HOVNANIAN ENTERPRISES INC
Form 10-K/A
January 25, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 1)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended OCTOBER 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-8551

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

Delaware	22-1851059
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
110 West Front Street, P.O. Box 500, Red Bank, N.J.	07701
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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 þ No o

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

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

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

Large Accelerated Filer o Accelerated Filer þ NonAccelerated Filer o Smaller Reporting Company o

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

State the aggregate market value of the voting and nonvoting common equity held by nonaffiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was $362,745,140.

As of the close of business on January 18, 2011, there were outstanding 63,494,586 shares of the Registrant's Class A Common Stock and 14,564,421 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

None

FORM 10-K/A
(AMENDMENT NO. 1)
TABLE OF CONTENTS

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends Annual Report on Form 10-K of Hovnanian Enterprises, Inc. (the “Company”, “we”. “us” or “our”) for the fiscal year ended October 31, 2010, originally filed on December 22, 2010 (the “Original Filing”). We are filing this Amendment to include the information required by Part III and not included in the Original Filing in connection with our Registration Statement on Form S-3 (File No. 333-171349). The reference on the cover of the Original Filing to the incorporation by reference of our definitive proxy statement into Part III of the Original Filing is hereby deleted.   The Company’s Annual Meeting of Shareholders (the “Annual Meeting”) remains scheduled for March 15, 2011.

This Amendment also includes an adjustment to assets for the Northeast and Mid-Atlantic segments as of October 31, 2010 shown in Note 10 of the Original Filing in the Notes to Consolidated Financial Statements to correct a misclassification between those two segments. We believe the correction is not material to our previously issued consolidated financial statements. The adjustment to assets for the Northeast and Mid-Atlantic segments has no impact on our consolidated balance sheets as of October 31, 2010 and 2009, or consolidated statements of operations and related income (loss) per common share amounts, consolidated statements of cash flows or consolidated statements of equity for the years ended October 31, 2010, 2009 and 2008. See Note 10 in the Notes to Consolidated Financial Statements in this Amendment for further information relating to this adjustment.

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing.

Part I

ITEM 1
BUSINESS

Business Overview

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, mid-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation’s largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. (the “Company”, “we”, “us” or “our”) was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 291,000 homes, including 5,009 homes in fiscal 2010. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 192 communities in 40 markets in 18 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. We offer a variety of home styles at base prices ranging from $34,000 (low income housing) to $1,660,000 with an average sales price, including options, of $281,000 nationwide in fiscal 2010.

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

The following is a summary of our growth history:

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

1983 - Completed initial public offering.

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

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

1994 - Entered the Coastal Southern California market.

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

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

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

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

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

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

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

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

Geographic Breakdown of Markets by Segment

Hovnanian markets and builds homes that are constructed in 20 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, and Pennsylvania

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

Midwest: Illinois, Kentucky, Minnesota, and Ohio

Southeast: Florida, Georgia, North Carolina, and South Carolina

Southwest: Arizona, and Texas

West: California

We employed approximately 1,629 full-time employees (which we refer to as associates) as of October 31, 2010.

Our corporate offices are located at 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, our telephone number is 732-747-7800, and our Internet web site address is www.khov.com. Information on our web site is not a part of this Form 10-K/A. We make available through our web site our annual report on Form 10-K/A, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). Copies of the Company's Form 10-K/A, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request.

Business Strategies

Due to the progressive weakening of demand in our homebuilding markets over the past several years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges, and incurred losses before income taxes in fiscal 2007, 2008, 2009, and 2010. Although the timing of a recovery in the housing market is unclear, because certain long-term fundamentals which support housing demand, namely population growth and household formation, remain solid, we believe the current negative conditions will moderate over time. Consequently, our primary focus while market conditions have been weak over the past several years has been to strengthen our financial condition by reducing inventories of homes and land, controlling and reducing construction and overhead costs, maximizing cash flows, reducing outstanding debt, and maintaining strong liquidity. However, in the first quarter of 2009, we began to see opportunities to purchase land at prices and terms that make economic sense in light of our sales prices and sales paces. As a result, we determined to either purchase or option certain new properties. In order to return to profitability, we will need to continue purchasing new land and that will generate good investment returns and drive greater operating efficiencies, as well as control expenses commensurate with our level of deliveries.

In addition to our current focus on maintaining strong liquidity and evaluating new investment opportunities, we will continue to focus on our historic key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to benefit our business.

Our goal is to become a significant builder in each of the selected markets in which we operate, which will enable us to achieve powers and economies of scale and differentiate ourselves from most of our competitors.

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

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

We focus on achieving high return on invested capital. Each new community is evaluated based on its ability to meet or exceed internal rate of return requirements. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital. However, given market conditions during the downturn, until 2009, it had been difficult to find new land investments that meet or exceed these rate of return requirements. Therefore, we have focused on managing the balance sheet by selling through our currently owned inventory and conserving cash to be prepared to invest in new land when market conditions are right. Since the first quarter of fiscal 2009, we have begun to see land investment opportunities that meet or exceed our underwriting requirements. New land purchases at pricing that will generate good investment returns are needed to return to profitability.

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

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

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

Operating Policies and Procedures

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

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

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

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

- Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional and nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In fiscal 2010, 2009, and 2008, rather than purchase additional lots in underperforming communities, we took advantage of this right and walked away from 3,102 lots, 6,474 lots, and 15,370 lots, respectively, out of 17,481 total lots, 17,817 total lots, and 31,834 total lots, respectively, under option, resulting in pretax charges of $13.2 million, $45.4 million, and $114.1 million, respectively.

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

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

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

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

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

Customer Service and Quality Control - In many of our markets, associates are responsible for customer service and pre-closing quality control inspections as well as responding to post-closing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by us. Our homes are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical, and plumbing systems, and a 10 year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

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

During the year ended October 31, 2010, for the markets in which our mortgage subsidiaries originated loans, 13.0% of our homebuyers paid in cash and 82.0% of our noncash homebuyers obtained mortgages from one of our mortgage banking subsidiaries. The loans we originated in fiscal 2010 were 49.3% Federal Housing Administration/Veterans Affairs (FHA/VA), 45.2% prime, 4.6% United States Department of Agriculture, and 0.9% broker non-subprime.

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

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

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

Residential Development Activities

Our residential development activities include site planning and engineering, obtaining environmental and other regulatory approvals and constructing roads, sewer, water, and drainage facilities, recreational facilities and other amenities and marketing and selling homes. These activities are performed by our associates, together with independent architects, consultants, and contractors. Our associates also carry out long-term planning of communities. A residential development generally includes single-family detached homes and/or a number of residential buildings containing from two to 24 individual homes per building, together with amenities such as club houses, swimming pools, tennis courts, tot lots, and open areas. We also develop mid-rise buildings, including some that contain over 300 homes per building.

Current base prices for our homes in contract backlog at October 31, 2010, range from $74,000 (low income housing) to $1,104,000 in the Northeast, from $170,000 to $1,660,000 in the Mid-Atlantic, from $34,000 to $330,000 in the Midwest, from $100,000 to $492,000 in the Southeast, from $83,000 to $675,000 in the Southwest, and from $129,000 to $544,000 in the West. Closings generally occur and are typically reflected in revenues within 12 months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2010, is set forth below:

(Housing revenue in thousands)	Housing Revenues	Homes Delivered	Average Price
Northeast	$296,449	718	$412,882
Mid-Atlantic	280,132	753	372,021
Midwest	91,260	439	207,882
Southeast	92,712	384	241,438
Southwest	391,807	1,767	221,736
West	175,139	668	262,184
Consolidated total	$1,327,499	4,729	$280,715
Unconsolidated joint ventures	124,149	280	443,389
Total including unconsolidated joint ventures	$1,451,648	5,009	$289,808

The value of our net sales contracts, excluding unconsolidated joint ventures, decreased 21.7% to $1.1 billion for the year ended October 31, 2010, from $1.4 billion for the year ended October 31, 2009. This decrease was primarily the result of a 19.5% decrease in the number of homes contracted to 4,206 in 2010 from 5,227 in 2009. The decline in the number of homes contracted occurred despite an increase in open-for-sale communities of 13 communities, demonstrating further deterioration in the market during fiscal 2010. We contracted an average of 23.1 homes per community in 2010 compared to an average of 23.3 homes per community in 2009, demonstrating a further slowing in sales pace. We believe the decrease in sales pace is the result of continued high unemployment, tighter mortgage loan underwriting criteria, and continued weak consumer confidence.

Information on the value of net sales contracts by segment for the years ended October 31, 2010 and 2009 is set forth below:

(Value of net sales contracts in thousands)	2010	2009	Percentage of Change
Northeast	$193,826	$350,515	(44.7)%

Mid-Atlantic	236,095	281,194	(16.0)%
Midwest	72,347	95,764	(24.5)%
Southeast	76,799	103,173	(25.6)%
Southwest	393,943	377,292	4.4%
West	144,782	220,369	(34.3)%
Consolidated total	$1,117,792	$1,428,307	(21.7)%
Unconsolidated joint ventures	114,740	56,886	101.7%
Total including unconsolidated joint ventures	$1,232,532	$1,485,193	(17.0)%

The following table summarizes our active selling communities under development as of October 31, 2010. The contracted not delivered and remaining homes available in our active selling communities are included in the consolidated total home sites under the total residential real estate chart in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Active Selling Communities

	Communities	Approved Homes	Homes Delivered	Contracted Not Delivered(1)(3)	Remaining Homes Available(2)
Northeast	15	5,595	4,308	236	1,051
Mid-Atlantic	30	4,832	2,477	262	2,093
Midwest	23	2,521	1,144	222	1,155
Southeast	18	2,894	2,031	82	781
Southwest	89	12,207	8,051	337	3,819
West	17	6,197	4,048	107	2,042
Total	192	34,246	22,059	1,246	10,941

(1) Includes 111 home sites under option.

(2) Of the total remaining homes available, 1,062 were under construction or completed (including 276 models and sales offices) and 5,092 were under option.

(3) Excludes three homes in backlog for communities in planning.

Backlog

At October 31, 2010 and 2009, including unconsolidated joint ventures, we had a backlog of signed contracts for 1,394 homes and 1,931 homes, respectively, with sales values aggregating $0.4 billion and $0.6 billion, respectively. The majority of our backlog at October 31, 2010 is expected to be completed and closed within the next 12 months. At November 30, 2010 and 2009, our backlog of signed contracts, including unconsolidated joint ventures, was 1,363 homes and 1,755 homes, respectively, with sales values aggregating $0.4 billion and $0.6 billion, respectively.

Sales of our homes typically are made pursuant to a standard sales contract that provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. This contract requires a nominal customer deposit at the time of signing. In addition, in the Northeast, Mid-Atlantic, and some sections of the Midwest and Southeast, we typically obtain an additional 5% to 10% down payment due within 30 to 60 days after signing. The contract may include a financing contingency, which permits customers to cancel their obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution. When housing values decline in certain markets, some customers cancel their contracts and forfeit their deposits. Cancellation rates are discussed further in Item 7 “Managements’ Discussion and Analysis of Financial

Condition and Results of Operations." Sales contracts are included in backlog once the sales contract is signed by the customer, which in some cases includes contracts that are in the rescission or cancellation periods. However, revenues from sales of homes are recognized in the Consolidated Statement of Operations, when title to the home is conveyed to the buyer, adequate initial and continuing investment have been received and there is no continued involvement.

Residential Land Inventory in Planning

It is our objective to control a supply of land, primarily through options, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land as of October 31, 2010, exclusive of communities under development described above under "Active Selling Communities" and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities under development are included in the 32,200 consolidated total home sites under the total residential real estate chart in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Communities in Planning

(Dollars in thousands)	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value(2)
Northeast:				
Under option(1)	16	2,992	$137,085	$36,432
Owned	19	1,728		171,341
Total	35	4,720		207,773
Mid-Atlantic:				
Under option(1)	24	2,515	$184,458	5,568
Owned	13	1,846		39,045
Total	37	4,361		44,613
Midwest:				
Under option(1)	5	225	$4,800	885
Owned	4	203		3,051
Total	9	428		3,936
Southeast:				
Under option(1)	13	2,122	$55,116	1,374
Owned	13	1,077		13,222
Total	26	3,199		14,596
Southwest:				
Under option(1)	11	697	$33,222	454
Owned	7	508		8,516
Total	18	1,205		8,970
West:				
Under option(1)	2	625	$41,894	3,321
Owned	40	5,475		79,330
Total	42	6,100		82,651
Totals:				
Under option(1)	71	9,176	$456,575	48,034
Owned	96	10,837		314,505
Combined total	167	20,013		$362,539

(1) Properties under option also include costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2010, option fees and deposits aggregated approximately $18.6

million. As of October 31, 2010, we spent an additional $29.4 million in nonrefundable predevelopment costs on such properties.

(2) The book value of $362.5 million included the amount on the Consolidated Balance Sheets identified as "Inventories-land and land options held for future development or sale," as well as $12.7 million for specific performance options, and $1.3 million for deposits on variable interest entity property reported under "Consolidated inventory not owned."

We either option or acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a nonrecourse purchase agreement. As a result of the declining homebuilding market, we have decided to mothball (or stop development on) certain communities for which we have determined that current market conditions do not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from Sold and unsold homes and lots under development to Land and land options held for future development or sale. See Note 3 to the Consolidated Financial Statements for further discussion on mothballed communities. For additional financial information regarding our homebuilding segments, see Note 10 to the Consolidated Financial Statements.

Competition

Our homebuilding operations are highly competitive. We are among the top 10 homebuilders in the United States in both homebuilding revenues and home deliveries. We compete with numerous real estate developers in each of the geographic areas in which we operate. Our competition ranges from small local builders to larger regional builders to publicly owned builders and developers, some of which have greater sales and financial resources than we do. Previously owned homes and the availability of rental housing provide additional competition. We compete primarily on the basis of reputation, price, location, design, quality, service, and amenities.

Regulation and Environmental Matters

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

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

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

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

ITEM 1A
RISK FACTORS

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

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

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

- Employment levels and job growth;
- Availability of financing for home buyers;
- Interest rates;
- Foreclosure rates;
- Inflation;
- Adverse changes in tax laws;
- Consumer confidence;
- Housing demand;
- Population growth; and
- Availability of water supply in locations in which we operate.

Turmoil in the financial markets could affect our liquidity. In addition, our cash balances are primarily invested in short-term government-backed instruments. The remaining cash balances are held at numerous financial institutions and may, at times, exceed insurable amounts. We believe we help to mitigate this risk by depositing our cash in major financial institutions and diversifying our investments. In addition, our homebuilding operations often require us to obtain letters of credit. In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. In addition, we entered into certain stand alone letter of credit facilities, and agreements pursuant to which all of the outstanding letters of credit under our revolving credit facility were replaced with letters of credit issued under such new letter of credit facilities and agreements. However, we may need additional letters of credit above the amounts provided under these new letter of credit facilities and agreements. If we are unable to obtain such additional letters of credit as needed to operate our business, we may be adversely affected.

Weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the effect of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an affect on materials and labor availability or pricing, but did affect the volume of home sales in subsequent weeks.

The difficulties described above could cause us to take longer and incur more costs to build our homes. We may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to 12 months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

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

The homebuilding industry is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has resulted from a lack of consumer confidence, decreased availability of mortgage financing, and large supplies of resale and new home inventories, among other factors. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes, and foreclosures, has depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations in fiscal years 2007 through 2010 and may continue to materially adversely affect our business and results of operations in fiscal 2011. Further, we substantially increased our inventory through fiscal 2006, which required significant cash outlays and which has increased our price and margin exposure as we continue to work through this inventory. Looking forward, if the housing market continues to deteriorate it will become more difficult to generate positive cash flow. General economic conditions in the U.S. remain weak. Market volatility has been unprecedented and extraordinary in the last several years, and the resulting economic turmoil may continue to exacerbate industry conditions or have other unforeseen consequences, leading to uncertainty about future conditions in the homebuilding industry. Continuation or worsening of this downturn or general economic conditions would continue to have a material adverse effect on our business, liquidity, and results of operations.

In addition, an increase in the default rate on the mortgages we originate may adversely affect our ability to sell mortgages or the pricing we receive upon the sale of mortgages. Although substantially all of the mortgage loans we originate are sold in the secondary mortgage market on a servicing released, non-recourse basis, we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. As default rates rise, this may increase our potential exposure regarding mortgage loan sales because investors may seek to have us buy back or make whole investors for mortgages we previously sold. To date, we have not made significant payments related to our mortgage loans but because of the uncertainties inherent to these matters, actual future payments could differ significantly from our currently estimated amounts.

There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets, or increase liquidity and the availability of credit, or whether any such results will be sustainable. The housing market has benefited from a number of government programs, including:

- Tax credits for home buyers provided by the federal government and certain state governments, including California; and

- Support of the mortgage market, including through purchases of mortgage-backed securities by The Federal Reserve Bank and the underwriting of a substantial amount of new mortgages by the Federal Housing Administration (“FHA”) and other governmental agencies.

These programs are expected to wind down over time; for example the California tax credit ended in the fourth quarter of fiscal 2009 and the federal tax credit expired in April 2010. In addition, in fiscal 2010, the U.S. Department of Housing and Urban Development (“HUD”) tightened FHA underwriting standards. Housing markets may further decline as these programs are modified or terminated.

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

We have a significant amount of debt.

- Our debt, as of October 31, 2010, including the debt of the subsidiaries that guarantee our debt, was $1,630.6 million ($1,616.3 million net of discount); and

- Our debt service payments for the 12-month period ended October 31, 2010, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter of credit facilities and agreements), were $165.7 million.

In addition, as of October 31, 2010, we had $89.5 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by $92.3 million of cash. Our fees for these letters of credit for the 12 months ended October 31, 2020, which are based on both the used and unused portion of the facilities and agreements, were $1.4 million. We also had substantial contractual commitments and contingent obligations, including approximately $359.1 million of performance bonds as of October 31, 2010. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations.”

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

- Limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements, or other requirements;

- Require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;

- Limit our flexibility in planning for, or reacting to, changes in our business;

- Place us at a competitive disadvantage because we have more debt than some of our competitors; and

- Make us more vulnerable to downturns in our business and general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by customer sentiment and financial, political, business, and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations to the extent we have any floating rate indebtedness. A higher interest rate on our debt service obligations could result in lower earnings or increased losses.

Our sources of liquidity are limited and may not be sufficient to meet our needs.

In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. Because we no longer have a revolving credit facility, we are dependent on our current cash balance and future cash flows from operations (which may not be positive) to enable us to service our indebtedness, to cover our operating expenses, and/or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all. If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, or restructure our indebtedness. These alternative measures may not be successful and may not permit us to meet our debt service obligations. We have also entered into certain cash collateralized letter of credit agreements and facilities that require us to maintain specified amounts of cash in segregated accounts as collateral to support our letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. If our available cash and capital resources are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or the proceeds from the dispositions may not be adequate to meet any debt service obligations then due.

Restrictive covenants in our debt instruments may restrict our ability to operate and if our financial performance worsens, we may not be able to undertake transactions within the restrictions of our debt instruments.

The indentures governing our outstanding debt securities impose certain restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, creating liens, sales of assets, cash distributions, including paying dividends on common and preferred stock, capital stock and debt repurchases, and investments by us and certain of our subsidiaries. Because of these restrictions, we are currently prohibited from paying dividends on our preferred stock and anticipate that we will remain prohibited for the foreseeable future.

The restrictions in our debt instruments could prohibit or restrict our activities such as undertaking capital raising or restructuring activities or entering into other transactions. In such a situation, we may be unable to amend the instrument or obtain a waiver. In addition, if we fail to make timely payments on this debt and other material indebtedness, our debt under these debt instruments could become due and payable prior to maturity. In such a situation, there can be no assurance that we would be able to obtain alternative financing. Either situation could have a material adverse effect on the solvency of the Company.

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

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

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

Our ability to access capital on favorable terms is a key factor in our ability to service our indebtedness to cover our operating expenses, and to fund our other liquidity needs. On March 16, 2009, Fitch Ratings lowered the Company’s issuer default rating to CCC from B-. On April 7, 2009, Moody’s Investor Services affirmed our corporate family rating of Caa1, with a negative outlook. On April 1, 2009, Standard & Poor's ("S&P") lowered our B- corporate credit rating to CCC, with a negative outlook. On September 14, 2010, S&P affirmed our corporate credit rating of CCC+ but revised our outlook from developing to negative. Downgrades may make it more difficult and costly for us to access capital. Therefore, any further downgrade by any of the principal credit agencies may exacerbate these difficulties.

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

Our quarterly operating results generally fluctuate by season. Historically, a large percentage of our agreements of sale have been entered into in the winter and spring. The construction of a customer's home typically begins after signing the agreement of sale and can take 12 months or more to complete. Weather-related problems, typically in the fall, late winter and early spring, can delay starts or closings and increase costs and thus reduce profitability. In addition, delays in opening communities could have an adverse effect on our sales and revenues. Due to these factors, our quarterly operating results will likely continue to fluctuate.

Our success depends on the availability of suitable undeveloped land and improved lots at acceptable prices and our having sufficient liquidity to fund such investments.

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and improved lots at acceptable prices. The availability of undeveloped land and improved lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce revenue and profits. In addition, our ability to make land purchases will depend upon us having sufficient liquidity to fund such purchases. We may be at a disadvantage in competing for land due to our significant debt obligations, which require substantial cash resources.

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

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

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots, and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See "Critical Accounting Policies." For example, during 2010, 2009, and 2008, we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of $13.2 million, $45.4 million and $114.1 million, respectively. Also, in 2010, 2009, and 2008, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of $122.5 million, $614.1 million, and $596.0 million, respectively. If market conditions continue to worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

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

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

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

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

Starting in 2007, many lenders have been significantly tightening their underwriting standards, and many subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be difficult to obtain, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes will be adversely affected, which will adversely affect our operating results. In addition, we believe that the availability of mortgage financing, including Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and FHA/VA financing, is an important factor in marketing many of our homes. In addition, in fiscal 2010, HUD tightened FHA underwriting standards. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

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

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At October 31, 2010, we had invested an aggregate of $38.0 million in these joint ventures, including advances to these joint ventures of approximately $13.5 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

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

We also are subject to a variety of local, state, federal, and foreign laws and regulations concerning protection of health and the environment. The particular environmental laws 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.

For example, as previously reported in the Company’s 10-Q for the quarters ended January 31, 2010, April 30, 2010, and July 31, 2010, the Company was engaged in discussions with the U. S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively the States). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we have paid a fine of $1.0 million collectively to the United States and the States named above and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations.

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

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

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, we may experience losses that could hurt our financial results. Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims. Recently, other homebuilders in Alabama, Florida, Louisiana, Mississippi and Texas have had construction defect claims associated with allegedly defective drywall manufactured in China (Chinese Drywall) that may be responsible for noxious smells and accelerated corrosion of certain metals in the home. We have currently identified 10 homes with Chinese Drywall that must be remediated, and we have been notified of 19 more homes that potentially have Chinese Drywall that may need remediation. These homes are located in our Florida and Houston markets. The estimated costs of the remediations of these homes are reserved. If additional homes are identified to have this issue, or our actual costs to remediate differ from our current estimated costs, it may require us to revise our warranty reserves.

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

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

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

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

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

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

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or borrowing additional money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indentures for our outstanding debt securities contain provisions that restrict the debt we may incur in the future and our ability to pay dividends on equity. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations. In addition, pledging substantially all of our assets to support our first, second and third lien senior secured notes may make it more difficult to raise additional financing in the future.

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

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

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

Members of the Hovnanian family, including Ara K. Hovnanian, our chairman of the board, president and chief executive officer, have voting control, through personal holdings, the limited partnership established for members of Mr. Hovnanian's family and family trusts, of Class A and Class B common stock that enables them to cast approximately 70% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of the Board and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

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

Based on recent impairments and our current financial performance, we generated a federal net operating loss carryforward of $904.9 million through the year ended October 31, 2010, and we may generate net operating loss carryforwards in future years.

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

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

In August 2008, we announced that the Board adopted a shareholder rights plan designed to preserve shareholder value and the value of certain tax assets primarily associated with net loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code and on December 5, 2008, our stockholders approved the Board's decision to adopt the shareholder rights plan. In addition, on December 5, 2008, our stockholders approved an amendment to our Amended Certificate of Incorporation (the "Certificate of Incorporation") to restrict certain transfers of Class A common stock in order to preserve the tax treatment of our net operating loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code. See Note 3 to the Consolidated Financial Statements for further details.

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

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

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

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

ITEM 1B
UNRESOLVED STAFF COMMENTS

None.

ITEM 2
PROPERTIES

We own a 69,000 square-foot office complex located in the Northeast that serves as our corporate headquarters. We own 215,000 square feet of office and warehouse space throughout the Midwest. We lease approximately 653,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West. Included in this amount is 88,000 square feet of abandoned lease space.

ITEM 3
LEGAL PROCEEDINGS

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

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

As previously reported in the Company's 10-Q for the quarters ended January 31, 2010, April 30, 2010 and July 31, 2010, the Company was engaged in discussions with the U. S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively the States). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we have paid a fine of $1.0 million collectively to the United States and the States and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations.

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:

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's subsidiary filed a motion to dismiss this second amended complaint. The Court dismissed portions of the second amended complaint. The Court dismissed additional portions of the second amended complaint on April 28, 2010. We have had negotiations with the plaintiffs recently to settle this case. Based on these negotiations we have accrued an immaterial amount for the potential settlement based on our assessment of the outcome. However, our assessment of the potential outcome may differ from the ultimate resolution of this matter.

ITEM 4
(Removed and reserved)

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Part II

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

Our Class A Common Stock is traded on the New York Stock Exchange and was held by 544 stockholders of record at December 17, 2010. There is no established public trading market for our Class B Common Stock, which was held by 260 stockholders of record at December 17, 2010. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low sales prices for our Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 2010 and 2009:

	Oct. 31, 2010		Oct. 31, 2009	
Quarter	High	Low	High	Low
First	$4.40	$3.54	$4.99	$1.61
Second	$7.23	$3.55	$2.93	$0.58
Third	$7.99	$3.47	$3.25	$1.81
Fourth	$4.65	$3.42	$5.61	$3.42

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

Issuer Purchases of Equity Securities

In July 2001, the Board authorized a stock repurchase program to purchase up to four million shares of Class A Common Stock (adjusted for a two-for-one 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 the Company or any affiliated purchaser during the fiscal fourth quarter of 2010. The maximum number of shares that may yet be purchased under the Company's plans or programs is 0.6 million.

ITEM 6
SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data and should be read in conjunction with the financial statements included elsewhere in this Form 10-K/A. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K/A.

	Year Ended				
Summary Consolidated Statements of Operations Data (In thousands, Except Per Share Data)	October 31, 2010	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006
Revenues	$1,371,842	$1,596,290	$3,308,111	$4,798,921	$6,148,235
Expenses	1,557,428	1,972,978	3,692,556	4,797,767	5,539,489
Inventory impairment loss and land option write-offs	135,699	659,475	710,120	457,773	336,204
Goodwill and intangible amortization and impairment	-	-	36,883	162,124	54,821
Gain on extinguishment of debt	25,047	410,185	-	-	-
Income (loss) from unconsolidated joint ventures	956	(46,041)	(36,600)	(28,223)	15,385
(Loss) income before income taxes	(295,282)	(672,019)	(1,168,048)	(646,966)	233,106
State and federal (benefit) income tax provision	(297,870)	44,693	(43,458)	(19,847)	83,573
Net income (loss)	2,588	(716,712)	(1,124,590)	(627,119)	149,533
Less: preferred stock dividends	-	-	-	10,674	10,675
Net income (loss) available to common stockholders	$2,588	$(716,712)	$(1,124,590)	$(637,793)	$138,858
Per share data:					
Basic:					
Income (loss) per common share	$0.03	$(9.16)	$(16.04)	$(10.11)	$2.21
Weighted-average number of common shares outstanding	78,691	78,238	70,131	63,079	62,822
Assuming dilution:					
Income (loss) per common share	$0.03	$(9.16)	$(16.04)	$(10.11)	$2.14
Weighted-average number of common shares outstanding	79,683	78,238	70,131	63,079	64,838

Summary Consolidated Balance Sheet Data (In thousands)	October 31, 2010	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006
Total assets	$1,817,560	$2,024,577	$3,637,322	$4,540,548	$5,480,035
	$98,613	$77,364	$107,913	$410,298	$319,943

Mortgages, term loans, revolving credit agreements, and notes payable					
Senior secured notes, senior notes, and senior subordinated notes	$1,616,347	$1,751,701	$2,505,805	$1,910,600	$2,049,778
Stockholders' (deficit) equity	$(338,568)	$(349,598)	$330,264	$1,321,803	$1,942,163

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

For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of earnings from continuing operations before income taxes and income or loss from equity investees, plus fixed charges and distributed income of equity investees, less interest capitalized. Fixed charges consist of all interest incurred, plus that portion of operating lease rental expense (33%) deemed to be representative of interest, plus the amortization of debt issuance costs and bond discounts. Combined fixed charges and preferred stock dividends consist of fixed charges and preferred stock dividends declared. The fourth quarter of 2005 was the first period we declared and paid preferred stock dividends, and due to covenant restrictions, we have been prohibited from paying dividends beginning with the first quarter of fiscal 2008. The following table sets forth the ratios of earnings to fixed charges and the ratios of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated:

	Years Ended October 31,				
	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges	(a)	(a)	(a)	(a)	1.8
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	(b)	(b)	1.7

(a) Earnings for the years ended October 31, 2010, 2009, 2008 and 2007 were insufficient to cover fixed charges for such period by $273.8 million, $628.3 million, $1,153.5 million and $684.6 million, respectively.

