,249)	$(273,511)	$(47,558)
Mid-Atlantic	(16,834)	(47,439)	(66,590)	(91,284)
Midwest	(3,806)	(7,038)	(18,548)	(29,750)
Southeast	(7,900)	(36,897)	(47,933)	(69,944)
Southwest	(16,036)	(20,880)	(55,760)	(46,510)
West	(63,795)	(52,050)	(259,582)	(362,264)
Homebuilding loss before income taxes	(151,572)	(175,553)	(721,924)	(647,310)
Financial services	2,584	5,867	6,707	13,072
Corporate and unallocated	959	(29,667)	292,003	(77,347)
Loss before income taxes	$(148,029)	$(199,353)	$(423,214)	$(711,585)

(In thousands)	July 31, 2009	October 31, 2008
Assets:		
Northeast	$653,009	$971,429
Mid-Atlantic	246,544	355,012
Midwest	59,518	79,471
Southeast	85,794	146,621
Southwest	219,005	354,279
West	233,675	483,483
Total homebuilding assets	1,497,545	2,390,295
Financial services	71,124	109,608
Corporate and unallocated	716,781	1,137,419
Total assets	$2,285,450	$3,637,322

16. In accordance with FASB 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 to finance 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. We are 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 nonrefundable option fee (we currently define significant as greater than $100,000 because we have determined that in the aggregate the VIE's related to deposits of this size or less are not material), we 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 consolidate it on our balance sheet. The fair value of the VIE's inventory is 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 determining who is the party responsible (seller or buyer) for funding the approval process and development work that will take place prior to our 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 the VIE's total assets consolidated on our balance sheet. In certain cases, we will have to place inventory the VIE has optioned to other developers on our balance sheet. In addition, if the VIE has creditors, its debt will be placed on our balance sheet even though the creditors have no recourse against us. 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.

At July 31, 2009, all eight VIEs we were required to consolidate were the result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these VIEs totaling $6.3 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by these VIEs was $43.1 million. Because we do not own an equity interest in any of the unaffiliated VIEs 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, we determine the fair value of the assets of the consolidated entities 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 July 31, 2009, the balance reported in minority interest from inventory not owned was $30.2 million. Creditors of these eight VIEs have no recourse against us.

We will continue to control land and lots using options. Not all of our deposits are with VIEs. Including the deposits with the eight VIEs described above, at July 31, 2009, we had total cash and letters of credit deposits amounting to approximately $41.2 million to purchase land and lots with a total purchase price of $639.9 million. 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.

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

(In thousands)	July 31, 2009		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$25,094	$2,387	$27,481
Inventories	377,479	84,517	461,996
Other assets	19,416	109	19,525
Total assets	$421,989	$87,013	$509,002
Liabilities and equity:			
Accounts payable and accrued liabilities	$29,191	$16,364	$45,555
Notes payable	324,100	39,301	363,401
Equity of:			
Hovnanian Enterprises, Inc.	17,800	11,435	29,235
Others	50,898	19,913	70,811
Total equity	68,698	31,348	100,046
Total liabilities and equity	$421,989	$87,013	$509,002
Debt to capitalization ratio	83%	56%	78%

(In thousands)	October 31, 2008		
	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%

As of July 31, 2009 and October 31, 2008, we had advances outstanding of approximately $18.1 million and $15.6 million, respectively, to these unconsolidated joint ventures, which were included in the “Accounts payable and accrued liabilities” balances in the table above. On our Condensed Consolidated Balance Sheets our “Investments in and advances to unconsolidated joint ventures” amounted to $35.6 million and $71.1 million at July 31, 2009 and October 31, 2008, respectively. In some cases, our net investment in these joint ventures is less than our proportionate share of the equity reflected in the table above because of the differences between asset impairments recorded against our joint venture investments and any impairments recorded in the applicable joint venture. During the first nine months of fiscal 2009, we wrote down certain joint venture investments by $18.0 million, based on our determination that the investment in certain joint ventures has sustained an other than temporary impairment.

(In thousands)	For the Three Months Ended July 31, 2009 Homebuilding	Land Development	Total
Revenues	$24,387	$9,120	$33,507
Cost of sales and expenses	(29,602)	(9,303)	(38,905)
Net loss	$(5,215)	$(183)	$(5,398)
Our share of net loss	$(774)	$(214)	$(988)

	For the Three Months Ended July 31, 2008 Homebuilding	Land Development	Total
Revenues	$61,338	$3,914	$65,252
Cost of sales and expenses	(63,715)	(3,864)	(67,579)
Net (loss) income	$(2,377)	$50	$(2,327)
Our share of net loss	$(613)	$(15)	$(628)

(In thousands)	For the Nine Months Ended July 31, 2009 Homebuilding	Land Development	Total
Revenues	$73,314	$12,611	$85,925
Cost of sales and expenses	(189,967)	(13,880)	(203,847)
Net loss	$(116,653)	$(1,269)	$(117,922)
Our share of net loss	$(19,452)	$(674)	$(20,126)

	For the Nine Months Ended July 31, 2008 Homebuilding	Land Development	Total
Revenues	$200,352	$16,467	$216,819
Cost of sales and expenses	(237,600)	(16,260)	(253,860)
Net (loss) income	$(37,248)	$207	$(37,041)
Our share of net loss	$(8,591)	$(188)	$(8,779)

Loss from unconsolidated joint ventures is reflected as a separate line in the accompanying Condensed Consolidated Statements of Operations and reflects our proportionate share of the loss of these unconsolidated homebuilding and land development joint ventures. The difference between our share of the loss from these unconsolidated joint ventures disclosed in the tables above compared to the Condensed Consolidated Statements of Operations is due primarily to the write down of our investment in joint ventures where we have determined that our investment has an other than temporary impairment. It is also due to the reclassification of the intercompany portion of management fee income from certain joint ventures and the deferral of income for lots purchased by us from certain joint ventures. 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 assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing. Generally, the amount of such financing is targeted to be no more than 50% of the joint venture's total assets. However, because of impairments realized in the joint ventures the average debt to assets ratio of our joint ventures is currently 78%. This 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 VIE under FIN 46R due to the returns being capped to the equity holders; however, in these instances, we are not the primary beneficiary, and therefore we do not consolidate these entities.

18. 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 was effective for us on November 1, 2008. In February 2008, the FASB issued FASB Staff Position ("FSP") 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 November 1, 2009 for the Company. The Company adopted SFAS 157 as it applies to our Financial Services segment effective November 1, 2008. The adoption did not have a material impact on our consolidated financial statements. 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 statements. See Note 19 for additional information.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (FSP 157-4). FSP 157-4 provides additional guidance on factors to consider in estimating fair value when there has been a significant decrease in market activity for a financial asset. FSP 157-4 was effective for us for the quarter ended July 31, 2009 and did not have a material impact on our consolidated financial statements.

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. The Company adopted FAS 159 effective November 1, 2008 and has elected to adopt the fair value option for its mortgage loans held for sale. The implementation did not have a material impact on our consolidated financial statements. See Note 19 for additional information.

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 us on November 1, 2009. We are currently evaluating the impact, if any, that SFAS 160 may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). The statement 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 any business combinations we enter into on or after November 1, 2009. We do not expect that SFAS 141 (R) will have a material impact on our consolidated financial statements.

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. The Company adopted SFAS 161 effective November 1, 2008. This pronouncement is related to disclosure only and did not have an impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for the Company's quarter ended July 31, 2009. This statement did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, *Amendments to FASB Interpretation No. 140*, ("SFAS 166"). SFAS 166 removes the concept of a qualifying special-purpose entity from Statement 140 and removes the exception from applying FIN 46R to variable interest entities that are qualifying special-purpose entities. SFAS 166 is effective for the Company's fiscal year beginning November 1, 2009. We are currently evaluating the impact, if any, that SFAS 166 may have on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, ("SFAS 167"). SFAS 167 amends the consolidation guidance applicable to variable interest entities and the definition of a variable interest entity, and requires enhanced disclosures to provide more information about an enterprise's involvement in a variable interest entity. This statement also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for the Company's fiscal year beginning November 1, 2009. We are currently evaluating the impact, if any, that SFAS 167 may have on our consolidated financial statements..

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* , ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for the Company's October 31, 2009 consolidated financial statements. SFAS 168 does not change GAAP and will not have a material impact on the Company's consolidated financial statements.

In June 2008, the FASB issued FSP 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 us on November 1, 2009. We are currently evaluating the impact, if any, that FSP-EITF 03-6-1 may have on our consolidated financial statements.

In December 2008, the FASB issued 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 became effective for us beginning with the first quarter of fiscal 2009. 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 FIN 46 (R) are finalized and approved by the FASB. The FSP amends Statement 140 to require public entities to provide additional disclosures about transferors' continuing involvements with transferred financial assets. It also amends FIN 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 did not have an impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* which changes the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of the impairment to be recorded in earnings. This guidance became effective for us for the quarter ended July 31, 2009 and did not have an impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* which requires fair value disclosures in both interim as well as annual financial statements in order to provide more timely information about the effects of current market conditions on financial instruments.

This guidance became effective for us for the quarter ended July 31, 2009, and the required disclosures are included in Note 19.

19. Effective November 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for fair value measurements of certain financial instruments. SFAS 157 provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

Level 1 Fair value determined based on quoted prices in active markets for identical assets.

Level 2 Fair value determined using significant other observable inputs.

Level 3 Fair value determined using significant unobservable inputs.

The Company's financial instruments measured at fair value on a recurring basis are summarized below:

(In thousands)	Fair Value Hierarchy	Fair Value at July 31, 2009
Mortgage loans held for sale (1)	Level 2	$56,074
Interest rate lock commitments	Level 2	416
Forward contracts	Level 2	(1,352)
		$55,138

(1) The difference between the aggregate fair value of $56.1 million and the aggregate unpaid principal balance of $54.7 million is $1.4 million.

The Company elected the fair value option for its loans held-for-sale for mortgage loans originated subsequent to October 31, 2008 in accordance with SFAS 159, which permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held-for-sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company adopted SEC Staff Accounting Bulletin No. 109 on February 1, 2008, requiring the recognition of the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in the Company's loans held-for-sale as of July 31, 2009. Prior to February 1, 2008, the fair value of the servicing rights was not recognized until the related loan was sold. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts. Fair value of loans held for sale is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics.

The assets accounted for under SFAS 159 are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in the Financial Services segment's earnings (loss). The changes in fair values that are included in earnings (loss) are shown, by financial instrument and financial statement line item, below:

	Three Months Ended July 31, 2009		
(In thousands)	Loans Held For Sale	Mortgage Loan Commitments	Forward Contracts
Changes in fair value included in net earnings (loss), all reflected in financial services revenues	$822	$401	$(1,450)

(In thousands)	Nine Months Ended July 31, 2009 Loans Held For Sale	Mortgage Loan Commitments	Forward Contracts
Changes in fair value included in net earnings (loss), all reflected in financial services revenues	$2,348	$910	$(2,860)

The Financial Services segment had a pipeline of loan applications in process of $382.9 million at July 31, 2009. Loans in process for which interest rates were committed to the borrowers totaled approximately $80.5 million as of July 31, 2009. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers, the total commitments do not necessarily represent future cash requirements.

The Financial Services segment uses investor commitments and forward sales of mandatory mortgage-backed securities ("MBS") to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments, option contracts with investment banks, federally regulated bank affiliates and loan sales transactions with permanent investors meeting the segment's credit standards. The segment's risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At July 31, 2009, the segment had open commitments amounting to $25.0 million to sell MBS with varying settlement dates through September 14, 2009.

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 financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. The fair value of each of 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 $587.3 million, $532.2 million and $96.9 million, respectively, as of July 31, 2009. Unless otherwise disclosed, the fair value of our financial instruments approximates their recorded values.

20. Prior to October 31, 2008, the intangible assets recorded on our balance sheet were 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 did not amortize goodwill but instead assessed 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. 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.

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. 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.

21. The Parent is the issuer of publicly traded common stock and preferred stock (represented by depository shares). One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the “Subsidiary Issuer”), acts as a finance entity that as of July 31, 2009 had issued and outstanding $629.3 million face value of senior secured notes ($624.7 million, net of discount), $972.7 million face value of senior notes ($970.6 million, net of discount), $173.5 million of senior subordinated notes, and had zero drawn under the Amended Credit Agreement (see Notes 9 and 10). The senior secured notes, senior notes, senior subordinated 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 and, in the case of the senior secured, senior and senior subordinated notes, our foreign subsidiary (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 financial statements for the Guarantor Subsidiaries, we have included the accompanying condensed consolidating financial statements. Management does not believe that separate financial statements of the Guarantor Subsidiaries are material to users of our consolidated financial statements. Therefore, separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented.

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

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET
JULY 31, 2009
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:						
Homebuilding	$15,220	$590,501	$1,554,763	$53,842	$	$2,214,326
Financial services			4,129	66,995		71,124
Income taxes (payable) receivable						
Investments in and amounts due to and from consolidated subsidiaries	(101,730)	2,443,919	(2,347,879)	(50,374)	56,064	-
Total assets	$(86,510)	$3,034,420	$(788,987)	$70,463	$56,064	$2,285,450
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY:						
Homebuilding	$	$1,096	$433,847	$7,202	$	$442,145
Financial services			3,561	55,146		58,707
Notes payable		1,797,688	94			1,797,782
Income taxes payable	18,017		42,411			60,428
Minority interest			30,183	732		30,915
Stockholders' (deficit) equity	(104,527)	1,235,636	(1,299,083)	7,383	56,064	(104,527)
Total liabilities and stockholders' (deficit) equity	$(86,510)	$3,034,420	$(788,987)	$70,463	$56,064	$2,285,450

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING 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 (DEFICIT):						
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

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2009
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$13	$321	$378,854	$240	$(1,243)	$378,185
Financial services			2,117	6,812		8,929
Intercompany charges		44,691	(61,433)	(208)	16,950	-
Equity in pretax income of consolidated subsidiaries	(145,926)				145,926	-
Total revenues	(145,913)	45,012	319,538	6,844	161,633	387,114
Expenses:						
Homebuilding	1,994	45,143	508,726	543	3,871	560,277
Financial services	122		1,588	4,806	(171)	6,345
Total expenses	2,116	45,143	510,314	5,349	3,700	566,622
Gain on extinguishment of debt		37,041	(25)			37,016
Loss from unconsolidated joint ventures			(290)	(5,247)		(5,537)
(Loss) income before income taxes	(148,029)	36,910	(191,091)	(3,752)	157,933	(148,029)
State and federal income tax provision (benefit)	20,883	12,918	2,727	1,772	(17,417)	20,883
Net (loss) income	$(168,912)	$23,992	$(193,818)	$(5,524)	$175,350	$(168,912)

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2008
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$	$1,733	$700,706	$1	$	$702,440
Financial services			2,435	11,666		14,101
Intercompany charges		39,742	30,009		(69,751)	-
Equity in pretax loss of consolidated subsidiaries	(199,353)				199,353	-
Total revenues	(199,353)	41,475	733,150	11,667	129,602	716,541
Expenses:						
Homebuilding		11,466	957,585	11	(62,322)	906,740
Financial services			1,682	6,552		8,234
Total expenses		11,466	959,267	6,563	(62,322)	914,974
Loss from unconsolidated joint ventures			(920)			(920)
(Loss) income before income taxes	(199,353)	30,009	(227,037)	5,104	191,924	(199,353)
State and federal income tax (benefit) provision	3,124	14,088	(3,799)	2,604	(12,893)	3,124
Net (loss) income	$(202,477)	$15,921	$(223,238)	$2,500	$204,817	$(202,477)

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2009
(In Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$13	$3,287	$1,131,675	$1,366	$(3,719)	$1,132,622
Financial services			5,938	20,337		26,275
Intercompany charges		170,658	(202,290)	(725)	32,357	-
Equity in pretax income of consolidated subsidiaries	(399,879)				399,879	-
Total revenues	(399,866)	173,945	935,323	20,978	428,517	1,158,897
Expenses:						
Homebuilding	22,852	148,323	1,785,051	2,233	(6,332)	1,952,127
Financial services	496		4,971	14,474	(373)	19,568
Total expenses	23,348	148,323	1,790,022	16,707	(6,705)	1,971,695
Gain on extinguishment of debt		427,598	206			427,804
Loss from unconsolidated joint ventures			(32,435)	(5,785)		(38,220)
(Loss) income before income taxes	(423,214)	453,220	(886,928)	(1,514)	435,222	(423,214)
State and federal income tax provision (benefit)	42,729	158,627	(120,906)	806	(38,527)	42,729
Net (loss) income	$(465,943)	$294,593	$(766,022)	$(2,320)	$473,749	$(465,943)

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2008
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$	$2,480	$2,543,571	$4	$	$2,546,055
Financial services			7,041	33,585		40,626
Intercompany charges		164,222	154,240		(318,462)	-
Equity in pretax income of consolidated subsidiaries	(711,585)				711,585	-
Total revenues	(711,585)	166,702	2,704,852	33,589	393,123	2,586,681
Expenses:						
Homebuilding		12,462	3,397,304	27	(148,437)	3,261,356
Financial services			6,652	20,902		27,554
Total expenses		12,462	3,403,956	20,929	(148,437)	3,288,910
Loss from unconsolidated joint ventures			(9,356)			(9,356)
(Loss) income before income taxes	(711,585)	154,240	(708,460)	12,660	541,560	(711,585)
State and federal income tax (benefit) provision	(37,454)	57,569	(30,081)	1,736	(29,224)	(37,454)
Net (loss) income	$(674,131)	$96,671	$(678,379)	$10,924	$570,784	$(674,131)

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2009
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$(465,943)	$294,593	$(766,022)	$(2,320)	$473,749	$(465,943)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	(241,775)	(235,596)	1,472,503	(825)	(473,749)	520,558
Net cash (used in) provided by operating activities	(707,718)	58,997	706,481	(3,145)	-	54,615
Net cash (used in) investing activities			253	(4,837)		(4,584)
Net cash provided by (used in) financing activities		(310,123)	(1,864)	(34,971)		(346,958)
Intercompany investing and financing activities – net	707,711	(41,393)	(701,935)	35,617		-
Net increase (decrease) in cash	(7)	(292,519)	2,935	(7,336)	-	(296,927)
Cash and cash equivalents balance, beginning of period	17	846,495	(15,950)	17,494	-	848,056
Cash and cash equivalents balance, end of period	$10	$553,976	$(13,015)	$10,158	$ -	$551,129

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2008
(In thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$(674,131)	$96,671	$(678,379)	$10,924	$570,784	$(674,131)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	68,328	(131,836)	1,478,364	117,463	(570,784)	961,535
Net cash provided by (used in) operating activities	(605,803)	(35,165)	799,985	128,387	-	287,404
Net cash (used in) investing activities			(2,506)	33		(2,473)
Net cash provided by (used in) financing activities	126,376	356,843	(10,727)	(87,991)		384,501
Intercompany investing and financing activities – net	479,318	338,232	(781,420)	(36,130)		-
Net increase (decrease) in cash	(109)	659,910	5,332	4,299	-	669,432
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	$691,903	$(15,893)	$9,638	$ -	$685,665

ITEM 2. 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 overall economy has weakened significantly and fears of a prolonged recession are pronounced due to rising unemployment levels, further deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we have experienced significant decreases in our revenues and gross margins during 2007 and 2008 and through the third quarter of 2009 compared with prior years. Additionally, we incurred total land-related impairment charges of $710.1 million for the year ended October 31, 2008 and $521.5 million for the nine months ended July 31, 2009. These charges resulted from the write-off of deposit and preacquisition costs of $30.1 million related to land we no longer plan to pursue and impairments on owned inventory of $491.4 million. The charges for the nine months ended July 31, 2009, are largely related to the continued decline in land values and are in addition to the $1.5 billion total land-related charges, consisting of $380.6 million from the write-off of deposits plus preacquisition costs and impairments on owned land of $1.1 billion we have taken from the fourth quarter of our fiscal year ended October 31, 2006 through October 31, 2008. In addition to land related charges, the continued weakening of the market resulted in impairments of our intangible assets and goodwill of $3.3 million, $135.2 million, and $35.4 million during fiscal 2006, 2007 and 2008, respectively, resulting in a full write-off of these assets as of October 31, 2008.

We have exposure to additional impairments of our inventories, which, as of July 31, 2009, have a book value of $1.3 billion, net of $1.0 billion of impairments recorded on 226 of our communities. We also have $97.0 million invested in 13,395 lots under option, including cash and letters of credit option deposits of $41.2 million as of July 31, 2009. 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 July 31, 2009, we have total investments in, and advances to, unconsolidated joint ventures of $35.6 million. Each of our joint ventures assesses its inventory and other long-lived assets for impairment and we separately assess our investment in joint ventures for recoverability in accordance with GAAP, which has resulted in total reductions in our investment in joint ventures of $107.3 million from the fourth quarter of fiscal 2006, the first quarter in which we had impairments on our joint ventures, through July 31, 2009. We still have exposure to future write-downs of our investment in unconsolidated joint ventures if conditions continue to deteriorate in the markets in which 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 have recently begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces) we currently anticipate minimal investment in new land parcels for the remainder of 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 in head count at that time from our peak in June 2006. As of July 31, 2009 our headcount reduction since our peak was 72%. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the nine months ended July 31, 2009, homebuilding selling, general and administrative costs declined 35.0% to $187.1 million compared to the nine months ended July 31, 2008. Corporate general and administrative expenses include $12.3 million for certain stock options held by the Chief Executive Officer, Chief Financial Officer and the non-executive members of the Board of Directors which they elected to cancel during the first quarter of fiscal 2009. Excluding this charge, corporate general and administrative expenses would have declined 15.6% to $52.5 million, compared to the nine months ended July 31, 2008.

CRITICAL ACCOUNTING POLICIES

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

Income Recognition from Home and Land Sales - We are primarily engaged in the development, construction, marketing and sale of residential single-family and multi-family homes where the planned construction cycle is less than 12 months. For these homes, in accordance with 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 reduction of inventory until the revenue is recognized.

Income Recognition from Mid-Rise Projects - When we develop mid-rise buildings, they often 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 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 investor commitments and forward sales of mortgage-backed securities (“MBS”) to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of 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, none of the loans we originated during the first nine months of 2009 were Alt-A or sub-prime as compared to 10.2% of our originated loans being Alt-A loans and 0.4% of our originated loans being sub-prime loans for the same period last year. In addition, of the $56.5 million of mortgage loans held for sale as of July 31, 2009, none were Alt-A or sub-prime loans. There were, however, $3.8 million of mortgage loans held for investment at July 31, 2009, 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 nine months ended July 31, 2009 and 2008, FHA/VA loans represented 45.1% and 30.7%, 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 expensed when incurred. These fees and costs include loan origination fees, loan discount, and salaries and wages.

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.

Our inventories consist of the following three components: (1) Sold and unsold homes and lots under development, which includes all construction, land, capitalized interest and land development costs related to started homes and land under development in our active communities; (2) Land and land options held for future development or sale, which includes all costs related to land in our communities in planning or mothballed communities; and (3) Consolidated inventory not owned, which includes all cost related to specific performance options, variable interest entities, and other options, which consists primarily of our 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 July 31, 2009, the book value associated with the 77 mothballed communities was $376.3 million, net of an impairment balance of $509.1 million. Also during the third quarter of fiscal 2009, we sold 4 previously mothballed communities and re-activated 4 previously mothballed communities, which combined had a net book value of $11.8 million, net of an impairment reserve balance of $23.3 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 all impairments recorded from October 31, 2006 to date range from 13.5% to 20.3%. 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, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a 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 the fair value less costs to sell of land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties, 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 Condensed 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 5 to the Consolidated Financial Statements for inventory impairment and write-off amounts by segment.

Insurance Deductible Reserves - For homes delivered in fiscal 2009 and 2008, 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 2009 and fiscal 2008. Reserves have been established based upon actuarial analysis of estimated losses for fiscal 2009 and fiscal 2008. 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 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 Condensed 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 assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the 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. During fiscal 2009, we have written down certain joint venture investments by $18.0 million, based on this recoverability analysis.

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. Both of these liabilities are recorded in “Accounts payable and other liabilities” on the Condensed Consolidated Balance Sheets.

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

We recognize tax liabilities in accordance with FASB (“FIN”) 48, *Accounting for Uncertainty in Income Taxes*, 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 liability that is materially different from our current estimate. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Recent Accounting Pronouncements - See Note 18 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities and the issuance of new debt and equity securities. In light of the challenging homebuilding market conditions experienced over the past few years, which are continuing as reflected in our 46.0% and 55.2% decline in revenues during the three and nine months ended July 31, 2009, as compared to the same periods of 2008, we have been operating with a primary focus to generate cash flows through reductions in assets. The generation of cash flow together with debt repurchases and exchanges at prices below par has allowed us to reduce net debt (debt less cash) by $475.0 million over the past nine months.

Our cash uses during the nine months ended July 31, 2009 and 2008 were for operating expenses, land purchases, land deposits, construction, state income taxes, interest and debt repurchases. We provided for our cash requirements from available cash on hand, housing and land sales, financial service revenues, federal tax refunds 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 size of our revolving credit facility. For the remainder of fiscal 2009, we will continue to focus 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. We may also enter into land sale agreements or joint ventures to generate cash from our existing balance sheet. During the first quarter of fiscal 2009, we received a federal tax refund of $145.2 million. Unless there is a change in tax law, we will not receive federal tax refunds until we return to profitability on an annual basis.

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, stock compensation awards and impairment losses for inventory. 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 July 31, 2009, 3.4 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 2 for information on equity purchases).