(b) Earnings for the years ended October 31, 2010, 2009, 2008 and 2007 were insufficient to cover fixed charges and preferred stock dividends for such period by $273.8 million, $628.3 million, $1,153.5 and $695.6 million, respectively. Due to restrictions in our indentures on our senior, senior secured, and senior subordinated notes, we are currently prohibited from paying dividends on our preferred stock and did not make any dividend payments in fiscal 2010, 2009 and 2008. In fiscal 2007 and 2006, we paid $10.7 million of dividends on our preferred stock.

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

Beginning during the second half of our fiscal year ended October 31, 2006, the U.S. housing market has been impacted by declining 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 subprime, Alt-A, and other nonprime mortgage products, and over the past few years, many lenders have significantly tightened their underwriting standards. The overall economy has weakened significantly and fears of further prolonged economic weakness are still present due to high unemployment levels, further deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we experienced significant decreases in our revenues and gross margins during 2007, 2008, and 2009 compared with prior years. During 2010, the homebuilding market exhibited a large degree of choppiness. Signs of this choppiness can be seen in key measures, such as our gross margin, cancellation rates and total deliveries each quarter in 2010. We continued to see declines in deliveries and revenues during fiscal 2010, however, our gross margin percentage increased to 16.8% for the year ended October 31, 2010 from 9.2% for the year ended October 31, 2009, and our contract cancellation rates of 23.0% and 24.0% in the third and fourth quarters of fiscal 2010 is consistent with more normalized levels, as seen in fiscal 2003 and 2004. However, our cancellation rate as a percentage of backlog was 25.0% for the fourth quarter which is the highest it has been in the last six quarters. Active selling communities increased by 7.3% compared with the same period a year ago and net contracts per active selling community decreased slightly to 23.1 for the year ended October 31, 2010 compared to 23.3 in the same period in the prior year. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels, the expiration of the federal homebuyers' tax credit on April 30, 2010 and the threat of more foreclosures continue to hinder a recovery in the housing market.

We have exposure to additional impairments of our inventories, which, as of October 31, 2010, have a book value of $1.0 billion, net of $895.9 million of impairments recorded on 169 of our communities. We also have $74.8 million invested in 14,379 lots under option, including cash and letters of credit option deposits of $36.3 million as of October 31, 2010. We will record a write-off for the amounts associated with an option if we determine it is probable we will not exercise it. As of October 31, 2010, we have total investments in, and advances to, unconsolidated joint ventures of $38.0 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 other than temporary declines, which has resulted in total reductions in our investment in joint ventures of $115.8 million from the second half of fiscal 2006, the first quarter in which we had impairments on our joint ventures, through October 31, 2010. 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 finite lived intangibles were fully written off as of October 31, 2008.

As the market for new homes declined, we adjusted our approach to land acquisition and construction practices and shortened our land pipeline, reduced production volumes, and balanced home price and profitability with sales pace. We delayed and cancelled planned land purchases and renegotiated land prices and significantly reduced our total number of controlled lots owned and under option. Additionally, we significantly reduced our total number of speculative homes put into production over the past several years. Recently, however, we have begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces and have been pursuing such land acquisitions. New land purchases at pricing that will generate good investment returns and drive greater operating efficiencies are needed to return to profitability. During fiscal 2010, we increased our controlled lots by 4,235 and we opened 81 new communities. During fiscal 2010, we purchased approximately 3,400 lots within 119 newly identified communities (defined as communities controlled subsequent to January 31, 2009). In addition, we optioned approximately 3,300 lots in 37 newly identified communities during the fourth quarter of 2010. In the third quarter of fiscal 2010 compared to the second quarter of fiscal 2010, we had an increase in active selling communities in consecutive quarters. This was the first consecutive quarter increase in active selling community count since the second quarter of fiscal 2007. Continuing this trend, we had an increase in active selling communities in the fourth quarter of fiscal 2010 compared to the third quarter of fiscal 2010. We have also continued to closely evaluate and make reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses $83.4 million from $321.6 million in fiscal 2009 to $238.2 million in fiscal 2010 due in large part to a 76.3% reduction in head count at the end of fiscal 2010 from our peak in June 2006. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the year ended October 31, 2010, homebuilding selling, general and administrative costs declined 25.6% to $178.3 million compared to the year ended October 31, 2009.

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 ASC 360-20, “Property, Plant and Equipment - Real Estate Sales” (“ASC 360-20”), revenue is recognized when title is conveyed to the buyer, adequate initial and continuing investments have been received, and there is no continued involvement. In situations where the buyer’s financing is originated by our mortgage subsidiary and the buyer has not made an adequate initial investment or continuing investment as prescribed by ASC 360-20, the profit on such sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed.

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

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

Substantially all of the mortgage loans originated are sold within a short period in the secondary mortgage market on a servicing released, nonrecourse basis although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or make whole investors for mortgages we have sold. To date, we have not made significant payments associated with our loans and we have reserves for potential losses. Included in mortgage loans held for sale at October 31, 2010 is $1.1 million of mortgage loans, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

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

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

We have decided to mothball (or stop development on) certain communities where we have determined the current market conditions do not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale". As of October 31, 2010, the book value of the 58 mothballed communities was $174.4 million, net of impairment charges of $580.2 million. We regularly review communities to determine if mothballing is appropriate or to re-activate previously mothballed communities as we did with 16 communities in the twelve months ended October 31, 2010.

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

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly, 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 the remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

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

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

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

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;
- community-specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;

- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community; 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.

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

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

Inventories held for sale, which are land parcels where we have decided not to build homes, represented $54.9 million of our total inventories at October 31, 2010, and are reported at the lower of carrying amount or fair value less costs to sell. In determining whether land held for sale is impaired, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Insurance Deductible Reserves - For homes delivered in fiscal 2010 and 2009, our deductible under our general liability insurance is $20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in 2010 is $0.1 million up to a $5 million limit. For bodily injury claims in 2009, our deductible was $20 million. Our aggregate retention in 2010 and 2009 is $21 million for construction defect and warranty claims, and $20 million for bodily injury claims. We do not have a deductible on our worker's compensation insurance in fiscal 2010. For fiscal 2009, our worker's compensation insurance deductible was $0.5 million per occurrence. Reserves for estimated losses for fiscal 2010 and 2009 have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty data and other industry data to assist our management 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 worker's compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices, and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Land Options - Costs incurred to obtain options to acquire improved or unimproved home sites are capitalized. Such amounts are either included as part of the purchase price if the land is acquired or charged to operations if we determine we will not exercise the option. If the options are with variable interest entities and we are the primary beneficiary, we record the land under option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned”. The evaluation of whether or not we are the primary beneficiary can require significant judgment. Similarly, if the option obligation is to purchase under specific performance or has terms that require us to record it as financing, then we record the option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned”. In accordance with ASC 810-10, “Consolidation - Overall” (“ASC 810-10”), we record costs associated with other options on the Consolidated Balance Sheets under “Land and land options held for future development or sale.”

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but 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 significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, “Investments - Equity Method and Joint Ventures - Overall” (“ASC 323-10”), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture's projected cash flows. This process requires significant management judgment and estimate. During fiscal 2009 and 2008, we wrote-down certain joint venture investments by $26.4 million and $11.3 million, respectively. There were no write-downs in fiscal 2010.

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

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

We recognize tax liabilities in accordance with ASC 740-10, 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 3 to the Consolidated Financial Statements included elsewhere in this Form 10-K/A. There have been no accounting pronouncements that have been issued but not yet implemented that we believe will materially impact our financial statements.

Capital Resources and Liquidity

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

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 14.1% decline in revenues during the twelve months ended October 31, 2010, compared to the same period of 2009, we had been operating with a primary focus to generate cash flows from operations 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) over the past two years. However, recently we have begun to see more opportunities to purchase land at prices that make economic sense given current home sales prices and sales paces. As such, in 2010 we have acquired new land at higher levels than in the previous few years. As a result, our net debt increased slightly in the third and fourth quarters of fiscal 2010 compared to the first half of fiscal 2010.

Our cash uses during the 12 months ended October 31, 2010 and 2009 were for operating expenses, land purchases, land deposits, construction spending, state income taxes, interest and debt principal payments and repurchases. We provided for our cash requirements from available cash on hand, housing and land sales, financial service revenues, a federal tax refund and other revenues. We believe that these sources of cash will be sufficient through fiscal 2011 to finance our working capital requirements and other needs, despite continued declines in total revenues, the termination of our revolving credit facility in fiscal 2009 and the collateralization with cash in segregated accounts to support certain of our letters of credit. We may also enter into land sale agreements or joint ventures to generate cash from our existing balance sheet. Due to a change in tax legislation that became effective on November 6, 2009, allowing a carryback of our 2009 net operating loss five years to previously profitable years, we were able to file for a $291.3 million federal income tax refund and we received $274.1 million of that refund during our second quarter of fiscal 2010 and received the remaining amount in the first quarter of fiscal 2011.

Our homebuilding cash balance at October 31, 2010 decreased by $60.8 million from October 31, 2009. This decrease was impacted by $111.5 million for principal payments upon debt maturity and debt repurchases, and $287.9 million for new land purchases, offset by increases of $274.1 million from the federal income tax refund, $42.9 million of cash previously reported as restricted cash which is no longer required to collateralize our letter of credit agreements and facilities, and increases in cash from operating activities.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and noncash charges relating to depreciation, amortization of computer software costs, amortization of finite-lived intangibles, stock compensation awards and impairment losses for inventory, finite-lived intangibles and goodwill. When we are expanding our operations, inventory levels, prepaids, and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what was happening since the last half of fiscal 2007 through part of fiscal 2009, allowing us to generate positive cash flow from operations during this period. In the latter part of fiscal 2009 and continuing in fiscal 2010, we began to grow our community count again and as a result of the new land purchases and land development we used cash in operations. Looking forward, given the depressed housing market, it will become more difficult to generate positive cash flow from operations until we return to profitability. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity while also taking steps to return to profitability, including through land acquisition. We continue to focus on maximizing cash flow by limiting our investment in currently owned communities that we believe will not generate positive cash flow in the near term, and by seeking to identify and purchase new land parcels (primarily finished lots) on which homes can be built and delivered in a short period of time, generating acceptable returns, based on our underwriting standards, and positive cash flow.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2010, 3.4 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 5 for information on equity purchases). We did not buy back any shares under this program during fiscal 2010, 2009 or 2008.

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the NASDAQ Global Market under the symbol "HOVNP." In each of fiscal year 2007 and 2006, we paid $10.7 million of dividends on the Series A Preferred Stock. In fiscal 2010, 2009 and 2008, we did not make any dividend payments as a result of covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

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

In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. Also in connection with the refinancing, we entered into certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of $89.5 million and $130.3 million of letters of credit outstanding as of October 31, 2010 and October 31, 2009, respectively, which is reflected in "Restricted cash" on the Consolidated Balance Sheet. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of October 31, 2010 and October 31, 2009, the amount of cash collateral in these segregated accounts was $92.3 million and $135.2 million, respectively.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage"), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with Citibank, N.A. ("Citibank Master Repurchase Agreement") is a short-term borrowing facility that provides up to $50 million through April 5, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable upon the sale of each mortgage loan to a permanent investor at LIBOR plus 4.00%. As of October 31, 2010, the aggregate principal amount of all borrowings under the Citibank Master Repurchase Agreement was $41.5 million.

In addition to the Citibank Master Repurchase Agreement discussed above, on July 19, 2010, K. Hovnanian Mortgage executed a secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement") which is a short-term borrowing facility that provides up to $25 million through July 18, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at LIBOR floor of 2.00% plus applicable margin ranging from 2.50% to 3.00% based on the takeout investor and type of loan. This agreement was amended on October 13, 2010 to temporarily increase the commitment to $50 million until December 16, 2010 (the interest rate remained the same). As of October 31, 2010, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was $32.1 million.

Both the Citibank Master Repurchase Agreement and the Chase Master Repurchase Agreement require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the facilities, 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 two agreements, we do not consider any of these covenants to be substantive or material. As of October 31, 2010, we believe we were in compliance with the covenants of the Citibank Master Repurchase Agreement and the Chase Master Repurchase Agreement.

On May 27, 2008, K. Hovnanian Enterprises, Inc. ("K. Hovnanian") issued $600 million ($594.4 million net of discount) of 11 1/2% Senior Secured Notes due 2013. The notes are secured, subject to permitted liens and other exceptions, by a second-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due October 15, 2016. The notes are redeemable in whole or in part at our option at 102% of principal commencing November 1, 2010, 101% of principal commencing May 1, 2011, and 100% of principal commencing May 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at 111.50% of principal. A portion of the net proceeds of the issuance were used to repay the outstanding balance under the then existing amended credit facility. These second lien notes were the subject of a tender offer discussed below.

On December 3, 2008, K. Hovnanian issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of unsecured senior notes as follows: $0.5 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. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under our first-priority and second-priority secured notes. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011 and 100% of principal commencing November 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011, with the net cash proceeds from certain equity offerings at a price equal to 118.0% of principal. These third lien notes were the subject of a tender offer discussed below.

On October 20, 2009, K. Hovnanian issued $785.0 million ($770.9 million net of discount) of 10 5/8% Senior Secured Notes due October 15, 2016. The notes 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 notes are redeemable in whole or in part at our option at 107.969% of principal commencing October 15, 2012, 105.313% of principal commencing October 15, 2013, 102.656% of principal commencing October 15, 2014, and 100% of principal commencing October 15, 2015. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before October 15, 2012 with the net proceeds from certain equity offerings at 110.625% of principal. The net proceeds from this issuance, together with cash on hand, were used to fund certain cash tender offers and consent solicitations for our 11 1/2% Senior Secured Notes due 2013 and 18.0% Senior Secured Notes due 2017 and the cash tender offers for certain series of our unsecured notes discussed below.

The 10 5/8% Senior Secured Notes due 2016 are secured by a first-priority lien, 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, in the case of the 11 1/2% Senior Secured Notes due 2013 and the 18% Senior Secured Notes due 2017, to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due 2016. At October 31, 2010, the aggregate book value of the real property collateral securing these notes was approximately $759.5 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 $300.0 million as of October 31, 2010, which includes $92.3 of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

On 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.