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 and thus far in fiscal 2009, we have not made any dividend payments as a result of covenant restrictions in the Amended Credit Agreement and 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 for the remainder of fiscal 2009 and potentially beyond. The payment date of April 15, 2009 was the sixth dividend payment date for which dividends have not been paid. As a result, and in accordance with the Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock, we held a meeting of the holders of the Series A Preferred Stock (and hence the depositary shares) on June 24, 2009, for the purpose of nominating, by majority vote, two persons to serve, without compensation or reimbursement of expenses, as non-voting "Advisory Directors" to attend the portion of meetings of the Board of Directors discussing the agenda item relating to the Series A Preferred Stock until such time as full dividends on the Series A Preferred Stock have been paid for four consecutive quarterly dividend periods. Quorum was not reached at this meeting. As a result, no advisory directors were elected.

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 $600.0 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. As of both July 31, 2009 and October 31, 2008, there was zero drawn under the Amended Credit Agreement, excluding letters of credit totaling $138.3 million and $197.5 million, respectively.

We and each of our subsidiaries are guarantors under the Amended Credit Agreement, except for 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 prohibit the payment of dividends on, and the making of distributions with respect to, common and preferred stock and that restrict, among other things, the ability of the

Company and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness, repurchase capital stock, make other restricted payments, make investments, dispose of assets, incur liens, consolidate, merge, sell or otherwise transfer all or substantially all 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 July 31, 2009, we believe we were in compliance with the covenants under the Amended Credit Agreement and because of our $545.6 million of homebuilding cash at July 31, 2009, and our expectations of cash flows for the rest of fiscal 2009, we believe we will be in compliance for the remainder of 2009.

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 with a group of banks is a short term borrowing facility, which was amended on March 6, 2009, extending the maturity to March 5, 2010 and reducing the capacity to $60 million from $151 million. Interest is payable monthly, at the Company's option, at either LIBOR plus 2.00% or the prime rate, with a rate floor of 4.25% on both. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. The Master Repurchase Agreement requires K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage") to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the facility, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the Master Repurchase Agreement, we do not consider any of these covenants to be substantive or material. As of July 31, 2009, we believe we were in compliance with the covenants of the Master Repurchase Agreement. As of July 31, 2009, the aggregate principal amount of all borrowings under the Master Repurchase Agreement was $49.8 million.

At July 31, 2009, we had $629.3 million ($624.7 million net of discount) of outstanding senior secured notes, comprised of $600 million 11 1/2% Senior Secured Notes due 2013 and $29.3 million 18% Senior Secured Notes due 2017. At July 31, 2009 we also had $972.7 million of outstanding senior notes ($970.6 million net of discount), comprised of $43.5 million 8% Senior Notes due 2012, $144.0 million 6 1/2% Senior Notes due 2014, $114.3 million 6 3/8% Senior Notes due 2014, $129.3 million 6 1/4% Senior Notes due 2015, $173.2 million 6 1/4% Senior Notes due 2016, $172.5 million 7 1/2% Senior Notes due 2016 and $195.9 million 8 5/8% Senior Notes due 2017. In addition, we had $173.5 million of outstanding senior subordinated notes, comprised of $11.1 million 6% Senior Subordinated Notes due 2010, $69.0 million 8 7/8% Senior Subordinated Notes due 2012, and $93.4 million 7 3/4% Senior Subordinated Notes due 2013.

On December 3, 2008, the Company issued $29.3 million of 18% Senior Secured Notes due 2017 in exchange for $71.4 million of unsecured senior notes as follows: $0.6 million aggregate principal amount of 8% Senior Notes due 2012, $12.0 million aggregate principal amount of 6 1/2% Senior Notes due 2014, $1.1 million aggregate principal amount of 6 3/8% Senior Notes due 2014, $3.3 million aggregate principal amount of 6 1/4% Senior Notes due 2015, $24.8 million aggregate principal amount of 7 1/2% Senior Notes due 2016, $28.7 million aggregate principal amount of 6 1/4% Senior Notes due 2016 and $1.0 million aggregate principal amount of 8 5/8% Senior Notes due 2017. This exchange resulted in a recognized gain on extinguishment of debt of $41.3 million, net of the write-off of unamortized discounts and fees.

During the nine months ended July 31, 2009, we repurchased in open market transactions $11.3 million principal amount of 8% Senior Notes due 2012, $58.9 million principal amount of 6 1/2% Senior Notes due 2014, $33.6 million principal amount of 6 3/8% Senior Notes due 2014, $61.3 million principal amount of 6 1/4% Senior Notes due 2015, $88.9 million principal amount of 6 1/4% Senior Notes due 2016, $78.5 million principal amount of 7 1/2% Senior Notes due 2016, $41.8 millions principal amount of 8 5/8% Senior Notes due 2017, $71.1 million principal amount of 6% Senior Subordinated Notes due 2010, $79.1 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $53.8 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $223.1 million, plus accrued and unpaid interest. There were no open market repurchases during the three months ended July 31, 2009. These repurchases resulted in a gain on extinguishment of debt of $349.5 million for the nine months ended July 31, 2009, net of the write-off of unamortized discounts and fees.

On July 21, 2009, we completed cash tender offers whereby we purchased (1) in a fixed price tender offer, approximately $17.8 million principal amount of 6% Senior Subordinated Notes due 2010 for approximately $17.5 million, plus accrued and unpaid interest, (2) in a modified “Dutch Auction,” a total of approximately $49.5 million principal amount of 8% Senior Notes due 2012, 8 7/8% Senior Subordinated Notes due 2012 and 7 3/4% Senior Subordinated Notes due 2013 for approximately $36.1 million, plus accrued and unpaid interest and (3) in a modified “Dutch Auction,” a total of approximately $51.9 million of 6 1/2% Senior Notes due 2014, 6 3/8% Senior Notes due 2014, 6 1/4% Senior Notes due 2015, 6 1/4% Senior Notes due 2016, 7 1/2% Senior Notes due 2016 and 8 5/8% Senior Notes due 2017 for approximately $26.9 million, plus accrued and unpaid interest. These tender offers resulted in a gain on extinguishment of debt of $37.0 million, net of the write-off of unamortized discounts and fees.

The gains from the exchanges, repurchases and tender offer are included in the Condensed Consolidated Statement of Operations for the nine months ended July 31, 2009 as “Gain on extinguishment of debt”. Additionally, these transactions have reduced our annual interest by $49.6 million.

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 and our foreign subsidiary (See “Notes to Condensed Consolidated Financial Information” – Note 21 for further information). The indentures governing the Senior Secured, Senior and Senior Subordinated Notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior notes and senior subordinated notes (with respect to the Senior Secured Notes indentures), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the 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 comply with agreements and covenants and specified events of bankruptcy and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of July 31, 2009, we believe 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 continue to make debt purchases and/or exchanges from time to time, through tender offers, open market purchases, private transactions or otherwise, however, going forward our debt covenants will limit our ability to repurchase future debt.

The 11 1/2% Senior Secured Notes due 2013 are secured by a second-priority lien and the 18% Senior Secured Notes due 2017 are secured by a third-priority lien, in each case, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian (the issuer of the senior secured notes) and the guarantors to the extent such assets secure obligations under the Amended Credit Agreement and, in the case of the 18% Senior Secured notes due 2017, the 11 1/2% Senior Secured Notes due 2013. At July 31, 2009, the aggregate book value of the real property collateral securing these notes was approximately $983.6 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was $561.6 million as of July 31, 2009.

Because of the prohibition in the Amended Credit Agreement and covenant restrictions in our bond indentures, we are currently unable to pay dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. Even if the Amended Credit Agreement were to allow us to pay dividends, if current market trends continue or worsen, we will continue to be restricted from paying dividends in fiscal 2009 and possibly beyond as a result of covenant restrictions in our bond indentures. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under the Amended Credit Agreement or our bond indentures or otherwise affect compliance with any of the covenants contained in the Amended Credit Agreement or the bond indentures.

During the second quarter of fiscal 2009, our credit ratings were downgraded by Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch"), as follows:

- S&P downgraded our corporate credit rating to CCC from B-,
- Moody's downgraded our corporate family rating to Caa1 from B3,
- Fitch downgraded our Issuer Default Rating ("IDR") to CCC from B- and
- S&P, Moody's and Fitch also downgraded our various senior secured notes, senior notes and senior subordinated notes.

Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt or affect the amount available under our Amended Credit Agreement, interest rates charged on any of our debt or credit lines, or our debt covenant requirements or cause any other operating issue. The only potential risk from these negative changes in our credit ratings is that they may make it more difficult or costly for us to access capital. However, due to our available cash resources, the downgrades in our credit ratings in the second quarter of fiscal 2009 have not impacted management's operating plans, or our financial condition, results of operations or liquidity.

Total inventory decreased $760.9 million, excluding inventory not owned, during the nine months ended July 31, 2009. Total inventory, excluding inventory not owned, decreased in the Northeast $254.1 million, in the Mid-Atlantic $85.3 million, in the Midwest $12.0 million, in the Southeast $63.7 million, in the Southwest $102.9 million, and in the West $242.9 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. During the first three quarters of 2009, we incurred $491.4 million in write-downs primarily attributable to impairments as a result of a continued decline in sales pace, sales price and general market conditions. In addition, we wrote-off costs in the amount of $30.1 million during the nine months ended July 31, 2009, related to land options that expired or we terminated. See "Notes to Condensed Consolidated Financial Statements" - Note 5 for additional information. Substantially all homes under construction or completed and included in inventory at July 31, 2009 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 and debt and equity issuances.

The decreases discussed above excluded the decrease in consolidated inventory not owned of $51.3 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 Condensed Consolidated Financial Statements"-Note 16 for additional information on FIN 46R. Specific performance options inventory increased $20.9 million for the period. This increase was primarily due to the addition of specific performance lots in a community in the Northeast in the second quarter of fiscal 2009. Variable interest entity options inventory decreased $33.9 million as we continue to take down land or walk away from deals previously consolidated under FIN 46R. Other options inventory decreased $38.3 million for the period. Other options consist of inventory financed via a model home program and structured lot option agreements. Model home inventory decreased $26.9 million as a result of the fact that we have terminated the use of models in certain communities where the models were no longer needed and in conjunction therewith also terminated the option to purchase those models. Structured lot option inventory decreased $11.5 million. This decrease was primarily in the Southwest where we walked away from a large land purchase transaction during the first quarter of fiscal 2009.

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. Our inventory representing “Land and land options held for future development or sale” at July 31, 2009, on the Condensed Consolidated Balance Sheets, decreased by $179.1 million compared to October 31, 2008. The decrease is due to significant impairments that were taken on land that has previously been mothballed and has been slightly offset by “Sold and unsold homes 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 July 31, 2009, we have mothballed land in 77 communities. The book value associated with these communities at July 31, 2009 was $376.3 million, net of an impairment balance of $509.1 million. We continually review communities to determine if mothballing is appropriate.

The following table summarizes home sites included in our total residential real estate. The decrease in total home sites available in 2009 compared to 2008 is partially attributable to terminating certain option agreements, as discussed herein.

(Units in thousands)	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
July 31, 2009:				
Northeast	23	2,171	5,704	7,875
Mid-Atlantic	28	2,153	2,098	4,251
Midwest	25	2,964	265	3,229
Southeast	18	2,270	1,674	3,944
Southwest	80	4,558	1,370	5,928
West	24	2,654	5,218	7,872
Consolidated total	198	16,770	16,329	33,099
Unconsolidated joint ventures		2,303	376	2,679
Total including unconsolidated joint ventures		19,073	16,705	35,778
Owned		8,911	10,630	19,541
Optioned		7,696	5,699	13,395
Controlled lots		16,607	16,329	32,936
Construction to permanent financing lots		163	-	163
Consolidated total		16,770	16,329	33,099
Lots controlled by unconsolidated joint ventures		2,303	376	2,679
Total including unconsolidated joint ventures		19,073	16,705	35,778

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

(Units in thousands)	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
October 31, 2008:				
Northeast	31	2,696	6,279	8,975
Mid-Atlantic	48	4,663	1,643	6,306
Midwest	26	2,540	429	2,969
Southeast	32	2,899	1,581	4,480
Southwest	111	6,646	1,546	8,192
West	36	4,163	5,010	9,173
Consolidated total	284	23,607	16,488	40,095
Unconsolidated joint ventures		2,733	523	3,256
Total including unconsolidated joint ventures		26,340	17,011	43,351
Owned		13,379	10,060	23,439
Optioned		10,036	6,428	16,464
Controlled lots		23,415	16,488	39,903
Construction to permanent financing lots		192	-	192
Consolidated total		23,607	16,488	40,095
Lots controlled by unconsolidated joint ventures		2,733	523	3,256
Total including unconsolidated joint ventures		26,340	17,011	43,351

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

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

	July 31, 2009			October 31, 2008		
	Started Unsold Homes	Models	Total	Started Unsold Homes	Models	Total
Northeast	134	26	160	186	33	219
Mid-Atlantic	93	22	115	182	19	201
Midwest	55	22	77	70	27	97
Southeast	61	1	62	181	20	201
Southwest	395	91	486	566	125	691
West	55	80	135	90	97	187
Total	793	242	1,035	1,275	321	1,596
Started or completed unsold homes and models per active selling communities	4.0	1.2	5.2	4.5	1.1	5.6

The decrease in total started unsold homes compared to the prior year end is primarily due to a continued focused effort to sell inventoried homes during the first nine months of fiscal 2009. In some instances, this required additional incentives to be given to homebuyers on completed unsold homes. The decrease was also due to the decrease of 86 active communities from 284 at October 31, 2008 to 198 at July 31, 2009, which, in turn, resulted in a decrease in models.

Investments in and advances to unconsolidated joint ventures decreased $35.5 million during the nine months ended July 31, 2009. This decrease is primarily due to the write-down of our investment in certain joint ventures in accordance with APB 18, as well as distributions received from the joint ventures during the nine months ended July 31, 2009. As of July 31, 2009, we have investments in eight homebuilding joint ventures and seven land development joint ventures. Other than guarantees limited only to performance and completion of development, environmental indemnification, standard indemnification for fraud and misrepresentation including a voluntary bankruptcy, we have no other guarantees associated with unconsolidated joint ventures.

Receivables, deposits and notes decreased $15.8 million since October 31, 2008, to $63.0 million at July 31, 2009. The decrease is primarily due to the receipt of cash from insurance carriers related to outstanding warranty claims, as well as the return of deposits on land option transactions we terminated in fiscal 2008.

Property, plant and equipment decreased $13.2 million during the nine months ended July 31, 2009, primarily due to depreciation and a small amount of disposals, which were offset by minor additions for leasehold improvements during the period.

Prepaid expenses and other assets were as follows:

(In thousands)	July 31, 2009	October 31, 2008	Dollar Change
Prepaid insurance	$7,281	$8,262	$(981)
Prepaid project costs	58,442	82,394	(23,952)
Senior residential rental properties	7,020	7,321	(301)
Other prepaids	41,066	49,167	(8,101)
Other assets	10,106	9,451	655
Total	$123,915	$156,595	$(32,680)

Prepaid insurance decreased due to amortization of certain liability insurance premium costs during the first nine months of fiscal 2009. These costs are amortized over the life of the associated insurance policy, which can be one to three years. 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 decreased mainly due to the debt repurchased during the first half of 2009, which resulted in the write-off of portions of the associated prepaid debt costs and continued amortization of the remaining prepaid debt costs and prepaid credit facility costs.

Financial Services - Mortgage loans held for sale or investment consist primarily of residential mortgages receivable held for sale of which $56.5 million and $87.5 million at July 31, 2009 and October 31, 2008, respectively, are being temporarily warehoused and are awaiting sale in the secondary mortgage market. Also included are residential mortgages receivable held for investment of $3.8 million and $3.2 million at July 31, 2009 and October 31, 2008, respectively, 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 mortgage loans held for sale or investment from October 31, 2008 is directly related to a decrease in the volume of loans financed at July 31, 2009.

Income taxes receivable of $126.8 million at October 31, 2008 decreased $187.2 million in the nine months ended July 31, 2009 to an income tax payable of $60.4 million primarily because we received our federal tax refund for fiscal year 2008 during the first quarter of fiscal 2009 of $145.2 million. All remaining tax assets are fully reserved as we no longer have profits available to carryback losses for refund.

Accounts payable and other liabilities are as follows:

(In thousands)	July 31, 2009	October 31, 2008	Dollar Change
Accounts payable	$103,574	$167,407	$(63,833)
Reserves	138,464	133,423	5,041
Accrued expenses	34,520	59,394	(24,874)
Accrued compensation	15,908	27,211	(11,303)
Other liabilities	21,417	33,260	(11,843)
Total	$313,883	$420,695	$(106,812)

The decrease in accounts payable was primarily due to the lower volume of deliveries in the third quarter of fiscal 2009, compared to the fourth quarter of fiscal 2008. The increase in the reserves is attributable to additional accruals needed for closed communities in our West segment, due to a change in estimates related to the costs for transitioning the homeowners association from the Company to the homeowners and final work to be performed in order to have municipalities provide final bond release. The decrease in accrued expenses is primarily due to payments made for land options that were terminated and accrued in the fourth quarter of fiscal 2008 but paid in the first quarter of 2009. The decrease in accrued compensation was primarily due to the payout of our fiscal year 2008 bonuses during the first quarter of 2009 and reduced accruals under bonus plans in fiscal 2009. The decrease in other liabilities is primarily due to the payment of a note that was paid during the first quarter of fiscal 2009, and a decrease in deferred revenue related to sold and leased-back model homes.

Customer deposits decreased $3.0 million from $28.7 million at October 31, 2008 to $25.7 million at July 31, 2009. This decrease is mainly attributable to lower average purchase prices of homes in backlog and certain incentive programs in place that allow for lower deposit amounts.

Liabilities from inventory not owned and minority interest from inventory not owned decreased $54.2 million and increased $5.3 million, respectively, from $135.1 million and $24.9 million, respectively, at October 31, 2008 to $80.9 million and to $30.2 million at July 31, 2009, respectively. The net change in these amounts is directly correlated to the change in "Consolidated inventory not owned" on the Condensed Consolidated Balance Sheets, which is explained in the discussion of inventory in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Mortgage warehouse line of credit under our secured master repurchase agreement decreased $35.0 million from $84.8 million at October 31, 2008 to $49.8 million at July 31, 2009. The decrease is directly correlated to the decrease in mortgage loans held for sale from October 31, 2008 to July 31, 2009.

Accrued interest decreased $43.5 million to $29.0 million at July 31, 2009. This decrease is primarily attributed to the fact that the majority of our semi-annual interest payments for our Senior Secured, Senior and Senior Subordinated Notes are due and paid in the first and second quarter of the year. Accrued interest is also impacted by the reduction of our debt as a result of the repurchases of our unsecured senior and senior subordinated notes during the first nine months of fiscal 2009.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2008

Total revenues:

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

	Three Months Ended			
(In thousands)	July 31, 2009	July 31, 2008	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	$367,141	$692,690	$(325,549)	(47.0)%
Land sales and other revenues	11,044	9,750	1,294	13.3%
Financial services	8,929	14,101	(5,172)	(36.7)%
Total revenues	$387,114	$716,541	$(329,427)	(46.0)%

	Nine Months Ended			
(In thousands)	July 31, 2009	July 31, 2008	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	$1,107,891	$2,500,192	$(1,392,301)	(55.7)%
Land sales and other revenues	24,731	45,863	(21,132)	(46.1)%
Financial services	26,275	40,626	(14,351)	(35.3)%
Total revenues	$1,158,897	$2,586,681	$(1,427,784)	(55.2)%

Homebuilding:

Compared to the same prior period, homebuilding revenues decreased $324.3 million, or 46.2%, during the three months ended July 31, 2009 and decreased $1,413.4 million, or 55.5%, during the nine months ended July 31, 2009. These declines were primarily due to the number of home deliveries also declining 39.5% and 52.7% for the three and nine month periods, respectively. Average price per home also decreased to $278,000 and $283,000 for the three and nine months ended July 31, 2009, respectively, compared to $317,000 and $302,000 for the same periods of the prior year as a result of price declines and geographic and community mix of our deliveries. Land sales are ancillary to our homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on land sales and other revenues, see the section titled “Land Sales and Other Revenues” below.

Information on homes delivered by segment is set forth below:

(Dollars in thousands)	Three Months Ended July 31, 2009	2008	% Change	Nine Months Ended July 31, 2009	2008	% Change
Northeast:						
Dollars	$84,761	$169,394	(50.0)%	$254,749	$498,330	(48.9)%
Homes	201	347	(42.1)%	586	1,008	(41.9)%
Mid-Atlantic:						
Dollars	$75,631	$115,836	(34.7)%	$215,513	$375,888	(42.7)%
Homes	200	272	(26.5)%	582	906	(35.8)%
Midwest:						
Dollars	$29,925	$51,003	(41.3)%	$80,685	$152,675	(47.2)%
Homes	128	230	(44.3)%	355	698	(49.1)%
Southeast (1):						
Dollars	$23,152	$69,763	(66.8)%	$90,001	$572,127	(84.3)%
Homes	95	271	(64.9)%	393	2,344	(83.2)%
Southwest:						
Dollars	$105,518	$141,970	(25.7)%	$305,637	$449,803	(32.1)%
Homes	500	596	(16.1)%	1,390	1,932	(28.1)%
West:						
Dollars	$48,154	$144,724	(66.7)%	$161,306	$451,369	(64.3)%
Homes	198	469	(57.8)%	612	1,395	(56.1)%
Consolidated total:						
Dollars	$367,141	$692,690	(47.0)%	$1,107,891	$2,500,192	(55.7)%
Homes	1,322	2,185	(39.5)%	3,918	8,283	(52.7)%
Unconsolidated joint ventures:						
Dollars	$25,460	$59,807	(57.4)%	$72,494	$196,388	(63.1)%
Homes	69	168	(58.9)%	215	519	(58.6)%
Totals:						
Housing revenues	$392,601	$752,497	(47.8)%	$1,180,385	$2,696,580	(56.2)%
Homes delivered	1,391	2,353	(40.9)%	4,133	8,802	(53.0)%

(1) Includes 1,345 homes delivered at our Ft. Myers, Florida division in the first quarter of fiscal 2008.

The decrease in housing revenues during the three and nine months ended July 31, 2009 was primarily due to the continued weak market conditions in most of our markets. Another reason for reduced sales was H.R. 3221, enacted into law in 2008, which includes the “American Housing Rescue and Foreclosure Prevention Act of 2008.” Among other provisions, this law eliminated seller-funded down payment assistance on FHA insured loans approved on or after October 1, 2008. Of our total home closings utilizing K. Hovnanian Mortgage for the mortgage loans in fiscal 2008 and the first quarter of fiscal 2009, approximately 21% and 3%, respectively, were funded with mortgage loans whereby the homebuyer used a seller-financed down payment assistance program. These programs were ended during the first quarter of fiscal 2009, which resulted in none of our homebuyers utilizing them during the second or third quarter of fiscal 2009. While we will seek other down payment assistance and mortgage financing alternatives for our buyers, we expect that the elimination of seller-financed down payment assistance programs to continue to have a negative impact on our future sales and revenues.

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

	Net Contracts(1) for the Nine Months Ended July 31,		Contract Backlog as of July 31,	
(Dollars in thousands)	2009	2008	2009	2008
Northeast:				
Dollars	$254,091	$315,020	$205,966	$329,914
Homes	568	766	479	733
Mid-Atlantic:				
Dollars	$214,819	$262,928	$165,218	$247,309
Homes	615	723	418	570
Midwest:				
Dollars	$77,745	$88,021	$62,645	$95,418
Homes	388	413	324	474
Southeast:				
Dollars	$78,796	$118,931	$34,600	$84,899
Homes	361	493	131	300
Southwest:				
Dollars	$279,495	$414,939	$81,238	$146,282
Homes	1,346	1,817	376	636
West:				
Dollars	$154,777	$355,260	$64,557	$91,666
Homes	711	1,109	250	263
Consolidated total:				
Dollars	$1,059,723	$1,555,099	$614,224	$995,488
Homes	3,989	5,321	1,978	2,976
Unconsolidated joint ventures:				
Dollars	$65,437	$177,088	$146,747	$179,937
Homes	164	418	212	326
Totals:				
Dollars	$1,125,160	$1,732,187	$760,971	$1,175,425
Homes	4,153	5,739	2,190	3,302

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

Our reported level of sales contracts (net of cancellations) has been impacted by a slowdown in the pace of sales in all of the Company's segments, 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:

Quarter	2009	2008	2007	2006	2005
First	31%	38%	36%	30%	27%
Second	24%	29%	32%	32%	21%
Third	23%	32%	35%	33%	24%
Fourth		42%	40%	35%	25%

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	2009	2008	2007	2006	2005
First	22%	16%	17%	11%	15%
Second	31%	24%	19%	15%	17%
Third	23%	20%	18%	14%	15%
Fourth		30%	26%	16%	12%

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 buyer failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, beginning in fiscal 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 and other builders, leading the buyer to lose confidence in the contract price and due to tighter mortgage underwriting criteria leading to some customers' inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. While our cancellation rate based on gross sales contracts for the first nine months of fiscal 2009 is lower than it has been for several years, and closer to more normalized levels, it is difficult to predict if this trend will continue. However, for this same period, the cancellation rate as a percentage of beginning backlog remains higher than historical periods.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2009	2008	2009	2008
Sale of homes	$367,141	$692,690	$1,107,891	$2,500,192
Cost of sales, excluding interest	333,887	634,013	1,022,496	2,320,195
Homebuilding gross margin, before cost of sales interest expense and land charges	33,254	58,677	85,395	179,997
Cost of sales interest expense, excluding land sales interest expense	20,363	34,182	67,752	95,248
Homebuilding gross margin, after cost of sales interest expense, before land charges	12,891	24,495	17,643	84,749
Land charges	101,130	110,933	521,505	446,961
Homebuilding gross margin, after cost of sales interest expense and land charges	$(88,239)	$(86,438)	$(503,862)	$(362,212)
Gross margin percentage, before cost of sales interest expense and land charges	9.1%	8.5%	7.7%	7.2%
Gross margin percentage, after cost of sales interest expense, before land charges	3.5%	3.5%	1.6%	3.4%