On October 20, 2009, we completed cash tender offers and consent solicitations whereby we purchased (1) in a fixed price tender offer approximately $599.5 million principal amount of 11 1/2% Senior Secured Notes due 2013 for approximately $635.5 million, plus accrued and unpaid interest, (2) in a fixed price tender offer approximately $17.6 million principal amount of 18.0% Senior Secured Notes due 2017 for approximately $17.6 million, plus accrued and unpaid interest, and (3) in a fixed price tender offer for certain series of our unsecured notes, a total of approximately $125.4 million principal amount of 8% Senior Notes due 2012, 6 1/2% Senior Notes due 2014, 6 3/8% Senior Notes due 2014, 6 1/4% Senior Notes due 2015, and 7 1/2% Senior Notes due 2016 for approximately $100.0 million, plus accrued and unpaid interest. These tender offers resulted in a loss on extinguishment of debt of $36.4 million, net of the write-off of unamortized discounts and fees.

During the three months ended January 31, 2010, the remaining $13.6 million of our 6% Senior Subordinated Notes due 2010 matured and was paid. During the year ended October 31, 2010, we repurchased in open market transactions $27.0 million principal amount of 6 1/2% Senior Notes due 2014, $54.5 million principal amount of 6 3/8% Senior Notes due 2014, $29.5 million principal amount of 6 1/4% Senior Notes due 2015, $1.4 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $11.1 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $97.9 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $25.0 million for the year ended October 31, 2010, net of the write-off of unamortized discounts and fees. The gains from the exchanges and repurchases are included in the Consolidated Statement of Operations as “Gain on extinguishment of debt”.

At October 31, 2010, we had $797.2 million of outstanding senior secured notes ($784.6 million, net of discount), comprised of $0.5 million 11 1/2% Senior Secured Notes due 2013, $11.7 million 18.0% Senior Secured Notes due 2017, and $785.0 million 10 5/8% Senior Secured Notes due 2016. We also had $713.2 million of outstanding senior notes ($711.6 million, net of discount), comprised of $35.5 million 8% Senior Notes due 2012, $54.4 million 6 1/2% Senior Notes due 2014, $29.2 million 6 3/8% Senior Notes due 2014, $52.7 million 6 1/4% Senior Notes due 2015, $173.2 million 6 1/4% Senior Notes due 2016, $172.3 million 7 1/2% Senior Notes due 2016, and $195.9 million 8 5/8% Senior Notes due 2017. In addition, we had $120.2 million of outstanding senior subordinated notes, comprised of $66.7 million 8 7/8% Senior Subordinated Notes due 2012, and $53.5 million 7 3/4% Senior Subordinated Notes due 2013.

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, joint ventures and subsidiaries holding interests in our joint ventures and our foreign subsidiary (See Note 21 to the Consolidated Financial Statements). 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 Company’s ability and that of certain of its subsidiaries, including K. Hovnanian, the issuer of the senior secured, senior, and senior subordinated notes, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and nonrecourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell, or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the 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 October 31, 2010, 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 also continue to evaluate our capital structure and may continue to make debt purchases and/or exchanges from time to time, through tender offers, open market purchases, private transactions, or otherwise, or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

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

During 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.

On September 14, 2010, S&P affirmed the corporate credit rating of CCC+ but revised our outlook to negative from developing.

Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt or affect the interest rates charged on any of our debt issues or our debt covenant requirements or cause any other operating issue. The only potential risk from negative changes in our credit ratings is that they may make it more difficult or costly for us to access capital. However, due to our available cash resources, the downgrades in our credit ratings in the second quarter of fiscal 2009 and the revision to S&P's outlook in 2010 have not impacted management’s operating plans, or our financial condition, results of operations or liquidity.

Total inventory decreased $63.2 million, excluding inventory not owned, during the year ended October 31, 2010. Total inventory, excluding inventory not owned, for fiscal 2010 decreased in the Northeast $117.7 million, in the Mid-Atlantic $6.0 million, in the Midwest $1.1 million, which decreases were offset by increases in the Southeast $4.6 million, in the Southwest $25.7 million, and in the West $31.3 million. During fiscal 2010, we incurred $122.5 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 $13.2 million during fiscal 2010, related to land options that expired or that we terminated. See "Notes to Consolidated Financial Statements" – Note 13 for additional information. Despite these write-downs and inventory reductions due to deliveries, total inventory only decreased $63.2 million, excluding inventory not owned, because we purchased $287.9 million of land during fiscal 2010. We have recently been able to identify new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. Substantially all homes under construction or completed and included in inventory at October 31, 2010 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 total inventory decreases discussed above excluded the decrease in consolidated inventory not owned of $44.7 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with ASC 470-40, “Debt - Product Financing Arrangements”, and ASC 840-40, “Leases - Sales-Leaseback Transactions”, and variable interest entities in accordance with ASC 810-10. See “Notes to Consolidated Financial Statements”- Note 18 for additional information on ASC 810-10. Specific performance options inventory decreased $9.5 million for the year ended October 31, 2010. This decrease was primarily due to the fact that certain lots previously recorded as a future obligation in the Northeast were taken down during the first quarter of fiscal 2010. Variable interest entity options inventory decreased $12.7 million as we continue to take down land or walk away from deals previously consolidated under ASC 810-10. Other options inventory decreased $22.5 million for the year ended October 31, 2010. Other options consist of inventory financed via a model home program and structured lot option agreements. Model home inventory financed through the model lease program decreased $19.6 million because we have terminated the use of models in certain communities where models were no longer needed and in conjunction therewith also terminated the option to purchase those models. Structured lot option inventory decreased $2.9 million. This decrease was primarily in the Mid-Atlantic where we walked away from a land purchase transaction during the first quarter of fiscal 2010.

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 October 31, 2010, on the Consolidated Balance Sheets, decreased by $23.7 million compared to October 31, 2009. The decrease is due to additional impairments taken in the Northeast and the West in fiscal 2010, offset by an increase due to the acquisition of new land in the Southeast, Southwest and West segments as land prices became more attractive during fiscal 2010. Included in "Land and land options held for future development or sale inventory" are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we avoid spending money to improve land today and save the raw land until such times as the markets improve. As of October 31, 2010, we have mothballed land in 58 communities. The book value associated with these communities at October 31, 2010 was $174.4 million, net of impairment charges of $580.2 million. We continually review communities to determine if mothballing is appropriate or to re-activate previously mothballed communities as we did with 16 communities in the twelve months ended October 31, 2010.

The following table summarizes home sites included in our total residential real estate. The increase in total home sites available in 2010 compared to 2009 is attributable to the new communities that have been controlled via option or purchased during 2010, partially offset by delivering homes in existing communities.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2010:			
Northeast	6,007	236	5,771
Mid-Atlantic	6,716	262	6,454
Midwest	1,805	222	1,583
Southeast	4,062	82	3,980
Southwest	5,361	337	5,024
West	8,249	110	8,139
Consolidated total	32,200	1,249	30,951
Unconsolidated joint ventures	2,072	145	1,927
Total including unconsolidated joint ventures	34,272	1,394	32,878
Owned	17,676	993	16,683
Optioned	14,379	111	14,268
Construction to permanent financing lots	145	145	-
Consolidated total	32,200	1,249	30,951
Lots controlled by unconsolidated joint ventures	2,072	145	1,927
Total including unconsolidated joint ventures	34,272	1,394	32,878

October 31, 2009:

Northeast	6,751	457	6,294
Mid-Atlantic	4,026	386	3,640
Midwest	3,107	253	2,854
Southeast	1,418	135	1,283
Southwest	5,259	351	4,908
West	7,397	190	7,207
Consolidated total	27,958	1,772	26,186
Unconsolidated joint ventures	2,576	159	2,417
Total including unconsolidated joint ventures	30,534	1,931	28,603
Owned	16,477	1,511	14,966
Optioned	11,343	123	11,220
Construction to permanent financing lots	138	138	-
Consolidated total	27,958	1,772	26,186
Lots controlled by unconsolidated joint ventures	2,576	159	2,417
Total including unconsolidated joint ventures	30,534	1,931	28,603

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

	October 31, 2010			October 31, 2009		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	109	15	124	103	14	117
Mid-Atlantic	72	26	98	69	25	94
Midwest	44	27	71	40	19	59
Southeast	80	20	100	50	1	51
Southwest	421	107	528	364	82	446
West	60	81	141	33	83	116
Total	786	276	1,062	659	224	883
Started or completed unsold homes and models per active selling communities(1)	4.1	1.4	5.5	3.7	1.2	4.9

(1) Active selling communities, which are communities that are open for sale with 10 or more home sites available, were 192 at October 31, 2010, and 179 at October 31, 2009.

The increase in total unsold homes compared to the prior year is partially due to the increase of 13 active communities from 179 at October 31, 2009 to 192 at October 31, 2010, as well as an increase in cancellations after the expiration of the homebuyer tax credit in the third quarter of fiscal 2010, and a slower sales pace.

Investments in and advances to unconsolidated joint ventures decreased $3.3 million during the fiscal year ended October 31, 2010. The decrease is primarily due to distributions received from joint ventures during fiscal 2010. This is partially offset by increases resulting from additional investments in joint ventures. As of October 31, 2010, we have investments in eight homebuilding joint ventures and five land development joint ventures. Other than guarantees limited only to completion of development, environmental indemnification and standard indemnification for fraud and misrepresentation including voluntary bankruptcy, we have no guarantees associated with unconsolidated joint ventures.

Receivables, deposits and notes increased $16.6 million since October 31, 2009 to $61.0 million at October 31, 2010. The increase is primarily due to a note receivable that is secured by land, as well as an increase in receivables for home closings as a result of cash in transit from various title companies at the end of the respective periods.

Property, plant and equipment decreased $11.2 million during the twelve months ended October 31, 2010 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 as of:

(In thousands)	October 31, 2010	October 31, 2009	Dollar Change
Prepaid insurance	$1,346	$5,118	$(3,772)
Prepaid project costs	41,605	50,227	(8,622)
Senior residential rental properties	8,076	7,003	1,073
Other prepaids	23,264	25,832	(2,568)
Other assets	9,637	9,979	(342)
Total	$83,928	$98,159	$(14,231)

Prepaid insurance decreased due to the timing of payments for insurance premium costs and related amortization of these costs, as they are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs decreased for homes delivered faster than by spending on new communities. 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 amortization of the remaining prepaid debt costs. Also contributing to the decrease were debt repurchases during fiscal 2010, which resulted in the write-off of portions of the associated prepaid debt costs.

Financial Services - Mortgage loans held for sale consist primarily of residential mortgages receivable held for sale of which $85.2 million and $66.0 million at October 31, 2010 and October 31, 2009, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. Also included are residential mortgages receivable held for sale of $1.1 million and $3.5 million at October 31, 2010 and October 31, 2009, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur losses with respect to mortgages that were previously sold that are delinquent, 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. The increase in mortgage loans held for sale from October 31, 2009 is a result of an increase in the time it has taken for loan purchasers to process and settle the loans, which we believe is due to more rigorous pre-funding reviews implemented by the industry.

Nonrecourse land mortgages were $4.3 million at October 31, 2010 and zero at October 31, 2009. The increase is due to two new purchase money mortgages for properties in our Southwest and West segments during fiscal 2010.

Accounts payable and other liabilities are as follows as of:

(In thousands)	October 31, 2010	October 31, 2009	Dollar Change
Accounts payable	$84,948	$99,175	$(14,227)
Reserves	149,413	136,481	12,932
Accrued expenses	44,758	54,169	(9,411)
Accrued compensation	24,494	17,237	7,257
Other liabilities	16,136	18,660	(2,524)
Total	$319,749	$325,722	$(5,973)

The decrease in accounts payable was primarily due to the 16.6% lower volume of deliveries in the fourth quarter of 2010 compared to the prior year. The increase in the reserves is the result of an accrual for a letter of credit related to an option walk-away that will be funded in fiscal 2011 and also for increased legal reserves related to post-development completion in the Northeast and West. The decrease in accrued expenses is due to the amortization of abandoned lease space accruals, along with a decrease for property taxes accrued at October 31, 2010 compared to October 31, 2009. The increase in accrued compensation is due to increased bonus payments for associates in certain markets that generated profits in fiscal 2010, along with severance accruals in the Northeast and Mid-Atlantic markets, and also a change from quarterly to annual bonus payments in one of our markets in the Southwest, where a full year's bonus is accrued at October 31, 2010 compared to only one quarter's bonus at October 31, 2009. The decrease in other liabilities is primarily due to the payoff of a note in the first quarter of fiscal 2010 associated with a community in the Northeast.

Customer deposits decreased to $9.5 million at October 31, 2010 from $18.8 million at October 31, 2009. The decrease was primarily due to lower contracts in backlog and the impact of the use of a third party escrow agent to hold deposits in the Northeast.

Mortgage warehouse line of credit under our secured Master Repurchase Agreements increased $17.7 million from $55.9 million at October 31, 2009, to $73.6 million at October 31, 2010. The increase is directly correlated to the increase in mortgage loans held for sale from October 31, 2009 to October 31, 2010.

Liabilities from inventory not owned decreased $43.7 million to $53.2 million at October 31, 2010 from $96.9 million at October 31, 2009 because inventory not owned decreased as discussed previously.

Results of Operations

Total Revenues

Compared to the prior period, revenues decreased as follows:

	Year Ended		
(Dollars in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Homebuilding:			
Sale of homes	$(194,970)	$(1,655,384)	$(1,403,522)
Land sales	(20,430)	(30,526)	(50,179)
Other revenues	(5,471)	(9,242)	(13,137)
Financial services	(3,577)	(16,669)	(23,972)
Total change	$(224,448)	$(1,711,821)	$(1,490,810)
Total revenues percent change	(14.1)%	(51.7)%	(31.1)%

Homebuilding

Compared to the same prior period, homebuilding revenues decreased $195.0 million, or 12.8%, for the year ended October 31, 2010, decreased $1,655.4 million, or 52.1%, for the year ended October 31, 2009 and decreased $1,403.5 million or 30.6%, for the year ended October 31, 2008. Decreased revenues in 2010, 2009 and 2008 are primarily due to the number of home deliveries also declining 11.8%, 49.3%, and 22.0%, respectively, resulting from weakening market conditions and increased competition in most of our markets. Average price per home also decreased to $280,715 for 2010 from $283,937 in 2009 and from $300,449 in 2008, as a result of price declines and geographic community mix of our deliveries. Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on land sales and other revenues, see the section titled "Land Sales and Other Revenues" below.