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
Sale of homes	100.0%	100.0%	100.0%	100.0%
Cost of sales, excluding interest:				
Housing, land & development costs	75.6%	80.0%	76.6%	82.1%
Commissions	3.4%	3.0%	3.3%	2.7%
Financing concessions	2.3%	1.7%	2.4%	1.5%
Overheads	9.6%	6.8%	10.0%	6.5%
Total cost of sales, before interest expense and land charges	90.9%	91.5%	92.3%	92.8%
Gross margin percentage, before cost of sales interest expense and land charges	9.1%	8.5%	7.7%	7.2%
Cost of sales interest	5.6%	5.0%	6.1%	3.8%
Gross margin percentage, after cost of sales interest expense and before land charges	3.5%	3.5%	1.6%	3.4%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margins, before interest expense and land impairment and option write-off charges, increased to 9.1% during the three months ended July 31, 2009 compared to 8.5% for the same period last year and increased to 7.7% during the nine months ended July 31, 2009 compared to 7.2% for the same period last year. The declining pace of sales in our markets over the past couple of years has led to intense competition in many of our specific community locations. In order to attempt to maintain a reasonable pace of absorption, we have increased incentives, reduced lot location premiums, as well as lowered base prices, all of which have impacted our margins significantly and resulted in significant inventory impairments. However, the rate of the decline has slowed in most of our segments and in a few locations we have been able to raise prices without adversely impacting sales pace. In addition, we are delivering the final homes in some older communities and seeing the first deliveries in new communities where we have acquired the land at more reasonable prices. This has resulted in the modest improvement in our gross margins before cost of sales interest and land charges.

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 $101.1 million and $110.9 million during the three months ended July 31, 2009 and 2008, respectively, and $521.5 million and $447.0 million during the nine months ended July 31, 2009 and 2008, respectively, to their estimated fair value. During the three and nine months ended July 31, 2009, we wrote-off residential land options and approval and engineering costs amounting to $6.5 million and $30.1 million, compared to $30.8 million and $66.6 million for the three and nine months ended July 31, 2008, which are included in the total adjustments mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option and approval and engineering costs are written-off when a community's proforma profitability is not projected to produce adequate returns on the investment commensurate with the risk and we cancel the option. The impairments amounting to $94.6 million and $80.2 million during the three months ended July 31, 2009 and 2008, respectively, and $491.4 million and $380.4 million for the nine months ending July 31, 2009 and 2008, respectively, were incurred because of continued downward pressure on prices in order to maintain sales pace in many of our markets. In 2009, the majority of the impairments were in the Northeast and West segments. Impairments in the Northeast were due to increased weakness in the market, primarily in the suburbs of Manhattan. In the West, where we have to compete with significant competition from foreclosures, we have had to continue to reduce prices in order to maintain sales pace. This is especially true in some of the more fringe markets in our West segment. See Notes to "Condensed Consolidated Financial Statements" - Note 5 for an additional information of segment impairments.

Land Sales and Other Revenues:

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2009	2008	2009	2008
Land and lot sales	$8,488	$4,950	$14,388	$31,443
Cost of sales, excluding interest	3,982	1,520	7,197	25,747
Land and lot sales gross margin, excluding interest	4,506	3,430	7,191	5,696
Land sales interest expense	4,258	1,291	6,038	3,385
Land and lot sales gross margin, including interest	$248	$2,139	$1,153	$2,311

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

Other Revenues include income from contract cancellations, where the deposit has been forfeited due to contract terms, interest income, cash discounts, buyer walk aways and miscellaneous one-time receipts.

Homebuilding, Selling, General and Administrative

Homebuilding selling, general and administrative expenses as a percentage of homebuilding revenues increased to 14.6% for the three months ended July 31, 2009, compared to 12.8% for the three months ended July 31, 2008 and increased to 16.5% for the nine months ended July 31, 2009, compared to 11.3% for the nine months ended July 31, 2008. Expenses decreased $34.7 million for the three months ended July 31, 2009 and decreased $100.7 million for the nine months ended July 31, 2009 compared to the same periods last year as we have reduced these costs through headcount reduction, other cost saving measures and a decreased number of communities. Despite the decreases in expenses, the amount of homebuilding selling, general and administrative expenses as a percentage of revenue has increased, due to reduced home deliveries.

HOMEBUILDING OPERATIONS BY SEGMENT

Segment Analysis

(Dollars in thousands, except average sales price)	Three Months Ended July 31, 2009	2008	Variance	Variance %
Northeast				
Homebuilding revenue	$86,163	$170,680	$(84,517)	(49.5)%
Loss before taxes	$(43,201)	$(11,249)	$(31,952)	284.0%
Homes delivered	201	347	(146)	(42.1)%
Average sales price	$421,697	$488,167	$(66,470)	(13.6)%
Contract cancellation rate	20.2%	22.8%	(2.6)%	
Mid-Atlantic				
Homebuilding revenue	$76,521	$116,165	$(39,644)	(34.1)%
Loss before taxes	$(16,834)	$(47,439)	$30,605	(64.5)%
Homes delivered	200	272	(72)	(26.5)%
Average sales price	$378,155	$425,868	$(47,713)	(11.2)%
Contract cancellation rate	28.2%	39.1%	(10.9)%	
Midwest				
Homebuilding revenue	$30,075	$51,229	$(21,154)	(41.3)%
Loss before taxes	$(3,806)	$(7,038)	$3,232	(45.9)%
Homes delivered	128	230	(102)	(44.3)%
Average sales price	$233,789	$221,752	$12,037	5.4%
Contract cancellation rate	26.0%	33.5%	(7.5)%	
Southeast				
Homebuilding revenue	$23,617	$70,018	$(46,401)	(66.3)%
Loss before taxes	$(7,900)	$(36,897)	$28,997	(78.6)%
Homes delivered	95	271	(176)	(64.9)%
Average sales price	$243,705	$257,428	$(13,723)	(5.3)%
Contract cancellation rate	18.2%	43.8%	(25.6)%	
Southwest				
Homebuilding revenue	$113,403	$142,261	$(28,858)	(20.3)%
Loss before taxes	$(16,036)	$(20,880)	$4,844	(23.2)%
Homes delivered	500	596	(96)	(16.1)%
Average sales price	$211,036	$238,205	$(27,169)	(11.4)%
Contract cancellation rate	23.6%	30.2%	(6.6)%	
West				
Homebuilding revenue	$48,070	$149,744	$(101,674)	(67.9)%
Loss before taxes	$(63,795)	$(52,050)	$(11,745)	22.6%
Homes delivered	198	469	(271)	(57.8)%
Average sales price	$243,200	$308,580	$(65,380)	(21.2)%
Contract cancellation rate	17.9%	25.6%	(7.7)%	

(Dollars in thousands, except average sales price)	Nine Months Ended July 31, 2009	2008	Variance	Variance %
Northeast				
Homebuilding revenue	$259,610	$522,453	$(262,843)	(50.3)%
Loss before taxes	$(273,511)	$(47,558)	$(225,953)	475.1%
Homes delivered	586	1,008	(422)	(41.9)%
Average sales price	$434,725	$494,375	$(59,650)	(12.1)%
Contract cancellation rate	24.2%	27.9%	(3.7)%	
Mid-Atlantic				
Homebuilding revenue	$217,362	$379,516	$(162,154)	(42.7)%
Loss before taxes	$(66,590)	$(91,284)	$24,694	(27.1)%
Homes delivered	582	906	(324)	(35.8)%
Average sales price	$370,297	$414,887	$(44,590)	(10.7)%
Contract cancellation rate	33.3%	36.6%	(3.3)%	
Midwest				
Homebuilding revenue	$81,069	$154,280	$(73,211)	(47.5)%
Loss before taxes	$(18,548)	$(29,750)	$11,202	(37.7)%
Homes delivered	355	698	(343) `	(49.1)%
Average sales price	$227,282	$218,732	$8,550	3.9%
Contract cancellation rate	22.2%	31.7%	(9.5)%	
Southeast				
Homebuilding revenue	$92,404	$574,120	$(481,716)	(83.9)%
Loss before taxes	$(47,933)	$(69,944)	$22,011	(31.5)%
Homes delivered	393	2,344	(1,951)	(83.2)%
Average sales price	$229,010	$244,081	$(15,071)	(6.2)%
Contract cancellation rate	22.5%	46.7%	(24.2)%	
Southwest				
Homebuilding revenue	$317,370	$455,083	$(137,713)	(30.3)%
Loss before taxes	$(55,760)	$(46,510)	$(9,250)	19.9%
Homes delivered	1,390	1,932	(542)	(28.1)%
Average sales price	$219,883	$232,817	$(12,934)	(5.6)%
Contract cancellation rate	27.6%	28.7%	(1.1)%	
West				
Homebuilding revenue	$161,438	$457,324	$(295,886)	(64.7)%
Loss before taxes	$(259,582)	$(362,264)	$102,682	(28.3)%
Homes delivered	612	1,395	(783)	(56.1)%
Average sales price	$263,571	$323,562	$(59,991)	(18.5)%
Contract cancellation rate	17.2%	31.9%	(14.7)%	

Homebuilding Results by Segment

Northeast - Homebuilding revenues decreased 49.5% and 50.3% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 42.1% and 41.9% decrease in homes delivered and a 13.6% and 12.1% decrease in average sales price for the three and nine months ended July 31, 2009, respectively. Loss before income taxes increased $32.0 million and $226.0 million to a loss of $43.2 million and $273.5 million for the three and nine months ended July 31, 2009, respectively. This increase is mainly due to a $19.0 million and $167.6 million increase in inventory impairment losses and land option write-offs recorded for the three and nine months ended July 31, 2009. Gross margin percentage before interest expense is also down for the three and nine months ended July 31, 2009, as the markets in this segment continue to be very competitive.

Mid-Atlantic - Homebuilding revenues decreased 34.1% and 42.7% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 26.5% and

35.8% decrease in homes delivered and an 11.2% and 10.7% decrease in average sales price for the three and nine months ended July 31, 2009, respectively, as a result of increased incentives and the different mix of communities delivering in 2009 compared to 2008. Loss before income taxes decreased $30.6 million and $24.7 million to a loss of $16.8 million and $66.6 million for the three and nine months ended July 31, 2009, respectively, due partly to a $25.9 million and $18.6 million decrease in inventory impairment losses and land option write-offs for the three and nine months, respectively.

Midwest - Homebuilding revenues decreased 41.3% and 47.5% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 44.3% and 49.1% decrease in homes delivered, slightly offset by a 5.4% and 3.9% increase in average sales price for the three and nine months ended July 31, 2009, respectively. The fluctuations in average sales prices were the result of the mix of communities delivering in 2009 compared to 2008. Loss before income taxes decreased $3.2 million and $11.2 million to a loss of $3.8 million and $18.5 million for the three and nine months ended July 31, 2009, respectively. The decrease in the loss for the nine months ended July 31, 2009, was primarily due to our share of net losses on an unconsolidated joint venture of $4.8 million for the nine months ended July 31, 2008, which did not recur in fiscal 2009, as we wrote-off our investment in the joint venture at October 31, 2008,

Southeast - Homebuilding revenues decreased 66.3% and 83.9% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 64.9% and 83.2% decrease in homes delivered and a 5.3% and 6.2% decrease in average sales price, respectively. The decrease in the nine months ended July 31, 2009 is primarily due to 1,345 deliveries from our Fort Myers operations in the first quarter of 2008 compared to 23 deliveries in the first quarter of 2009. Loss before income taxes decreased $29.0 million and $22.0 million to a loss of $7.9 million and $47.9 million for the three and nine months ended July 31, 2009, respectively, due partly to an $18.9 million and $18.4 million decrease in inventory impairment losses and land option write-offs for the three and nine months, respectively.

Southwest - Homebuilding revenues decreased 20.3% and 30.3% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 16.1% and 28.1% decrease in homes delivered, and an 11.4% and 5.6% decrease in average selling price for the three and nine months ended July 31, 2009, respectively. Loss before income taxes decreased $4.8 million to a loss of $16.0 million for the three months ended July 31, 2009 and increased $9.3 million to a loss of $55.8 million for the nine months ended July 31, 2009. The decrease in loss for the three months ended July 31, 2009 was partially due to a $12.7 million decrease in inventory impairment losses and land option write-offs. The increase in loss for the nine months ended July 31, 2009 was partially due to a reduction in gross margin percentage before interest expense for our Texas operations resulting from a competitive marketplace and the difficult economy.