Information on homes delivered by segment is set forth below:

	Year Ended		
(Housing Revenue in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Northeast:			
Housing revenues	$296,449	$357,745	$679,488
Homes delivered	718	823	1,412
Average price	$412,882	$434,684	$481,224
Mid-Atlantic:			
Housing revenues	$280,132	$296,286	$509,009
Homes delivered	753	788	1,248
Average price	$372,021	$375,997	$407,860
Midwest:			
Housing revenues	$91,260	$116,990	$209,759
Homes delivered	439	520	965
Average price	$207,882	$224,981	$217,367
Southeast (1):			
Housing revenues	$92,712	$113,034	$624,106
Homes delivered	384	489	2,572
Average price	$241,438	$231,153	$242,654
Southwest:			
Housing revenues	$391,807	$408,746	$603,513
Homes delivered	1,767	1,867	2,616
Average price	$221,736	$218,932	$230,701
West:			
Housing revenues	$175,139	$229,668	$551,978
Homes delivered	668	875	1,764
Average price	$262,184	$262,478	$312,913
Consolidated total:			
Housing revenues	$1,327,499	$1,522,469	$3,177,853
Homes delivered	4,729	5,362	10,577
Average price	$280,715	$283,937	$300,449
Unconsolidated joint ventures:			
Housing revenues	$124,149	$113,016	$262,605
Homes delivered	280	297	704
Average price	$443,389	$380,525	$373,018
Total including unconsolidated joint ventures:			
Housing revenues	$1,451,648	$1,635,485	$3,440,458
Homes delivered	5,009	5,659	11,281
Average price	$289,808	$289,006	$304,978

(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 years ended October 31, 2010 and October 31, 2009 was primarily due to the continued weak market conditions in most of our markets. Housing revenues and average sales prices in 2010 decreased in all of our homebuilding segments combined by 12.8% and 1.1%, respectively. In our homebuilding segments, homes delivered decreased 12.8%, 4.4%, 15.6%, 21.5%, 5.4% and 23.7% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Housing revenues and average sales prices in 2009 decreased in all of our homebuilding segments combined by 52.1% and 5.5%, respectively. In our homebuilding segments, homes delivered decreased 41.7%, 36.9%, 41.6%, 81.0%, 28.6% and 50.4% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Another reason for reduced sales in 2009 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 after the first quarter of fiscal 2009. This issue was partially mitigated by federal government purchases of FHA/VA loans and the increase in loan limits for these types of loans.

Quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2010, 2009 and 2008 are set forth below:

	Quarter Ended			
(In thousands)	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010
Housing revenues:				
Northeast	$79,040	$91,740	$56,955	$68,714
Mid-Atlantic	73,654	72,767	67,634	66,076
Midwest	29,177	22,650	16,029	23,404
Southeast	17,472	28,522	22,041	24,677
Southwest	103,190	103,065	103,428	82,124
West	37,043	49,333	44,406	44,358
Consolidated total	$339,576	$368,077	$310,493	$309,353
Sales contracts (net of cancellations):				
Northeast	$42,925	$43,314	$52,208	$55,379
Mid-Atlantic	64,597	50,845	73,704	46,949
Midwest	12,111	16,526	27,289	16,421
Southeast	18,965	15,264	25,334	17,236
Southwest	111,760	88,360	114,166	79,656
West	31,571	33,313	43,857	36,041
Consolidated total	$281,929	$247,622	$336,558	$251,682

	Quarter Ended			
(In thousands)	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009
Housing revenues:				
Northeast	$102,996	$84,761	$83,752	$86,236
Mid-Atlantic	80,773	75,631	70,887	68,995
Midwest	36,305	29,925	23,887	26,872
Southeast	23,032	23,152	32,834	34,015
Southwest	103,109	105,518	113,514	86,605
West	68,364	48,154	56,824	56,329
Consolidated total	$414,579	$367,141	$381,698	$359,052
Sales contracts (net of cancellations):				
Northeast	$96,424	$84,093	$104,653	$65,345
Mid-Atlantic	66,375	85,352	87,208	42,259
Midwest	18,019	25,411	33,498	18,836
Southeast	24,377	27,660	31,073	20,063

Southwest	97,797	109,027	109,971	60,497
West	65,592	55,053	69,205	30,519
Consolidated total	$368,584	$386,596	$435,608	$237,519

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

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. Contracts per average active selling community in 2010 were 23.1 compared to fiscal 2009 of 23.3, demonstrating a decrease in sales pace. Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures.

Quarter	2010	2009	2008	2007	2006
First	21%	31%	38%	36%	30%
Second	17%	24%	29%	32%	32%
Third	23%	23%	32%	35%	33%
Fourth	24%	24%	42%	40%	35%

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

Quarter	2010	2009	2008	2007	2006
First	13%	22%	16%	17%	11%
Second	17%	31%	24%	19%	15%
Third	15%	23%	20%	18%	14%
Fourth	25%	20%	30%	26%	16%

Historically, most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks after the signing of the contract. Cancellations also occur as a result of a buyer's failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, beginning in fiscal year 2007, we have been experiencing higher than normal numbers 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 their contract price and due to tighter mortgage underwriting criteria leading to some customers' inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. While our cancellation rate based on gross sales contracts since the second quarter of fiscal 2009 has been 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 the fourth quarter of fiscal 2010, the cancellation rate as a percentage of beginning backlog increased compared to other fiscal 2010 periods and is higher than historical periods.

An important indicator of our future results is recently signed contracts and our home contract backlog for future deliveries. Our consolidated contract backlog, excluding unconsolidated joint ventures using base sales prices by segment is set forth below:

(Dollars In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Northeast:			
Total contract backlog	$94,363	$196,262	$215,604
Number of homes	236	457	497
Mid-Atlantic:			
Total contract backlog	$106,589	$150,819	$165,871
Number of homes	262	386	385
Midwest:			
Total contract backlog	$34,188	$46,418	$61,108
Number of homes	222	253	291
Southeast:			
Total contract backlog	$20,212	$35,970	$45,657
Number of homes	82	135	163
Southwest:			
Total contract backlog	$88,123	$77,418	$100,305
Number of homes	337	351	420
West:			
Total contract backlog	$27,304	$52,666	$57,642
Number of homes	110	190	151
Totals:			
Total consolidated contract backlog	$370,779	$559,553	$646,187
Number of homes	1,249	1,772	1,907

The decline in our backlog for the years ended October 31, 2010 and October 31, 2009 is a direct result of a fall-off in our contract pace. Our net contracts for the full years of fiscal 2010 and 2009, excluding unconsolidated joint ventures, declined 19.5% and 20.1%, respectively. In the month of November 2010, excluding unconsolidated joint ventures, we signed an additional 235 net contracts amounting to $66.7 million in contract value.

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

		Year Ended	
(Dollars In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Sale of homes	$1,327,499	$1,522,469	$3,177,853
Cost of sales, net of impairment reversals and excluding interest expense	1,103,872	1,382,234	2,965,886
	223,627	140,235	211,967

Homebuilding gross margin, before cost of sales interest expense and land charges			
Cost of sales interest expense, excluding land sales interest expense	79,095	97,332	136,439
Homebuilding gross margin, after cost of sales interest expense, before land charges	144,532	42,903	75,528
Land charges	135,699	659,475	710,120
Homebuilding gross margin, after cost of sales interest expense and land charges	$8,833	$(616,572)	$(634,592)
Gross margin percentage, before cost of sales interest expense and land charges	16.8%	9.2%	6.7%
Gross margin percentage, after cost of sales interest expense, before land charges	10.9%	2.8%	2.4%
Gross margin percentage after cost of sales interest expense and land charges	0.7%	(40.5)%	(20.0)%

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

	Year Ended		
	October 31, 2010	October 31, 2009	October 31, 2008
Sale of homes	100%	100.0%	100.0%
Cost of sales, net of impairment reversals and excluding interest:			
Housing, land and development costs	69.9%	75.9%	82.1%
Commissions	3.3%	3.3%	2.7%
Financing concessions	2.2%	2.4%	1.7%
Overheads	7.8%	9.2%	6.8%
Total cost of sales, before interest expense and land charges	83.2%	90.8%	93.3%
Gross margin percentage, before cost of sales interest expense and land charges	16.8%	9.2%	6.7%
Cost of sales interest	5.9%	6.4%	4.3%
Gross margin percentage, after cost of sales interest expense and before land charges	10.9%	2.8%	2.4%

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 16.8% for the year ended October 31, 2010 compared to 9.2% for the same period last year. The declining pace of sales in our markets in 2008, 2009, and 2010 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 some 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, during fiscal 2009 we delivered the final homes in some older communities where margins were lower and in fiscal 2010 we have increased the number of deliveries from new communities where we have acquired the land at more reasonable prices, resulting in higher gross margins. Also, we have recorded impairment reversals as homes previously impaired are delivered. This has resulted in the 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 $135.7 million, $659.5 million, and $710.1 million during the years ended October 31, 2010, 2009, and 2008, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 13" for an additional discussion. During the years ended October 31, 2010, 2009, and 2008, we wrote-off residential land options and approval and engineering costs amounting to $13.2 million, $45.4 million, and $114.1 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option, approval and engineering costs are written-off when a community's pro forma profitability is not projected to produce adequate returns on the investment commensurate with the risk and we believe it is probable we will cancel the option. Such write-offs were located in all of our segments. The inventory impairments amounting to $122.5 million, $614.1 million, and $596.0 million for the years ending October 31, 2010, 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 2010, the majority of the impairments were in the Northeast and West segments. Impairments in the Northeast were primarily due to communities now classified as held for sale and thus adjusted to fair value. In the West, where we have 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. Inventory impairments were lower than they have been in several years, as we have begun to see some stabilization in prices and sales pace in some of our segments. It is difficult to predict if this trend will continue, and should it become necessary to further lower prices, or should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments.

Below is a break-down of our lot option walk-aways and impairments by segment for fiscal 2010. In 2010, in total, we walked away from 17.7% of all the lots we controlled under option contracts. The remaining 82.3% of our option lots are in communities that remain economically feasible, including a substantial number that were successfully renegotiated in the past few years.

The following table represents lot option walk-aways by segment for the year ended October 31, 2010:

(In millions)	Dollar Amount of Walk Away	Number of Walk-Away Lots	% of Walk-Away Lots	Total Option Lots(1)	Walk-Away Lots as a % of Total Option Lots
Northeast	$4.5	681	21.9%	3,717	18.3%
Mid-Atlantic	8.9	784	25.3%	4,643	16.9%
Midwest	0.0	709	22.9%	1,543	45.9%
Southeast	(0.6)	13	0.4%	2,552	0.5%
Southwest	0.3	638	20.6%	3,604	17.7%
West	0.1	277	8.9%	1,422	19.5%
Total	$13.2	3,102	100.0%	17,481	17.7%

(1) Includes lots optioned at October 31, 2010 and lots optioned that the Company walked-away from in the year ended October 31, 2010.

The following table represents impairments by segment for the year ended October 31, 2010:

(In millions)	Dollar	% of	Pre-	% of Pre-

	Amount of Impairment	Impairments	Impairment Value	Impairment Value
Northeast	$72.2	59.0%	$156.5	46.1%
Mid-Atlantic	3.4	2.7%	7.1	47.9%
Midwest	4.6	3.8%	8.2	56.1%
Southeast	2.2	1.8%	8.0	27.5%
Southwest	0.9	0.7%	10.8	8.3%
West	39.2	32.0%	62.8	62.4%
Total	$122.5	100.0%	$253.4	48.3%

Homebuilding selling, general, and administrative ("SGA") expenses decreased to $178.3 million for the year ended October 31, 2010, and decreased to $239.6 million for the year ended October 31, 2009 from $377.1 million for the year ended October 31, 2008. These decreases in SGA expenses are the result of reduced costs through headcount reduction, administrative consolidation and other cost saving measures.

Land Sales and Other Revenues

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

	Year Ended		
(In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Land and lot sales	$6,820	$27,250	$57,776
Cost of sales, net of impairment reversals and excluding interest	177	15,853	45,016
Land and lot sales gross margin, excluding interest	6,643	11,397	12,760
Land sales interest expense	5,345	8,482	9,522
Land and lot sales gross margin, including interest	$1,298	$2,915	$3,238

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Profits from land sales for the year ended October 31, 2010 were less than for the year ended October 31, 2009. 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. There were several larger land sales in the prior year compared to only a few in the current year, which resulted in the significant decrease of land sales revenue.

Land sales and other revenues decreased $25.9 million and $39.8 million for the years ended October 31, 2010 and October 31, 2009, respectively. Other revenues include income from contract cancellations, where the deposit has been forfeited due to contract terminations, interest income, cash discounts, buyer walk-aways and miscellaneous one-time receipts. In fiscal 2010, the primary reason for the decrease in other revenue by $5.5 million was a reduction in interest income due to lower excess cash in interest bearing accounts as well as lower interest rates in 2010 compared to 2009. In addition, as cancellation rates have come down during the year, income from forfeited customer deposits has declined.

Homebuilding Operations by Segment

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

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

	Years Ended October 31,				
	2010	Variance 2010 Compared to 2009	2009	Variance 2009 Compared to 2008	2008
Northeast					
Homebuilding revenue	$298,713	$(66,163)	$364,876	$(339,847)	$704,723
Loss before income taxes	$(92,605)	$248,542	$(341,147)	$(226,731)	$(114,416)
Homes delivered	718	(105)	823	(589)	1,412
Average sales price	$412,882	$(21,802)	$434,684	$(46,540)	$481,224
Contract cancellation rate	23%	0%	23%	(7)%	30%
Mid-Atlantic					
Homebuilding revenue	$282,052	$(15,654)	$297,706	$(216,013)	$513,719
Loss before income taxes	$(4,762)	$81,055	$(85,817)	$56,432	$(142,249)
Homes delivered	753	(35)	788	(460)	1,248
Average sales price	$372,021	$(3,976)	$375,997	$(31,863)	$407,860
Contract cancellation rate	26%	(8)%	34%	(8)%	42%
Midwest					
Homebuilding revenue	$93,358	$(23,950)	$117,308	$(94,279)	$211,587
Loss before income taxes	$(13,226)	$11,164	$(24,390)	$13,025	$(37,415)
Homes delivered	439	(81)	520	(445)	965
Average sales price	$207,882	$(17,099)	$224,981	$7,614	$217,367
Contract cancellation rate	20%	(4)%	24%	(10)%	34%
Southeast					
Homebuilding revenue	$93,493	$(26,286)	$119,779	$(512,271)	$632,050
Loss before income taxes	$(11,219)	$56,672	$(67,891)	$78,515	$(146,406)
Homes delivered	384	(105)	489	(2,083)	2,572
Average sales price	$241,438	$10,285	$231,153	$(11,501)	$242,654
Contract cancellation rate	14%	(8)%	22%	(27)%	49%
Southwest					
Homebuilding revenue	$393,639	$(29,169)	$422,808	$(187,237)	$610,045
Income (loss) before income taxes	$23,192	$83,969	$(60,777)	$40,693	$(101,470)
Homes delivered	1,767	(100)	1,867	(749)	2,616
Average sales price	$221,736	$2,804	$218,932	$(11,769)	$230,701
Contract cancellation rate	21%	(5)%	26%	(4)%	30%
West					
Homebuilding revenue	$178,480	$(56,260)	$234,740	$(342,488)	$577,228
Loss before income taxes	$(61,769)	$242,770	$(304,539)	$220,162	$(524,701)
Homes delivered	668	(207)	875	(889)	1,764
Average sales price	$262,184	$(294)	$262,478	$(50,435)	$312,913
Contract cancellation rate	18%	0%	18%	(13)%	31%

Homebuilding Results by Segment

Northeast - Homebuilding revenues decreased 18.1% in 2010 compared to 2009 primarily due to a 12.8% decrease in homes delivered and a 5.0% decrease in average selling price. Loss before income taxes decreased $248.5 million to a loss of $92.6 million, which is mainly due to a $182.1 million decrease in inventory impairment loss and land option write-offs in 2010, along with a decrease in our share of net losses from unconsolidated joint ventures of $31.1 million in 2009, which did not recur in fiscal 2010, as we recorded an impairment of our investment in one joint venture and wrote-off our investment in another October 31, 2009. In addition, selling, general and administrative costs were down $18.8 million due to decreased salaries from headcount reductions and other overhead cost savings. In addition, there was a modest increase in gross margin percentage before interest expense.