West - Homebuilding revenues decreased 67.9% and 64.7% for the three and nine months ended July 31, 2009, respectively, compared to the same periods of the prior year. The decreases are primarily due to a 57.8% and 56.1% decrease in homes delivered and a 21.2% and 18.5% decrease in average selling price for the three and nine months ended July 31, 2009, respectively. The decrease in deliveries was the result of the continued slowing of the housing market in California and reduced active communities as nearly half of our mothballed communities are in the West. Loss before income taxes increased $11.7 million to a loss of $63.8 million for the three months ended July 31, 2009 and decreased $102.7 million to a loss of $259.6 million for the nine months ended July 31, 2009. The increased loss for the three months ended July 31, 2009 was primarily due to a $28.0 million increase in inventory impairments and land option write-offs taken in the third quarter of fiscal 2009, compared to the third quarter of fiscal 2008. The decreased loss for the nine months ended July 31, 2009 was partially due to a $50.4 million decrease in inventory impairment losses and land option write offs. In addition gross margin before interest expense increased for the nine months ended July 31, 2009, as we are starting to see signs of price stabilization in this market and the benefit of impairment reserve reversals as homes are delivered.

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. For the three and nine months ended July 31, 2009, financial services provided $2.6 million and $6.7 million in income before income taxes, compared to $5.9 million and $13.1

million for the same periods in 2008. The decrease in pretax profit for the three and nine months ended July 31, 2009 was due to decreased mortgage settlements and a decrease in the average loan amount, partially offset by a reduction in costs. The volume of our financial services business declines as our homebuilding deliveries decline.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services and administration of insurance, quality and safety. Corporate general and administrative expenses decreased to $15.5 million for the three months ended July 31, 2009, compared to $20.5 million for the three months ended July 31, 2008 and increased to $64.8 million for the nine months ended July 31, 2009 from $62.2 million for the nine months ended July 31, 2008. During the first quarter of fiscal 2009, the Chief Executive Officer, Chief Financial Officer and each of the non-executive members of the Board of Directors consented to the cancellation of certain of their options (with the full understanding that the Company made no commitment to provide them with any other form of consideration in respect of the cancelled options) in order to reduce a portion of the equity reserve “overhang” under the Company’s equity compensation plans represented by the number of shares of the Company’s common stock remaining available for future issuance under such plans (including shares that may be issued upon the exercise or vesting of outstanding options and other rights). As a result of this cancellation, we recorded additional expense of $12.3 million. This charge to operations is offset by a credit to paid in capital. Excluding this option cancellation expense, corporate, general and administrative expenses decreased $5.0 million and $9.7 million for the three and nine months ended July 31, 2009, respectively, compared to the same periods in 2008, primarily due to reduced salaries resulting from headcount reduction, and lower bonus accruals.

Other Interest

Other interest increased $13.3 million and $55.0 million for the three and nine months ended July 31, 2009, compared to the three and nine months ended July 31, 2008. The increase was primarily due to direct expensing of interest. 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. As our inventory balances have decreased from fiscal 2008 to fiscal 2009, the amount of interest required to be directly expensed has increased.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, legal fees related to shareholder lawsuits, minority interest relating to consolidated joint ventures, and corporate owned life insurance. Other operations decreased to $2.0 million and increased to $8.6 million for the three and nine months ended July 31, 2009, compared to $3.4 million and $6.7 million for the three and nine months ended July 31, 2008. The increase for the nine months ended July 31, 2009 was primarily due to additional bond expense related to the issuance of 11 1/2% Notes due 2013 in May 2008. Amortization of these Notes did not start until June of 2008.

Intangible Amortization

Intangible amortization decreased $0.3 million and $1.5 million for the three and nine months ended July 31, 2009, when compared to the same periods in 2008. At the end of fiscal year 2008, we wrote off all of our remaining intangible assets. As a result, there was zero expense for the three and nine months ended July 31, 2009.

Gain on Extinguishment of Debt

During the nine months ended July 31, 2009, we repurchased in the open market a total of $578.3 million principal amount of various issues of our unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of $223.1 million, plus accrued and unpaid interest. We recognized a gain of $349.5 million net of the write-off of unamortized discounts and fees, related to these purchases which represents the difference between the principal amounts of the notes and the aggregate purchase price. In addition, on December 3, 2008, we exchanged a total of $71.4 million principal amount of various issues of our unsecured senior notes due 2012 through 2017 for $29.3 million in senior secured 18% notes due 2017. This exchange resulted in a recognized gain of $41.3 million. During the three months ended July 31, 2009, we completed cash tender offers whereby we purchased an aggregate of approximately $119.2 million principal amount of various issues of our unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of approximately $80.5 million, plus accrued unpaid interest. As a result of the tender offers we recognized a gain of $37.0 million in the third quarter, net of the write-off of unamortized discounts and fees. We may continue to make additional debt purchases and/or exchanges through tender offers, open market purchases, private transactions or otherwise from time to time depending on market conditions and covenant restrictions.

Loss From Unconsolidated Joint Ventures

The loss from unconsolidated joint ventures increased $4.6 million and $28.9 million to a loss of $5.5 million and $38.2 million for the three and nine months ended July 31, 2009, when compared to the same periods last year. The increased loss in 2009 is mainly due to the write down of our investment in one of our joint ventures where the full investment is deemed to be an other than temporary impairment, as well as our share of the losses from inventory impairments from another two of our joint ventures. These losses were offset by the fact that we are no longer recording any loss related to a fourth joint venture because we wrote off our investment in that joint venture in the fourth quarter of fiscal 2008, and have no further funding commitments to this entity.

Total Taxes

Total tax provision was $20.9 million and $42.7 million for the three and nine months ended July 31, 2009, respectively. During fiscal 2009, we recorded $23.0 million for estimated income taxes for amounts that should have been recorded in prior reporting periods. These amounts principally relate to an increase in tax liabilities to eliminate the assumed federal benefit of certain tax accruals. In fiscal 2009, we also recorded an accrual for federal taxes and related interest for a change in estimate of certain temporary differences amounting to $19.3 million. A valuation allowance was established for the entire deferred tax asset resulting from these timing differences. As more fully described in the next paragraph, we fully reserve our net deferred tax assets. We do not expect to record any additional net tax benefits unless there is a tax law change or we begin to generate profits.

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. Due to the continued downturn in the homebuilding industry during 2007, 2008 and into 2009, we are in a cumulative loss position over the most recent three year period. Based on the requirements of SFAS 109, this three year cumulative loss and the uncertainty of the timing of our ability to generate profits required us to provide a valuation allowance for our deferred tax assets. Our valuation allowance for current and deferred taxes increased $76.7 million and $198.3 million, respectively, during the three and nine months ended July 31, 2009, to $873.8 million at July 31, 2009. In the first quarter of 2009, we received a tax refund of $145.2 million thus realizing the tax assets recorded as of October 31, 2008.

Inflation

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

Inflation has a lesser short-term effect, because we generally negotiate fixed price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 59.7% of our homebuilding cost of sales.

Safe Harbor Statement

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

- Changes in general and local economic and industry and business conditions;
- 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 Part I, Item 1 “Business” and Item 1A “Risk Factors” in our Form 10-K for the year ended October 31, 2008. 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-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

A primary market risk facing us is interest rate risk on our long-term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit under our 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 that this risk is material. The following table sets forth as of July 31, 2009, our long-term debt obligations principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value ("FV").

(Dollars in thousands)	Long Term Debt as of July 31, 2009 by Fiscal Year of Expected Maturity Date							
	2009	2010	2011	2012	2013	Thereafter	Total	FV at July 31, 2009
Long term debt(1):								
Fixed rate	-	$11,899	$895	$113,469	$694,417	$976,479	$1,797,159	$1,238,089
Weighted average interest rate	-	6.1%	6.8%	8.5%	11.0%	7.4%	8.8%	

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

There have been no material changes in market risk for our variable rate debt under our Amended Credit Agreement at July 31, 2009 from those described in the Company's Annual Report on Form 10-K for the year ended October 31, 2008.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, 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 July 31, 2009. 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 as of July 31, 2009 are effective to accomplish their objectives.

In addition, there was no change in the Company's internal control over financial reporting that occurred during the quarter ended July 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

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

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

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 first, second and third quarters of 2009 (excluding any purchases that may have been made by certain members of the Hovnanian family, which would have been 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 4. Submission of Matters to a Vote of Security Holders

On June 24, 2009, the Company held a special meeting of holders of its 7.625% Series A Preferred Stock (the “Preferred Stock”) (represented by Depositary Shares), which was called for the purpose of nominating two persons to serve as non-voting “Advisory Directors” to attend the portion of meetings of the Board of Directors discussing the agenda item relating to the Preferred Stock until such time as full dividends on the Preferred Stock have been paid for four consecutive quarterly dividend periods. As a result of restrictions in the Company’s credit agreement and bond indentures, the Company has been, and continues to be, prohibited from paying dividends on the Preferred Stock. A quorum was not obtained at the meeting. Therefore, the Company was precluded from conducting any business at the special meeting and no “Advisory Directors” were nominated.

Item 6. Exhibits

3(a)	Certificate of Incorporation of the Registrant.(1)
3(b)	Certificate of Amendment of Certificate of Incorporation of the Registrant.(2)
3(c)	Restated Bylaws of the Registrant.(3)
4(a)	Specimen Class A Common Stock Certificate. (6)
4(b)	Specimen Class B Common Stock Certificate. (6)
4(c)	Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated July 12, 2005.(4)
4(d)	Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
4(e)	Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C.(5)
10(a)	Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan.
10(b)	Hovnanian Enterprises, Inc. Senior Executive Short-Term Incentive Plan (As Amended and Restated).
10(c)	Form of Incentive Stock Option Agreement.
10(d)	Form of Restricted Share Unit Agreement.
10(e)	Form of Performance Vesting Incentive Stock Option Agreement.
10(f)	Form of Performance Vesting Non-Qualified Stock Option Agreement.
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.

(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 December 9, 2008.

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

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

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

(6) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2009 of the Registrant.

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

DATE: September 4, 2009
/S/J. LARRY SORSBY
J. Larry Sorsby,
Executive Vice President and
Chief Financial Officer and Treasurer

DATE: September 4, 2009
/S/PAUL W. BUCHANAN
Paul W. Buchanan
Senior Vice President/
Chief Accounting Officer

AMENDED AND RESTATED
2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

1. PURPOSE OF THE PLAN

The purpose of the Plan is to aid the Company and its Affiliates in recruiting and retaining key employees, directors and consultants of outstanding ability and to motivate such employees, directors and consultants to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such key employees, directors or consultants will have in the welfare of the Company as a result of their proprietary interest in the Company's success. Upon approval by the Company's stockholders, the Plan is intended to supersede and replace the 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan, as amended and restated prior to the Effective Date (the "1999 Plan"), and equity-based Awards that were previously granted under the 1999 Plan that remain outstanding shall be governed pursuant to the terms set forth herein.

2. DEFINITIONS

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) Act: The Securities Exchange Act of 1934, as amended, or any successor thereto.

(b) Affiliate: With respect to the Company, any entity directly or indirectly controlling, controlled by, or under common control with, the Company or any other entity designated by the Board in which the Company or an Affiliate has an interest.

(c) Award: An Option, Stock Appreciation Right or Other Stock-Based Award granted pursuant to the Plan (including, without limitation, Awards granted under the 1999 Plan).

(d) Beneficial Owner: A "beneficial owner", as such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).

(e) Board: The Board of Directors of the Company.

(f) Change in Control:

The occurrence of any of the following events:

(i) any Person (other than a Person holding securities representing 10% or more of the combined voting power of the Company's outstanding securities as of the Effective Date, or any Family Member of such a Person, the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the

Company, representing 50% or more of the combined voting power of the Company's then-outstanding securities;

(ii) during any period of twenty-four consecutive months (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(f) (i), (iii) or (iv) of the Plan or (B) a director nominated by any Person (including the Company) who publicly announces an intention to take or to consider taking actions (including, but not limited to, an actual or threatened proxy contest) which if consummated would constitute a Change in Control) whose election by the Board or nomination for election by the Company's shareholders was approved in advance by a vote of at least two-thirds (2/3) 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;

(iii) the consummation of any transaction or series of transactions under which the Company is merged or consolidated with any other company, other than a merger or consolidation which would result in the shareholders of the Company immediately prior thereto continuing to own (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 65% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iv) the Company undergoes a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a liquidation of the Company into a wholly-owned subsidiary.

(g) Code: The Internal Revenue Code of 1986, as amended, or any successor thereto.

(h) Committee: The Compensation Committee of the Board (or a subcommittee thereof as provided under Section 4), or such other committee of the Board to which the Board has delegated power to act under or pursuant to the provisions of the Plan, or the full Board.

(i) Company: Hovnanian Enterprises, Inc., a Delaware corporation, and any successors thereto.