Homebuilding revenues decreased 48.2% in 2009 compared to 2008 primarily due to a 41.7% decrease in homes delivered combined with a 9.7% decrease in average selling price. Loss before income taxes increased $226.7 million to a loss of $341.1 million, which is mainly due to a $194.5 million increase in inventory impairment loss and land option write-offs in 2009, along with a slight reduction in gross margin percentage before interest expense as the markets in this segment have continued to be highly competitive.

Mid-Atlantic - Homebuilding revenues decreased 5.3% in 2010 compared to 2009 primarily due to a 4.4% decrease in homes delivered and a 1.1% decrease in average selling price due to increased incentives and the mix of communities that delivered in 2010 compared to 2009. Loss before income taxes decreased $81.1 million to a loss of $4.8 million, of which $47.0 million is from the decrease in inventory impairment loss and land option write-offs in 2010. Additionally, the segment also had a modest increase in gross margin percentage before interest expense.

Homebuilding revenues decreased 42.1% in 2009 compared to 2008 primarily due to a 36.9% decrease in homes delivered and a 7.8% decrease in average selling price due to increased incentives and the mix of communities that delivered in 2009 compared to 2008. Loss before income taxes decreased $56.4 million to a loss of $85.5 million, of which $24.6 million is from the decrease in inventory impairment loss and land option write-offs in 2009. Additionally, there was a $15.1 million goodwill impairment charge recorded in 2008, which did not recur in 2009. The segment also had a small increase in gross margin percentage before interest expense.

Midwest - Homebuilding revenues decreased 20.4% in 2010 compared to 2009. The decrease was primarily due to a 15.6% decrease in homes delivered, and a 7.6% decrease in average sales price. Loss before income taxes decreased $11.2 million to a loss of $13.2 million. The decrease in the loss was primarily due to a decrease of $3.3 million in inventory impairment and land option write-offs in 2010 and a decrease of $2.9 million in selling, general and administrative costs. In addition, there was a small increase in gross margin percentage before interest expense.

Homebuilding revenues decreased 44.6% in 2009 compared to 2008. The decrease was primarily due to a 46.1% decrease in homes delivered, slightly offset by a 3.5% increase in average sales price. The fluctuation in average sales price was the result of the mix of communities delivering in 2009 compared to 2008. Loss before income taxes decreased $13.0 million to a loss of $24.4 million. The decrease in the loss was primarily due to our share of net losses on an unconsolidated joint venture of $9.4 million in 2008, which did not recur in fiscal 2009, as we wrote-off our investment in the joint venture at October 31, 2008. In addition, there was a modest increase in gross margin percentage before interest expense.

Southeast - Homebuilding revenues decreased 21.9% in 2010 compared to 2009. The decrease was primarily due to a 21.5% decrease in homes delivered. Loss before income taxes decreased $56.7 million to a loss of $11.2 million due partly to a $43.2 million decrease in inventory impairment losses and land option write-offs in 2010. Selling, general and administrative costs were down by $8.0 million, due primarily to decreased salaries from headcount reductions and other overhead cost savings. In addition, there was a modest increase in gross margin percentage before interest expense.

Homebuilding revenues decreased 81.0% in 2009 compared to 2008. The decrease was primarily due to an 81.0% decrease in homes delivered and a 4.7% decrease in average sales price. The decrease in deliveries is primarily due to 1,645 deliveries from our Fort Myers operations in 2008 compared to 33 deliveries in 2009. Loss before income taxes decreased $78.5 million to a loss of $67.9 million due partly to a $40.8 million decrease in inventory impairment losses and land option write-offs in 2009, and $2.4 million of intangible impairments in 2008 which did not recur in 2009. Selling, general and administrative costs were down by $23.7 million, due primarily to decreased salaries from headcount reductions and other overhead cost savings. In addition, there was a modest increase in gross margin percentage before interest expense.

Southwest - Homebuilding revenues decreased 6.9% in 2010 compared to 2009 primarily due to a 5.4% decrease in homes delivered. Loss before income taxes decreased $84.0 million to income of $23.2 million in 2010 mainly due to a $49.9 million decrease in inventory impairment losses and land option write-offs in 2010, and a decrease in our share of net losses on an unconsolidated joint venture of $5.5 million in 2009, which did not recur in fiscal 2010, as we recorded an impairment of our investment in the joint venture at October 31, 2009. Selling, general and administrative costs were down $6.2 million due primarily to decreased salaries from headcount reductions and other overhead cost savings. In addition, there was an increase in gross margins percentage before interest expense.

Homebuilding revenues decreased 30.7% in 2009 compared to 2008 primarily due to a 28.6% decrease in homes delivered and 5.1% decrease in average selling price. Loss before income taxes decreased $40.7 million to a loss of $60.8 million in 2009 mainly due to a $40.3 million decrease in inventory impairment losses and land option write-offs in 2009, and a goodwill impairment of $14.9 million in 2008 that did not recur in 2009. While gross margin percentage before interest was relatively flat, gross margin dollars were down by $29.5 million from October 31, 2008 to October 31, 2009, driven by the decrease in deliveries, thereby offsetting the decrease in loss before income taxes.

West - Homebuilding revenues decreased 24.0% in 2010 compared to 2009 primarily due to a 23.7% decrease in homes. 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 decreased $242.8 million to a loss of $61.8 million in 2010 due mainly to a $198.4 million decrease in inventory impairment losses and land option write offs. Selling, general and administrative costs were down $13.2 million due primarily to decreased salaries from headcount reductions and other overhead cost savings. In addition, gross margin before interest expense had a significant increase in 2010, as we begin to stabilize prices in this market and we see the benefit of impairment reserve reversals as homes are delivered.

Homebuilding revenues decreased 59.3% in 2009 compared to 2008 primarily due to a 50.4% decrease in homes delivered and a 16.1% decrease in average selling price. 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 decreased $220.2 million to a loss of $304.5 million in 2009 partially due to a $138.9 million decrease in inventory impairment losses and land option write offs. In addition, gross margin before interest expense increased in 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. We use mandatory investor commitments and forward sales of mortgage-backed securities (“MBS”) to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of nonagency and nongovernmental loans, 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 tightening standards by mortgage lenders, none of the loans we originated during fiscal 2009 and 2010 were Alt-A or sub-prime as compared to 7.7% of our originated loans being Alt-A loans and 0.3% of our originated loans being sub-prime loans for fiscal 2008. 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 years ended October 31, 2010, 2009 and 2008, FHA/VA loans represented 49.3%, 45.9%, and 35.5%, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

During the years ended October 31, 2010, 2009, and 2008, financial services provided an $8.9 million, $6.3 million, and $16.7 million pretax profit, respectively. In fiscal 2010, financial services revenue decreased $3.6 million to $32.0 million due to a decrease in the number of mortgage settlements offset by a slight increase in the average loan amount. In fiscal 2009, we recorded expense of $3.2 million for abandoned lease space, which contributed to the increase in pretax profit from October 31, 2009 to October 31, 2010, as this expense did not recur in 2010. Revenues from October 31, 2008 to October 31, 2009 decreased $16.7 million to $35.6 million consistent with our reduction in mortgage settlements and the decrease in the average loan amount. In the market areas served by our wholly owned mortgage banking subsidiaries, approximately 82%, 82%, and 75% of our noncash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2010, 2009, and 2008, respectively. Servicing rights on new mortgages originated by us will be sold with the loans.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. Corporate general and administrative expenses declined $22.1 million for the year ended October 31, 2010 compared to the year ended October 31, 2009, and declined $0.9 million for the year ended October 31, 2009 compared to the year ended October 31, 2008. The reduction in expenses in fiscal 2010 was primarily due to the expense of $14.7 million taken in fiscal 2009 for the cancellation of stock options, which did not recur in fiscal 2010. During fiscal 2009, the Chief Executive Officer, Chief Financial Officer, each of the nonexecutive members of the Board of Directors and certain other senior executives of the Company 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). The $14.7 million charge to operations was a noncash charge that increased paid in capital by the same amount. Excluding this option cancellation expense, corporate, general and administrative expenses decreased $7.4 million and $15.6 million for the year ended October 31, 2010 compared to October 31, 2009 and October 31, 2009 compared to October 31, 2008, respectively. These decreases are primarily due to reduced salaries resulting from headcount reduction and continued tightening of variable spending.

Other Interest

Other interest increased $3.2 million to $97.9 million for the year ended October 31, 2010. For fiscal 2009, other interest increased $64.3 million to $94.7 million. 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 a portion of interest not covered by qualifying assets must be directly expensed. As our inventory balances have continued to decrease, 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, rent expense for commercial office space, amortization of prepaid bond fees, minority interest relating to consolidated joint ventures, and corporate owned life insurance. Compared to the previous year, other operations decreased $13.8 million to $9.7 million for the year ended October 31, 2010, and increased $13.7 million to

$23.5 million for the year ended October 31, 2009. The decrease in other operations from October 31, 2009 to October 31, 2010 is primarily due to an $18.7 million accrual for abandoned commercial lease space that occurred in fiscal 2009 and did not recur in fiscal 2010. This expense was offset by income of $5.1 million due to the reversal of an accrual related to litigation in the fourth quarter of fiscal 2009, when it was determined that payment was no longer probable. These two items, which were recorded in 2009, were also the cause for the increase in other operations from October 31, 2008 to October 31, 2009.

Goodwill and Intangible Amortization and Impairments

We amortized our finite-lived intangibles over their expected useful life, ranging from one to four years. At the end of fiscal year 2008, we wrote off all of our remaining intangible assets. As a result, there was no amortization or other expense in fiscal 2009 and 2010. In fiscal 2008, this expense includes the impairment of the remaining $2.7 million balance of finite-lived intangibles and $32.7 million of goodwill.

Gain on Extinguishment of Debt

During the year ended October 31, 2010, we repurchased in the open market a total of $123.5 million principal amount of various issues of our unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of $97.9 million, plus accrued and unpaid interest. We recognized a gain of $25.0 million net of the write-off of unamortized discounts and fees related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. During the year ended October 31, 2009, we repurchased in the open market a total of $628.5 million principal amount of various issues of our unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of $255.4 million, plus accrued and unpaid interest. We recognized a gain of $368.0 million net of the write-off of unamortized discounts and fees, related to these purchases, which represents the difference between the aggregate principal amounts of the notes purchased and the total purchase price. 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 year ended October 31, 2009, we completed cash tender offers whereby we purchased an aggregate of approximately $861.7 million principal amount of various issues of our secured and unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of approximately $833.6 million, plus accrued unpaid interest. As a result of the tender offers we recognized a gain of $37.0 million in the third quarter of fiscal 2009, net of the write-off of unamortized discounts and fees and a loss of $36.4 million in the fourth quarter of fiscal 2009. The fourth quarter loss was offset by gains from open market repurchases resulting in a net loss of $17.6 million in the fourth quarter of fiscal 2009. 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.

Income (Loss) From Unconsolidated Joint Ventures

Income (loss) from unconsolidated joint ventures consists of our share of the earnings or losses of the joint venture. The loss decreased $47.0 million to income of $1.0 million for the year ended October 31, 2010 compared to the year ended October 31, 2009. The income in 2010 is mainly due to our two newest joint ventures that have been delivering homes and reporting profits during fiscal 2010. We also recognized income from one of our land development joint ventures that sold a parcel of land for a profit. Our loss increased $9.4 million from the year ended October 31, 2008 to a loss of $46.0 million for the year ended October 31, 2009. The increased loss in 2009 was mainly due to the write down of our investment in one of our joint ventures where the full investment was determined to be impaired, as well as for our share of the losses from inventory impairments from two other 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

The total income tax benefit was $297.9 million for the twelve months ended October 31, 2010, primarily due to the benefit recognized for a federal net operating loss carryback. On November 6, 2009, President Obama signed the Worker, Homeownership, and Business Assistance Act of 2009, under which the Company was able to carryback its 2009 net operating loss five years to previously profitable years that were not available to the Company for carryback prior to this tax legislation. We recorded the benefit for the carryback of $291.3 million in the first quarter of fiscal 2010. The remaining tax benefit for the twelve months ended October 31, 2010 was primarily due to the reversal of reserves for uncertain tax positions where the statute of limitations for those items has lapsed. We received $274.1 million of the federal income tax refund in the second quarter of 2010 and we received the remaining $17.2 million in the first quarter of fiscal 2011.

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If the combination of future years' income (or loss) and the reversal of the timing differences results in a loss, such losses can be carried forward to future years to recover the deferred tax assets. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during 2008, 2009 and 2010, resulting in additional inventory and intangible impairments, we are in a three-year cumulative loss position as of October 31, 2010. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable. Our valuation allowance for current and deferred taxes amounted to $811.0 million and $987.6 at October 31, 2010 and 2009, respectively. The valuation allowance decreased during the twelve months ended October 31, 2010 primarily due to the impact of the federal net operating loss carryback recorded in the first quarter of 2010, partially offset by additional reserves recorded for the federal tax benefits for the losses incurred during fiscal 2010. The valuation allowance increased during the twelve months ended October 31, 2009 to reserve for the tax benefit created by the losses during fiscal 2009.

Off-Balance Sheet Financing

In the ordinary course of business, we enter into land and lot option purchase contracts in order to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. At October 31, 2010, we had $36.3 million in option deposits in cash and letters of credit to purchase land and lots with a total purchase price of $766.4 million. Our liability is generally limited to forfeiture of the nonrefundable deposits, letters of credit and other nonrefundable amounts incurred. We have no material third-party guarantees. However, $18.0 million of the $766.4 million in land and lot option purchase contracts contain specific performance clauses which require us to purchase the land or lots upon satisfaction of certain requirements by both the sellers and the Company. Therefore, this specific performance obligation of $18.0 million, which is the purchase price for these lots net of cash deposits already paid, is recorded on the balance sheet in "Liabilities from inventory not owned."

Pursuant to ASC 810, "Consolidation" ("ASC 810"), we consolidated $45.4 million of inventory not owned at October 31, 2009, representing the fair value of the optioned property. Additionally, to reflect the fair value of the inventory consolidated under ASC 810, we eliminated $6.1 million of its related cash deposits for lot option contracts, which are included in "Consolidated inventory not owned." Since we do not own an equity interest in any of the unaffiliated variable interest entities ("VIE") that we must consolidate pursuant to ASC 810, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities has been based on the remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have funded the acquisition of the property with debt and the only asset recorded is the land or lots we have the option to buy with a related offset for the assumed third party financing of the variable interest entity. At October 31, 2010, we had cash deposits and letters of credit totaling $36.3 million, representing our current maximum exposure associated with the consolidation of lot option contracts. Creditors of these VIEs, if any, have no recourse against us. In addition, see Note 19 to the consolidated financial statements for disclosure related to our investment in unconsolidated joint ventures.

Contractual Obligations

The following summarizes our aggregate contractual commitments at October 31, 2010:

		Payments Due by Period (3)			
		Less than			More than
(In thousands)	Total	1 year	1-3 years	3-5 years	5 years
Long term debt(1)(4)	$2,547,975	$150,126	$440,959	$547,796	$1,409,094
Operating leases	48,662	13,626	19,320	9,558	6,158
Purchase obligations(2)	17,973	15,996	1,977		
Total	$2,614,610	$179,748	$462,256	$557,354	$1,415,252

1. Represents our Senior Secured, Senior, and Senior Subordinated Notes, Other Notes Payable and related interest payments for the life of the debt of $896.7 million. Interest on variable rate obligations is based on rates effective as of October 31, 2010.

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

3. Total contractual obligations exclude our accrual for uncertain tax positions recorded for financial reporting purposes as of October 31, 2010 because we were unable to make reasonable estimates as to the period of cash settlement with the respective taxing authorities.

4. Does not include the mortgage warehouse lines of credit made under our secured master repurchase agreements.

We had outstanding letters of credit and performance bonds of approximately $89.5 million and $359.1 million, respectively, at October 31, 2010, related principally to our obligations to local governments to construct roads and other improvements in various developments. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Inflation

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

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 60.9% of our homebuilding cost of sales.

Safe Harbor Statement

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

- Changes in general and local economic and industry and business conditions and impacts of the sustained homebuilding downturn;
- Adverse weather and other environmental conditions and natural disasters;
- Changes in market conditions and seasonality of the Company’s business;
- Changes in home prices and sales activity in the markets where the Company builds homes;
- Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, and the environment;
- Fluctuations in interest rates and the availability of mortgage financing;
- Shortages in, and price fluctuations of, raw materials and labor;
- The availability and cost of suitable land and improved lots;
- Levels of competition;
- Availability of financing to the Company;
- Utility shortages and outages or rate fluctuations;
- Levels of indebtedness and restrictions on the Company’s operations and activities imposed by the agreements governing the Company’s outstanding indebtedness;
- The Company's sources of liquidity;
- Changes in credit ratings;
- Availability of net operating loss carryforwards;
- Operations through joint ventures with third parties;
- Product liability litigation 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 Part I, Item 1A "Risk Factors" in this Form 10-K/A. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this Form 10-K/A.

ITEM 7A

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale, and the associated mortgage warehouse lines of credit under our secured master repurchase agreements are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly, the risk from mortgage loans is not material. We do not use financial instruments to hedge interest rate risk except with respect to mortgage loans. We are also subject to foreign currency risk but we do not believe this risk is material. The following tables set forth as of October 31, 2010 and 2009, our long-term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value ("FV").

Long-Term Debt Tables

	Long-Term Debt as of October 31, 2010 by Fiscal Year of Debt Maturity							
(Dollars in thousands)	2011	2012	2013	2014	2015	Thereafter	Total	FV at 10/31/10
Long term debt(1): Fixed rate	$5,223	$103,140	$55,050	$84,701	$53,914	$1,353,537	$1,655,565	$1,484,848
Weighted average interest rate	7.59%	8.55%	7.76%	6.46%	6.26%	9.40%	9.03%	

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

	Long-Term Debt as of October 31, 2009 by Fiscal Year of Debt Maturity							
(Dollars in thousands)	2010	2011	2012	2013	2014	Thereafter	Total	FV at 10/31/09
Long term debt(1): Fixed rate	$14,459	$910	$104,540	$66,112	$166,175	$1,437,001	$1,789,197	$1,526,446
Weighted average interest rate	6.04%	6.77%	8.56%	7.76%	6.44%	9.22%	8.84%	

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

ITEM 8

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

-Active.12254502.6

ITEM 9A

CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 31, 2010. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of October 31, 2010.

The effectiveness of the Company's internal control over financial reporting as of October 31, 2010 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm, as stated in their report below.

-Active.12254502.6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Hovnanian Enterprises, Inc. and subsidiaries (the "Company") as of October 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended October 31, 2010 of the Company and our report dated January 25, 2011 expressed an unqualified opinion on those financial statements.

/s/DELOITTE & TOUCHE LLP

Parsippany, NJ
January 25, 2011

-Active.12254502.6

ITEM 9B

OTHER INFORMATION

None.

PART III

ITEM 10

DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Directors of the Registrant

The Company's directors are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table. Each director holds office until the Company's next Annual Meeting of Shareholders and until their respective successors have been duly elected and qualified.

Name	Age	Company Affiliation	Year First Became a Director
Ara K. Hovnanian	53	President, Chief Executive Officer, Chairman of the Board & Director	1981
Robert B. Coutts	60	Director	2006
Edward A. Kangas	66	Director	2002
Joseph A. Marengi	57	Director	2006
John J. Robbins	71	Director	2001
J. Larry Sorsby	55	Executive Vice President, Chief Financial Officer & Director	1997
Stephen D. Weinroth	72	Director	1982

Composition and Qualifications

The Board of Directors seeks to ensure that the Board of Directors is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the Board of Directors to satisfy its oversight responsibilities effectively. A slate of Directors to be nominated for election at the annual shareholders' meeting each year is approved by the Board of Directors after recommendation by the Corporate Governance and Nominating Committee (the "Corporate Governance and Nominating Committee"). In the case of a vacancy on the Board of Directors (other than one resulting from removal by shareholders), the Board of Directors approves a Director to fill the vacancy following the recommendation of a candidate by the Chairman of the Board. In identifying candidates for Director, the Corporate Governance and Nominating Committee and the Board of Directors take into account (1) the comments and recommendations of board members regarding the qualifications and effectiveness of the existing Board or Directors or additional qualifications that may be required when selecting new board members that may be made in connection with annual assessments prepared by each Director of the effectiveness of the Board of Directors and of each committee of the Board of Directors on which he serves, (2) the requisite expertise and sufficiently diverse backgrounds of the Board of Directors' overall membership composition, (3) the independence of outside Directors and other possible conflicts of interest of existing and potential members of the Board of Directors and (4) all other factors it considers appropriate. Although the Company has no formal policy regarding diversity, the charter of the Corporate Governance and Nominating Committee includes a statement that it and the Board of

Directors believe that diversity is an important component of a board of directors, including such factors as background, skills, experience, expertise, gender, race and culture. As mentioned above, the Corporate Governance and Nominating Committee and the Board include diversity as one of several criteria that they consider in connection with selecting candidates for the Board. The Board seeks to ensure that the Board is composed of members whose particular background, expertise, qualifications, attributes and skills, when taken together, allow the Board to satisfy its oversight responsibilities effectively.

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Corporate Governance and Nominating Committee and the Board of Directors focused primarily on the information discussed in each of the Directors' individual biographies set forth below. In particular, with regard to Mr. Coutts, the Board of Directors considered his strong background in the manufacturing sector, believing that his experience with a large multinational corporation engaged in the manufacture of complicated products is invaluable in evaluating the multiple integrated processes in the homebuilding business and also valuable in performance management and other aspects of the Company. With regard to Mr. Kangas, the Board of Directors considered his significant experience, expertise and background with regard to accounting matters, including the broad perspective brought by his experience in consulting to clients in many diverse industries. With regard to Mr. Robbins, the Board of Directors considered his significant experience, expertise and background with regard to accounting matters, which includes specialization in homebuilding companies. With regard to Mr. Marengi, the Board of Directors considered his strong background in the technology sector, because new technologies and their cost and benefit analyses are important factors in the success of the Company. With regard to Mr. Weinroth, the Board of Directors considered his many years of experience in the investment banking field, which are very valuable to the Company as it continues to evaluate its debt profile and capital structure and various financing and refinancing alternatives. With regard to Mr. Hovnanian, our Chief Executive Officer and Chairman of the Board, the Board of Directors considered his more than thirty years of experience with the Company. With regard to Mr. Sorsby, our Chief Financial Officer, the Board of Directors considered his more than twenty years of experience with the Company.

Biographies

Mr. Hovnanian has been Chief Executive Officer since July 1997 after being appointed President in 1988 and Executive Vice President in 1983. Mr. Hovnanian joined the Company in 1979 and has been a Director of the Company since 1981 and was Vice Chairman from 1998 through November 2009. In November 2009, he was elected Chairman of the Board following the death of Kevork S. Hovnanian, the chairman and founder of the Company and the father of Mr. Hovnanian.

Mr. Coutts retired from the position of Executive Vice President of Lockheed Martin Corporation (NYSE), which he held from 2000 to 2008. Mr. Coutts was President and COO of the former Electronics Sector of Lockheed Martin. He was elected an officer by the Board of Lockheed Martin in December 1996. Mr. Coutts held management positions with General Electric Corporation (NYSE) from 1972-1993, and was with GE Aerospace when it became part of Lockheed Martin in 1993. Mr. Coutts is the retired Chairman of Sandia Corporation, a subsidiary of Lockheed Martin Corp., and is on the Board of Directors of Stanley Black and Decker (NYSE) and is the Chairman of the Governance and Nominating Committee, as well as the Pall Corporation (PLL), and is also a member of the Board of Overseers, College of Engineering, Tufts University. He was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is a member of the Company's Compensation Committee.

Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from December 1989 to May 2000, when he retired. He also serves on the Boards of United Technologies Corp. (NYSE), AllScripts, Inc. (NASDAQ), Tenet Healthcare Corporation, Inc. (NYSE), and Intuit, Inc. (NASDAQ). He was on the Board of Electronic Data Systems, Inc. (NYSE) from 2004 to 2008. Mr. Kangas is the past Chairman of the Board of the National Multiple Sclerosis Society. Mr. Kangas was elected as a Director of Hovnanian Enterprises, Inc. in September 2002, is Chairman of the Company's Audit Committee and a member of the Company's Compensation

Committee and Corporate Governance and Nominating Committee.

Mr. Marengi, since July 2007, serves as a Venture Partner for Austin Ventures. Prior to that date, Mr. Marengi served as senior vice president for Dell Inc.'s (NASDAQ) Commercial Business Group. In this role, Mr. Marengi was responsible for the Dell units serving medium business, large corporate, government, education and healthcare customers in the United States. Mr. Marengi joined Dell in July 1997 from Novell Inc. (NASDAQ), where he was president and chief operating officer. He joined Novell in 1989 and moved through successive promotions to become executive vice president of worldwide sales and field operations. He is also an outside Director for Quantum Corporation (NYSE) and is a member of the Compensation Committee and serves as Chairman of the Board for Entorian Technologies, Inc. (NASDAQ). Mr. Marengi was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is member of the Company's Corporate Governance and Nominating Committee.

Mr. Robbins was a managing partner of the New York office of Kenneth Leventhal & Company and executive committee partner, retiring from the firm in 1992. He was made a partner of Kenneth Leventhal & Company in 1973. Mr. Robbins was a Trustee of Keene Creditors Trust from 1996 until July 2009. He was Director and the Chairman of the Audit Committee of Raytech Corporation from May 2003 until March 2007, and was a Director and Chairman of the Audit Committee of Texas Petrochemicals Inc. from May 2006 until December 2009. Mr. Robbins was elected as a Director of Hovnanian Enterprises, Inc. in January 2001, and is a member of the Company's Audit Committee.

Mr. Sorsby has been Chief Financial Officer of Hovnanian Enterprises, Inc. since 1996, and Executive Vice President since November 2000. Mr. Sorsby was also Senior Vice President from March 1991 to November 2000 and was elected as a Director of the Company in 1997.

Mr. Weinroth is a partner in Coral Reef Capital Partners, a private equity fund and was, from 2003 until mid-2008, Managing Member of Hudson Capital Advisors, LLC, a private equity and merchant banking firm. From 1989 to 2003, he served as co-Chairman and head of the Investment Committee at First Britannia Mezzanine N.V., a European private investment firm. He is Chairman of the Board Emeritus of Core Laboratories, N.V. (NYSE), a global oil field service company where he had previously been Chairman of the Board from 1994 to 2001. He was Vice Chair of the Central Asian American Enterprise Fund to which he was appointed by the President of the United States, and is Chairman of its successor, the US Central Asia Education Foundation. He has been Chairman of four NYSE listed companies and chief executive of three of them. He is also a Trustee and the immediate past Chairman of The Joyce Theatre Foundation Inc., a Trustee of the Paul Taylor Dance Foundation, as well as a recently retired Trustee of the Horace Mann School. Mr. Weinroth has been a Director of Hovnanian Enterprises, Inc. since 1982, is a member of the Company's Audit Committee, and Chairman of the Company's Compensation Committee and Corporate Governance and Nominating Committee.

Executive Officers of the Registrant

Our executive officers are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table, except for Messrs. Hovnanian and Sorsby, whose information is presented above under "Directors of the Registrant". Each executive officer holds such office for a one-year term.

Name	Age	Position	Year Started With Company
Ara K. Hovnanian	53	Chairman of the Board, Chief Executive Officer, President, and Director of the Company	1979
Paul W. Buchanan	60	Senior Vice President and Chief Accounting Officer	1981
Thomas J. Pellerito	63	Chief Operating Officer	2001
Peter S. Reinhart	60	Senior Vice President and General Counsel	1978

J. Larry Sorsby	55	Executive Vice President, Chief Financial Officer and Director of the Company	1988
David G. Valiaveedan	43	Vice President Finance and Treasurer	2005

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

Mr. Pellerito was appointed Chief Operating Officer of the Company in January 2010. Since joining the Company in connection with the Company's acquisition of Washington Homes, Inc. in 2001, Mr. Pellerito has served as a Group President overseeing homebuilding operations in certain of the Company's Mid-Atlantic and Southeast segments (excluding Florida). Before joining the Company, Mr. Pellerito was the President of homebuilding operations and Chief Operating Officer of Washington Homes, Inc.