(j) Disability: Inability of a Participant to perform in all material respects his duties and responsibilities to the Company, or any Subsidiary of the Company, by reason of a physical or mental disability or infirmity which inability is reasonably expected to be permanent and has continued (i) for a period of six consecutive months or (ii) such shorter period as the Committee may reasonably determine in good faith. The Disability determination shall be in the sole discretion of the Committee and a Participant (or his representative) shall furnish the Committee with medical evidence documenting the Participant's disability or infirmity which is satisfactory to the Committee.

(k) Effective Date: February 6, 2008.

(l) Fair Market Value: On a given date, the closing price of the Shares as reported on such date on the Composite Tape of the principal national securities exchange on which such

Shares are listed or admitted to trading, or, if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which such Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on a national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or, if there is no market on which the Shares are regularly quoted, the Fair Market Value shall be the value established by the Committee in good faith. If no sale of Shares shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealer Automated Quotation System on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used.

(m) Family Member:

(i) any Person holding securities representing 10% or more of the combined voting power of the Company's outstanding securities as of the Effective Date;

(ii) any spouse of such a person;

(iii) any descendant of such a person;

(iv) any spouse of any descendant of such a person; or

(v) any trust for the benefit of any of the aforementioned persons.

(n) ISO: An Option that is also an incentive stock option granted pursuant to Section 6(d) of the Plan.

(o) LSAR: A limited stock appreciation right granted pursuant to Section 7(d) of the Plan.

(p) 1999 Plan: The 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan, as amended and restated prior to the Effective Date 1999.

(q) Other Stock-Based Awards: Awards granted pursuant to Section 8 of the Plan.

(r) Option: A stock option granted pursuant to Section 6 of the Plan.

(s) Option Price: The purchase price per Share of an Option, as determined pursuant to Section 6(a) of the Plan.

(t) Participant: An employee, director or consultant of the Company or any of its Affiliates who is selected by the Committee to participate in the Plan.

(u) Performance-Based Awards: Certain Other Stock-Based Awards granted pursuant to Section 8(b) of the Plan.

(v) Person: A “person”, as such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto).

(w) Plan: The 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan.

(x) Shares: Shares of common stock of the Company.

(y) Stock Appreciation Right: A stock appreciation right granted pursuant to Section 7 of the Plan.

(z) Subsidiary: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

3. SHARES SUBJECT TO THE PLAN

Subject to Sections 4, 6(f) and 9 of the Plan (and giving effect to the Company’s stock split on March 26, 2004), the total number of Shares which may be issued under the Plan pursuant to grants of ISOs or other Awards (inclusive of Shares previously issued under the 1999 Plan) is 16,972,128 and the maximum number of Shares for which Options, Stock Appreciation Rights, restricted Shares or restricted Share units may be granted during a fiscal year (inclusive of any such Awards previously granted under the 1999 Plan) to any Participant shall be 1,000,000. The Shares may consist, in whole or in part, of unissued Shares or treasury Shares. The issuance of Shares or the payment of cash upon the exercise of an Award or in consideration of the cancellation or termination of an Award shall reduce the total number of Shares available under the Plan, as applicable. Notwithstanding the forgoing, in the event that any Awards under the Plan terminate or lapse (or have terminated or lapsed) for any reason from and after November 1, 2007 (including, without limitation, due to a voluntary or involuntary forfeiture of such Awards), the number of Shares subject to such terminated or lapsed Awards shall not be available for future Award grants under the Plan and the total number of Shares available for issuance under the Plan shall instead be reduced by such number of Shares.

4. ADMINISTRATION

The Plan shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each intended to qualify as “non-employee directors” within the meaning of Rule 16b-3 under the Act (or any successor rule thereto), “outside directors” within the meaning of Section 162(m) of the Code (or any successor section thereto) and “independent directors” within the meaning of the applicable rules, if any, of any national securities exchange on which Shares are listed or admitted to trading; provided, however, that any action permitted to be taken by the Committee may be taken by the Board, in its discretion. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administrations of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to Participants and their beneficiaries or successors).

Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. Awards may, in the discretion of the Committee, be made under the Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company or its Affiliates or a company acquired by the Company or with which the Company combines. The number of Shares underlying such substitute awards shall be counted against the aggregate number of Shares available for Awards under the Plan. The Committee shall require payment of any minimum amount it may determine to be necessary to withhold for federal, state, local or other, taxes as a result of the exercise or vesting of an Award. Unless the Committee specifies otherwise, the Participant may elect to pay a portion or all of such minimum withholding taxes by (a) delivery in Shares or (b) having Shares withheld by the Company from any Shares that would have otherwise been received by the Participant. The number of Shares so delivered or withheld shall have an aggregate Fair Market Value sufficient to satisfy the applicable minimum withholding taxes. If the chief executive officer of the Company is a member of the Board, the Board by specific resolution may constitute such chief executive officer as a committee of one which shall have the authority to grant Awards of up to an aggregate of 1,000,000 Shares (giving effect to the Company's stock split on March 26, 2004, and otherwise subject to the provisions of Section 9 of the Plan) in each fiscal year to Participants who are (i) not subject to the rules promulgated under Section 16 of the Act (or any successor section thereto) or (ii) covered employees (or anticipated to become covered employees) as such term is defined in Section 162(m) of the Code; provided, however, that such chief executive officer shall notify the Committee of any such grants made pursuant to this Section 4.

5. LIMITATIONS

No Award may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

6. TERMS AND CONDITIONS OF OPTIONS

Options granted under the Plan shall be, as determined by the Committee, non-qualified or incentive stock options for federal income tax purposes, as evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) Option Price. The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date an Option is granted (other than in the case of Options granted in substitution of previously granted awards, as described in Section 4).

(b) Exercisability. Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted. The Committee may, in its discretion, accelerate the date after which Options may be exercised in whole or in part. If the chief executive officer of the Company is a member of the Board, the Board by specific resolution may constitute such chief executive officer as a committee of one which shall have the authority to accelerate the date after which Options may be exercised in whole or in part.

(c) Exercise of Options. Except as otherwise provided in the Plan or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 6 of the Plan, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date payment is received by the Company pursuant to clauses (i), (ii), (iii) or (iv) in the following sentence. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full not later than at the time that the Shares being purchased are delivered to or at the direction of the Participant, in each case at the election of the Participant to the extent permitted by law and as designated by the Committee, (i) in cash, (ii) in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that such Shares have been held by the Participant for no less than six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles), (iii) partly in cash and partly in such Shares, (iv) through the delivery of irrevocable instruments to a broker to deliver promptly to the Company an amount equal to the aggregate Option Price for the Shares being purchased or (v) through net settlement in Shares. No Participant shall have any rights to dividends or other rights of a shareholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(d) ISOs. The Committee may grant Options under the Plan that are intended to be ISOs. Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). No ISO may be granted to any Participant who at the time of such grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (i) within two years after the date of grant of such ISO or (ii) within one year after the transfer of such Shares to the Participant, shall notify the Company of such disposition and of the amount realized upon such disposition. All Options granted under the Plan are intended to be nonqualified stock options, unless the applicable Award agreement expressly states that the Option is intended to be an ISO. If an Option is intended to be an ISO, and if for any reason such Option (or portion thereof) shall not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a nonqualified stock option granted under the Plan; provided that such Option (or portion thereof) otherwise complies with the Plan’s requirements relating to nonqualified stock options. In no event shall any member of the Committee, the Company or any of its Affiliates (or their respective employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of an Option to qualify for any reason as an ISO.

(e) Attestation. Wherever in this Plan or any agreement evidencing an Award a Participant is permitted to pay the exercise price of an Option or taxes relating to the exercise of an Option by delivering Shares, the Participant may, subject to procedures satisfactory to the Committee, satisfy such delivery requirement by presenting proof of beneficial ownership of such Shares, in which case the Company shall treat the Option as exercised without further payment and/or shall withhold such number of Shares from the Shares acquired by the exercise of the Option, as appropriate.

(f) Repricing of Options. Notwithstanding any other provisions under the Plan, no action shall be taken under the Plan to (i) lower the exercise prices of any Company stock options after they are granted, (ii) exchange stock options for stock options with lower exercise prices or for other Awards (other than pursuant to Section 9 hereof) or (iii) take any other action that is treated as a "repricing" of stock options under generally accepted accounting principles; provided, however, that such actions shall be permitted to the extent approved by at least a majority of the Board's "independent directors" (as defined for purposes of The New York Stock Exchange listed company rules). Any such approved action shall be treated as a grant of a new Award to the extent required under Sections 162(m), 422 or 424 of the Code (for individuals who are "covered employees" under Section 162(m) of the Code at the time of such action, or for stock options that are intended to retain their status as ISOs).

7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

(a) Grants. The Committee also may grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same number of Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 7 (or such additional limitations as may be included in an Award agreement).

(b) Terms. The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the greater of (i) the Fair Market Value of a Share on the date the Stock Appreciation Right is granted or, in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the Option Price of the related Option and (ii) an amount permitted by applicable laws, rules, restated By-laws or policies of regulatory authorities or stock exchanges. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment shall be made in Shares or in cash, or partly in Shares and partly in cash (any such Shares valued at such Fair Market Value), all as shall be determined by the Committee. Stock

Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) Limitations. The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.

(d) Limited Stock Appreciation Rights. The Committee may grant LSARs that are exercisable upon the occurrence of specified contingent events. Such LSARs may provide for a different method of determining appreciation, may specify that payment will be made only in cash and may provide that any related Awards are not exercisable while such LSARS are exercisable. Unless the context otherwise requires, whenever the term “Stock Appreciation Right” is used in the Plan, such term shall include LSARs.

8. OTHER STOCK-BASED AWARDS

(a) Generally. The Committee, in its sole discretion, may grant or sell Awards of Shares, Awards of restricted Shares and Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Shares (“Other Stock-Based Awards”). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable).

(b) Performance-Based Awards. Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under this Section 8 may be granted in a manner which is intended to be deductible by the Company under Section 162(m) of the Code (or any successor section thereto) (“Performance-Based Awards”). A Participant's Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on shareholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (xix) return on assets. The foregoing criteria may relate to the Company, one or more of its Affiliates or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. In any event, the performance goals shall be based on an objective formula or standard. The maximum amount of a Performance-Based Award during a fiscal year to any Participant shall be equal to the greater of (x) $15,000,000 and (y) 2.5 percent (2.5%) of the Company's income before income taxes, as reported in the Company's audited consolidated financial statements for the year in respect of which the Performance-Based Award is to be payable or distributed, as applicable. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, shall so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect to defer payment of a Performance-Based Award.

9. ADJUSTMENTS UPON CERTAIN EVENTS

Notwithstanding any other provisions in the Plan to the contrary, the following provisions shall apply to all Awards granted under the Plan:

(a) Generally. In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of Shares or other corporate exchange or change in capital structure, any distribution to shareholders of Shares other than regular cash dividends or any similar event, the Committee in its sole discretion and without liability to any person shall make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities issued or reserved for issuance as set forth in Section 3 of the Plan or pursuant to outstanding Awards, (ii) the Option Price, (iii) the maximum number or amount of Awards that may be granted to any Participant during a fiscal year and/or (iv) any other affected terms of such Awards.

(b) Change in Control. Except as otherwise provided in an Award agreement, in the event of a Change in Control, the Committee in its sole discretion and without liability to any person may take such actions, if any, as it deems necessary or desirable with respect to any Award (including, without limitation, (i) the acceleration of an Award, (ii) the payment of a cash amount in exchange for the cancellation of an Award which, in the case of Options and Stock Appreciation Rights, may equal the excess, if any, of value of the consideration to be paid in the Change in Control transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate exercise price of such Options or Stock Appreciation Rights and/or (iii) the requiring of the issuance of substitute Awards that will substantially preserve the value, rights and benefits of any affected Awards previously granted hereunder) as of the date of the consummation of the Change in Control.

10. NO RIGHT TO EMPLOYMENT

The granting of an Award under the Plan shall impose no obligation on the Company or any Subsidiary to continue the employment of a Participant and shall not lessen or affect the Company's or Subsidiary's right to terminate the employment of such Participant.

11. SUCCESSORS AND ASSIGNS

The Plan shall be binding on all successors and assigns of the Company and a Participant; including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

12. NONTRANSFERABILITY OF AWARDS

Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. Notwithstanding the foregoing, a Participant may transfer an Option (other than an ISO) in whole or in party 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 Section 12, “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 50% 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 50% of the voting interests. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant.

13. AMENDMENTS OR TERMINATION

The Committee may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which, (a) without the approval of the shareholders of the

Company, would (except as is provided in the Plan for adjustments in certain events), increase the total number of Shares reserved for the purposes of the Plan or change the maximum number of Shares for which Awards may be granted to any Participant or (b) without the consent of a Participant, would impair any of the rights or obligations under any Award theretofore granted to such Participant under the Plan; provided, however, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. Notwithstanding anything to the contrary herein, the Committee may not amend, alter or discontinue the provisions relating to Section 9(b) of the Plan after the occurrence of a Change in Control.

Without limiting the generality of the foregoing, to the extent applicable, notwithstanding anything herein to the contrary, this Plan and Awards issued hereunder shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that the Committee determines that any amounts payable hereunder will be taxable to a Participant under Section 409A of the Code and related Department of Treasury guidance prior to payment to such Participant of such amount, the Company may (a) adopt such amendments to the Plan and Awards and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Committee determines necessary or appropriate to preserve the intended tax treatment of the benefits provided by the Plan and Awards hereunder and/or (b) take such other actions as the Committee determines necessary or appropriate to avoid the imposition of an additional tax under Section 409A of the Code.

14. INTERNATIONAL PARTICIPANTS

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) 'covered employees' within the meaning of Section 162(m) of the Code, the Committee may, in its sole discretion, amend the terms of the Plan or Awards with respect to such Participants in order to conform such terms with the requirements of local law or to obtain more favorable tax or other treatment for a Participant, the Company or an Affiliate.

15. CHOICE OF LAW

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware.

16. EFFECTIVENESS OF THE PLAN

The Plan shall be effective as of the Effective Date, subject to the approval of the Company’s shareholders.

17. SECTION 409A

Notwithstanding other provisions of the Plan or any Award agreements thereunder, no Award shall be granted, deferred, accelerated, extended, paid out or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a Participant. In the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, payments or deliveries of shares in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the relevant Award agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A of the Code, the Company will make such payment or delivery of shares on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code. In the case of a Participant who is a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code), payments and/or deliveries of shares in respect of any Award subject to Section 409A of the Code that are linked to the date of the Participant's separation from service shall not be made prior to the date which is six (6) months after the date of such Participant's separation from service from the Company and its affiliates, determined in accordance with Section 409A of the Code and the regulations promulgated thereunder. The Company shall use commercially reasonable efforts to implement the provisions of this Section 17 in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to Participants with respect to this Section 17.

HOVNANIAN ENTERPRISES, INC.
SENIOR EXECUTIVE SHORT-TERM INCENTIVE PLAN
(AS AMENDED AND RESTATED)

1. PURPOSE.

The purpose of the Senior Executive Short-Term Incentive Plan (the “Plan”) is to advance the interests of Hovnanian Enterprises, Inc. (the “Company”), and its shareholders by providing incentives in the form of periodic bonus awards (“Awards”) to certain senior executive employees of the Company and its affiliates, thereby motivating such executives to attain corporate performance goals articulated under the Plan.

2. ADMINISTRATION.

(a) The Plan shall be administered by two or more individuals who are each “non-employee directors” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or any successor thereto, “outside directors” as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and “independent directors” within the meaning of the applicable rules, if any, of any national securities exchange on which shares of common stock of the Company are listed or admitted to trading, unless otherwise determined by the Company's Board of Directors to act as the committee (the “Committee”).

(b) The Committee shall have the exclusive authority to select the senior executives to be granted Awards under the Plan, to determine the size and terms of the Award (subject to the limitations imposed on Awards in Section 4 below), to modify the terms of any of the Award that has been granted (except for any modification that would increase the amount of the Award payable to an executive), to determine the time when Awards will be made and the performance period to which they relate, to establish performance objectives in respect of such performance periods, and to certify that such performance objectives were attained; provided, however, that any such action shall be consistent with the applicable provisions of Section 162(m) of the Code. The Committee is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall be final, conclusive and binding on all parties concerned.

3. PARTICIPATION.

Awards may be granted to senior executives of the Company and its affiliates who are “covered employees”, as defined in Section 162(m) of the Code, or who the Committee anticipates may become covered employees. An Executive to whom an Award is granted shall be a “Participant”.

4. AWARDS UNDER THE PLAN.

(a) A Participant's Award shall be determined based on the attainment of written performance goals approved by the Committee in respect of a specified period of service (a “performance period”), which is established by the Committee (i) while the outcome for that performance period is substantially uncertain and (ii) not more than 90 days after the commencement of that performance period or, if less, the number of days which is equal to 25 percent of that performance period. The performance goals shall be based upon one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share; (v) book value per share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (xix) return on assets. The foregoing criteria may relate to the Company, one or more of its affiliates or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or other indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code, the performance goals may be calculated without regard to extraordinary items. In any event, the performance goals shall be based on an objective formula or standard. The maximum amount of an Award to any Participant with respect to a fiscal year of the Company shall be to the greater of (x) $15,000,000 and (y) 2.5 percent (2.5%) of the Company's income before income taxes, as reported in the Company's audited consolidated financial statements for the year in respect of which the Award is to be payable or distributed, as applicable.

(b) The Committee shall determine whether, with respect to a performance period, the specified performance goals have been met with respect to any Participant and, if such goals have been met, shall so certify and shall ascertain the amount of the applicable Award. No Awards will be paid for any performance period until such applicable certification is made by the Committee. The amount of the Award actually paid to any Participant may, at the discretion of the Committee, be less than the amount determined by the applicable performance goal formula. The amount of the Award determined by the Committee in respect of a performance period shall be paid to the Participant at such time after the end of such performance period as shall be determined by the Committee in its sole discretion; provided, however, that a Participant may, if and to the extent permitted by the Committee, elect to defer receipt of an Award in a manner consistent with Sections 162(m) and 409A of the Code.

(c) The provisions of this Section 4 shall be administered and interpreted in accordance with Section 162(m) of the Code and all supporting regulations to ensure the deductibility by the Company or any of its affiliates of the payment of Awards.

(d) The Committee shall determine, in its discretion, whether an Award shall be payable in cash, common stock of the Company, or a combination thereof, which may include, without limitation, permitting a Participant to elect to defer receipt of all or any portion of such Award (in a manner consistent with Sections 162(m) and 409A of the Code) into a right to receive shares of common stock of the Company at a future date; provided, however, that the total number of shares of common stock of the Company (“Shares”) that may be issued under the Plan is 2,709,571 (giving effect to the Company’s stock split on March 26, 2004). In the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of Shares or other corporate exchange or change in capital structure, any distribution to shareholders of Shares other than regular cash dividends or any similar event, the Committee in its sole discretion and without liability to any person shall make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities that may be issued as set forth in this Section 4(d) or pursuant to outstanding Awards and/or (ii) any other affected terms of such Awards. Except as otherwise provided in an Award agreement, in the event of a Change in Control (as defined in the 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (as the same may be amended from time to time)), the Committee in its sole discretion and without liability to any person may take such actions, if any, as it deems necessary or desirable with respect to any Award. Notwithstanding the forgoing, in the event that any Awards under the Plan terminate or lapse (or have terminated or lapsed) for any reason from and after November 1, 2007 (including, without limitation, due to a voluntary or involuntary forfeiture of such Awards), the number of Shares subject to such terminated or lapsed Awards shall not be available for future Award grants under the Plan and the total number of Shares available for issuance under the Plan shall instead be reduced by such number of Shares.

5. AMENDMENT AND TERMINATION OF THE PLAN.

(a) The Committee may at any time, or from time to time, suspend or terminate the Plan in whole or in part or amend it in such respects as the Committee may deem appropriate.

(b) Notwithstanding the foregoing, no amendment, suspension or termination of the Plan shall be made which (i) without the Participant's consent, impairs any of the rights or obligations under any Award theretofore granted to a Participant under the Plan, (ii) without the approval of the shareholders of the Company (except as provided in Section 4(d) of the Plan) increases the total number of Shares available for issuance under the Plan or changes the maximum amount of any Award which may be payable or distributed to any Participant; provided, however, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.

6. MISCELLANEOUS PROVISIONS.

(a) Determination made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such eligible individuals are similarly situated. Neither the Plan nor any action taken hereunder shall be construed as giving any right to be retained as an employee of the Company or any affiliate thereof.

(b) A Participant's rights or interest under the Plan may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation of law or otherwise (except in the event of a Participant's death) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that, subject to applicable law, any amounts payable to any Participant hereunder are subject to reduction to satisfy any liabilities owed to the Company or any of its affiliates by the Participant. Any attempted assignment or transfer, hypothecation or encumbrance shall be void and of no effect.

(c) The Company and its affiliates shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income and other taxes required by law to be withheld with respect to such payment.

(d) Each person who is or at any time serves as a member of the Committee or the Company's Board of Directors shall be indemnified and held harmless by the Company against and from: (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or proceeding relating to the Plan. Each person covered by this indemnification shall give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the bylaws of the Company as a matter of law, or otherwise, or any power that the Company may have to indemnify such person or hold such person harmless.

(e) Each member of the Committee and the Company's Board of Directors shall be fully justified in relying or acting in good faith upon any report made by independent public accountants of, or counsel for, the Company and upon any other information furnished in connection with the Plan. In no event shall any person who is or shall have been a member of the Committee or the Company's Board of Directors be liable for any determination made or other action taken or any failure to act in reliance upon any such report or information or for any action taken, including without limitation the furnishing of information, or failure to act, if in good faith.

(f) All matters relating to the Plan or to Awards granted hereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

(g) The Plan was originally effective as of November 1, 1999, as approved by the affirmative vote of holders of a majority of the shares of the Company then present or represented by proxy without payment therefor and entitled to vote, and the Plan was most recently submitted for re-approval by the Company’s shareholders on March 31, 2008. Subject to Section 4(d) of the Plan, no Award may be granted under the Plan after the date of the Company’s first shareholders’ meeting that occurs during 2013, but Awards theretofore granted may extend beyond that date.

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 intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code") to the extent possible under Section 422 of the Code. Any portion of the Option which is ineligible to be treated as an Incentive Stock Option (due to Section 422(d) of the Code or otherwise) shall be treated as a nonqualified option.

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

3. Exercise of Option.

(a) Period of Exercise.

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

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

(iii) Termination of Employment Due to Death. If, prior to the Option Termination Date, the Participant ceases to be employed by the Company or a subsidiary thereof due to the Participant's death, the Option, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable and remain exercisable until the 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. 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

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:

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

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

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

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

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

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

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

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

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

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

HOVNANIAN ENTERPRISES, INC.

By: _________________________________

PARTICIPANT

By: _________________________________

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT
(Performance Option Grant)

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. In the event that the performance goals set forth in the following sentence are achieved, this Option will vest in accordance with the schedule set forth above, subject to Section 3 of this Agreement. No portion of the Option will vest unless the Committee determines that (i) the Company's EBITDA (as defined below) for the fiscal year ending October 31, 2009 ("FY 2009") is at least $200,000,000 greater than the Company's EBITDA for the fiscal year ended October 31, 2008 ("FY 2008") and (ii) the Company's EBITDA for the fiscal year ending October 31, 2010 ("FY 2010") is at least $300,000,000 greater than the Company's EBITDA for FY 2008. As used herein, "EBITDA" shall mean the Company's consolidated earnings before interest expense, income taxes, depreciation and amortization (but including inventory impairment loss and land option write-offs and gain on extinguishment of debt), determined in a manner consistent with the Company's normal practices for quarterly press release financial reporting purposes.

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 (60^{th}) 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.

(vi) Failure to Achieve Performance Goals. In the event that the Committee determines that the Company has failed to achieve its EBITDA performance goals for either or both of FY 2009 or FY 2010 as set forth under Section 2, then the entire Option 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. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 12 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

14. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF

THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

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

16.

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

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

HOVNANIAN ENTERPRISES, INC.

By: ______________________________

PARTICIPANT

By: ______________________________

2008 HOVNANIAN ENTERPRISES, INC.
STOCK INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT
(Performance Option Grant)

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. In the event that the performance goals set forth in the following sentence are achieved, this Option will vest in accordance with the schedule set forth above, subject to Section 3 of this Agreement. No portion of the Option will vest unless the Committee determines that (i) the Company's EBITDA (as defined below) for the fiscal year ending October 31, 2009 ("FY 2009") is at least $200,000,000 greater than the Company's EBITDA for the fiscal year ended October 31, 2008 ("FY 2008") and (ii) the Company's EBITDA for the fiscal year ending October 31, 2010 ("FY 2010") is at least $300,000,000 greater than the Company's EBITDA for FY 2008. As used herein, "EBITDA" shall mean the Company's consolidated earnings before interest expense, income taxes, depreciation and amortization (but including inventory impairment loss and land

option write-offs and gain on extinguishment of debt), determined in a manner consistent with the Company's normal practices for quarterly press release financial reporting purposes.

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 (60^{th}) 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.

(vi) Failure to Achieve Performance Goals. In the event that the Committee determines that the Company has failed to achieve its EBITDA performance goals for either or both of FY 2009 or FY 2010 as set forth under Section 2, then the entire Option 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. <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 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. <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.

14. <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.

15. <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: ____

CERTIFICATIONS
Exhibit 31(a)

I, Ara K. Hovnanian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 4, 2009

/S/ARA K. HOVNANIAN
Ara K. Hovnanian
President and Chief Executive Officer

CERTIFICATIONS
Exhibit 31(b)

I, J. Larry Sorsby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 4, 2009

/S/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and Chief Financial Officer

Exhibit 32(a)

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

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 4, 2009

/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 Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 4, 2009

/S/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and Chief Executive Officer