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

Mr. Valiaveedan joined the Company as Vice President - Finance in September 2005. In August 2008, he was named as an Executive Officer of the Company and in December 2009 he was also named Treasurer. Prior to joining the Company, Mr. Valiaveedan served as Vice President - Finance for AIG Global Real Estate Investment Corp.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company’s executive officers, directors, persons who own more than 10% of a registered class of the Company’s equity securities and certain entities associated with the foregoing (“Reporting Persons”) to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission (the “SEC”). These Reporting Persons are required by SEC rules to furnish the Company with copies of all Forms 3, 4 and 5, and amendments thereto, that they file with the SEC.

Based solely on the Company’s review of copies of the forms and amendments of forms it has received and written representations from the Company’s officers and directors, the Company believes that, with respect to the fiscal year ended October 31, 2010, all the Reporting Persons complied with all applicable filing requirements.

Code of Ethics and Corporate Governance Guidelines

We have adopted a Code of Ethics that applies to the Company’s principal executive officer, principal financial officer, controller, and all other associates of the Company, including its directors and other officers. We have posted the text of this Code of Ethics on our web site at www.khov.com under “Investor Relations/Corporate Governance”. We have also adopted Corporate Governance Guidelines and posted them on our web site at www.khov.com under “Investor Relations/Corporate Governance”. A printed copy of the Code of Ethics and Guidelines is also available to the public at no charge by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800. We will post amendments to or waivers from our Code of Ethics that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange (the “NYSE”) on our web site at www.khov.com under “Investor Relations/Corporate Governance.”

The Audit Committee

Messrs. Kangas, as Chairman, Robbins and Weinroth are the members of the Audit Committee of the Board of Directors (the “Audit Committee”). The Company’s Board of Directors has determined that each member of the Audit Committee is independent as required by both the rules of the NYSE and regulations of the SEC, and an “audit committee financial expert” in accordance with SEC regulations. With regard to Mr. Kangas, the Board of Directors considered his significant experience, expertise and background with regard to accounting matters, including the broad perspective brought by his experience in consulting to clients in many diverse industries. With regard to Mr. Robbins, the Board of Directors considered his significant experience, expertise and background with regard to accounting matters, which includes specialization in homebuilding companies. With regard to Mr. Weinroth, the Board of Directors considered his many years of experience as a Managing Member or partner in several merchant and investment banking companies, which are very valuable to the Company as it continues to evaluate its debt profile and capital structure and various financing and refinancing alternatives.

Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee Charters

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

ITEM 11

EXECUTIVE COMPENSATION

The Compensation Committee

The Compensation Committee (which is sometimes referred to herein as the “Compensation Committee” or the “Committee”) is the principal overseer of the Company’s various policies and procedures related to executive compensation. The Committee meets at least three times a year to discuss industry trends with regard to overall compensation issues and consults with outside compensation consultants as needed. The Committee is governed by its Charter which is available on the Company’s public website (www.khov.com).

Areas of Responsibility

The Committee, in conjunction with the Board of Directors and with management’s input, shapes the Company’s executive compensation philosophy and objectives. In particular, the Committee is charged with:

- Reviewing, at least annually, the salaries, bonuses and other forms of compensation, including stock option grants, for the Company’s senior executives (which include the Chairman of the Board, President and Chief Executive Officer (the "CEO"), the Executive Vice President and Chief Financial Officer (the “CFO”), the Chief Operating Officer (the “COO”) and the other named executive officers (“NEOs”) for whom compensation is reported in the tables below);

  - Reviewing, at least annually, compensation paid to the Company’s non-employee Directors;

- Participating in the review of compensation of other key employees of the Company as may be directed by the Board of Directors or by management;

- Periodically reviewing the Company’s policies and procedures pertaining to the Company’s equity award plans and forms of equity grants to all employees and non-employee Directors, employee benefit plans (for example, the 401(k) plan and deferred compensation plans), the Chief Executive Officer’s severance agreement, executive perquisites, and forms of equity grants to all employees and non-employee directors;

- Fostering good corporate governance practices as they relate to executive compensation; and

- Reviewing, at least annually, as part of the Board's responsibilities, the Company's compensation program to assess whether there are any compensation risks that are reasonably likely to result in a material adverse effect on the Company.

These areas of responsibilities are discussed in more detail below under “Compensation Discussion and Analysis.” During the fiscal year ended October 31, 2010, the members of the Committee were all independent, non-employee Directors.

Compensation Review Process for the Named Executive Officers

The Committee, in conjunction with the Board of Directors and with management’s input, is responsible for making decisions related to the overall compensation of the NEOs.

At least annually, the Committee establishes objective financial measures for determining bonus awards to the NEOs. The Committee also considers salary, employee benefits and discretionary bonus awards, if any, for the NEOs.

In determining overall compensation for the NEOs, the Committee may consult with other members of the Board of Directors, including the CEO and the CFO. These individuals often provide the Committee with insight on the overall performance of executives, including the achievement of personal objectives, if any, rather than relying solely on the Company’s financial performance measures in determining their compensation. The Committee also engages an outside compensation specialist related to various compensation issues.

Outside Compensation Consultant

Since October 2003, the Committee has engaged Pearl Meyer & Partners (“PM&P”) as the Committee’s independent outside compensation consultant to provide services related to executive and non-employee Director compensation. PM&P does not provide any other services to the Company unless approved by the Committee and no such services were provided in fiscal 2010. In fiscal 2010, PM&P assisted the Committee with its review and design of the Company’s annual bonus and long-term incentive plans for the NEOs in order to reflect modifications and realignment of priorities in the Company’s objectives due to declining market conditions in the homebuilding industry. The analysis also included a review of the compensation of chief executive officers and chief financial officers among the Company’s peer group of 11 publicly-traded homebuilding companies (the “Peer Group”). See “Peer Group Considerations” in the Compensation Discussion and Analysis below for a list of the companies in the Company’s Peer Group.

The Committee’s primary objective in engaging PM&P is to obtain advice and feedback related to maintaining programs that provide compensation opportunities for executives within the median range of the competitive homebuilder Peer Group for comparable financial performance. The Committee may also instruct PM&P to provide assistance in fostering an overall compensation program that aligns with its compensation philosophy to guide, motivate, retain and reward its executives for the achievement of the Company’s financial performance, strategic initiatives and individual goals, including increased long-term shareholder value in the context of a challenging business environment. The Company also periodically participates in a homebuilding industry group executive compensation survey that is conducted by PM&P and which provides valuable information to the Committee in assessing its competitive pay levels. An abbreviated edition of the homebuilding industry survey was conducted by PM&P during fiscal 2010 at no charge to any participants, including the Company.

The Committee weighs the information gathered from PM&P and the members of the Board and management it has consulted in conjunction with its review of other information it considers relevant when making decisions or making recommendations to the full Board regarding executive compensation.

Board Communication

The Company's Board of Directors is updated at least quarterly of any compensation decisions or recommendations made by the Committee and the Committee requests feedback from the Board of Directors regarding specific compensation issues as it deems necessary.

Risk Assessment

By design, our compensation program for executive officers does not incentivize excessive risk-taking. Our base salary component of compensation does not encourage risk-taking because it is a fixed amount. The remaining elements of executive officer compensation have the following risk-limiting characteristics:

- We do not provide guaranteed bonuses, nor have we awarded excessively large equity grants with unlimited upside but no downside risk;
- In recent years when ROACE (as defined below) bonuses were not attainable, bonuses based on net debt have been capped based on specific dollar amounts;
- We maintain a balanced portfolio between long-term and short-term; fixed and variable; and cash and equity in our compensation program;
    - A variety of performance measures are used in our short-term and long-term incentive plans;
        - We do not provide lucrative severance packages or any supplemental pension plans;
- A large portion of our compensation program is tied to long-term and sustained company performance, and our Long-Term Incentive Plan grant requires a two-year holding period even after awards are earned after a three-year performance period;
- Our incentive plans are not tied to formulas that could focus executives on specific short-term outcomes to the detriment of long-term results;
- The Committee reserves the right to apply negative discretion to bonus amounts calculated under the bonus formulas;
- Our CEO and CFO are subject to our stock ownership and holding guidelines, discussed below in "Compensation Discussion and Analysis"; and
- Our compensation programs do not provide high or inappropriate pay opportunities compared to our Peer Group.

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis provided below with the Company's management. Based on its review, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K/A for the year ended October 31, 2010.

COMPENSATION COMMITTEE

Stephen D. Weinroth, Chair
Robert B. Coutts
Edward A. Kangas

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended October 31, 2010, the members of the Committee were Messrs. Weinroth, Kangas, and Coutts. Each of Messrs. Weinroth, Kangas, and Coutts are non-employee Directors and were never officers or employees of the Company or any of its subsidiaries.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Best Practices

- Pay-for-Performance: The Committee ties increases or decreases in overall compensation with the overall financial performance of the Company. During fiscal years when the Company's profitability has been higher, total compensation has been higher. During more recent years when the Company's performance has been lower due in part to the economic downturn and recession particularly in the housing industry, the overall compensation has been lower than during profitable periods. The Committee seeks to motivate management to achieve enhanced financial performance of the Company through bonus plans that reward higher performance with increased bonus opportunities. In its selection of metrics to measure bonus achievement, the Committee has selected metrics to correspond to the financial needs of the Company during the relevant period. During periods of profitability, the bonus metrics were focused on profitability and return on shareholder's equity measures. During recent periods when there was little or no likelihood of profits, bonus metrics were focused on opportunities that would reduce the Company's debt obligations that would enable the Company to weather the difficult economic conditions and return to profitability.

- Emphasis on Long-Term Value Creation and Retention: The Committee attempts to align the interests of management with the long-term interests of the shareholders through the granting of a significant portion of the total compensation in the form of stock options that increase in value as the Company's financial performance improves. The Committee also seeks to retain management through the utilization of compensation methods that require executives to be employed through various vesting periods in order to receive the full financial benefits of stock option grants that vest over multiple years, deferred shares as part of an annual bonus and the recently adopted Long Term Incentive Plan.

- Reduction in Dilution: In recent years, the Committee also focused on reducing the dilution of shareholder value by not returning 2,528,251 cancelled stock options to the pool of shares available for stock options in the Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (the "Stock Incentive Plan").

- Maintaining Appropriate Peer Group: In constructing the Peer Group, the Committee selected those companies that compete directly with the Company in the homebuilding industry, are of comparable size in operations to the Company and are generally in the markets where we compete. The Committee reviews the composition of the Peer Group on an annual basis and makes adjustments, if needed. For example, in fiscal 2010, the Committee determined that Meritage Homes Corporation should be added to the Peer Group. The Committee reviews the compensation of the Peer Group companies and seeks to award total compensation opportunity near the median of the Peer Group.

- No Employment Agreements, Excise Tax Gross-Ups, SERPs or Defined Benefit Plans: The Company does not maintain employment agreements that provide contractual rights to employees upon termination of employment (other than upon death or disability), and it does not provide excise tax gross -ups, supplemental executive retirement plans or pension plans for NEOs.

- Maintenance and Enforcement of Stock Ownership Guidelines: The Board has established stock ownership guideline's requiring the CEO and CFO to maintain minimum levels of stock ownership as described in this Compensation Discussion and Analysis.

- Perquisites: The Committee has provided NEOs only a few perquisites in addition to typical medical, dental and life insurance benefits. The Company limits reimbursement for country club dues and personal income tax preparation to the CEO. In addition, perquisites are not grossed up for personal income taxes.

Overall Compensation Decisions

- Base Salaries: Three of the four NEOs who were also NEOs for fiscal 2009 received no base salary increase in fiscal 2010. Our newly appointed COO, upon his promotion at the end of the first quarter of fiscal 2010, received a base salary increase to compensate him for his elevated set of responsibilities. In addition, based on a review of external Peer Group data, our CFO received a base salary increase in fiscal 2010, which was intended to bring him to the median level of the Peer Group.

- Annual Bonuses: Consistent with achievement of specified financial and personal objectives, fiscal 2010 bonuses were paid out to all NEOs.

- Discretionary Bonuses: None were made in fiscal 2010 to any NEO while he was an executive officer.

- Long Term Awards, including stock options and participation in the 2011-2013 LTIP: Grants made to NEOs for fiscal 2010 fell considerably below median Peer Group long-term incentive compensation levels, including the target value of the Long-Term Incentive Program annualized to the end of its three-year performance period.

Compensation Philosophy and Objectives

The Compensation Committee, in conjunction with the Board of Directors and with senior management, has been instrumental in shaping the Company's compensation philosophy and objectives because of its responsibilities and oversight of the Company's various policies and procedures concerning executive compensation.

The six primary objectives that the Committee considered in making compensation decisions are discussed below. In making compensation-related decisions, the Committee also considered its role in promoting good corporate governance practices.

Primary Objectives for the Compensation Program

The Company's primary objectives for compensating its executives are as follows:

1. To fairly compensate its executives in a manner that is appropriate with respect to their performance, level of responsibilities, abilities and skills;

2. To offer compensation that guides, motivates, retains and rewards its executives for the achievement of the Company's financial performance, strategic initiatives and individual goals;

3. To align the executive's interests with the interests of the shareholders;

4. To maintain competitive pay opportunities for its executives so that it retains its talent pool and, at the same time, has the ability to attract new and highly-qualified individuals to join the organization as it grows or in the event of succession or replacement of an executive;

5. To safeguard that the reward system is appropriately designed in the context of a challenging business environment; and

6. To ensure that compensation plans do not incentivize a level of risk that is reasonably likely to have a material adverse effect on the Company.

Tailored Compensation

Consistent with these objectives, the Company's compensation philosophy also takes into consideration the very unique roles played by each of the NEOs for whom compensation is reported in the tables below, and seeks to individually tailor their compensation packages to align their pay mix and pay levels with their contributions to, and positions within, the Company. For example:

- CEO: The compensation package of the CEO, Mr. Ara K. Hovnanian, differs from that of the other NEOs due to his unique role and elevated set of responsibilities. Because the CEO makes executive decisions that influence the direction, stability and profitability of the Company, his overall compensation is intended to strongly align with objective financial measures of the Company.

- CFO: The Committee recognizes that the role of the CFO, Mr. J. Larry Sorsby, similar to the CEO, is important in influencing the direction, stability and profitability of the Company. Therefore, a significant portion of the CFO's overall compensation is also aligned with objective financial measures of the Company. Since fiscal 2008, Mr. Sorsby's role and contributions as CFO have intensified significantly as a result of the downturn in the homebuilding industry and the Company's focus on debt reduction and other actions taken to proactively access the capital markets and restructure the balance sheet for future profitability, and his compensation, like that of the CEO, is intended to align with debt reduction and ensuring adequate liquidity.

- COO: The compensation package of the COO, Mr. Thomas J. Pellerito, differs from that of the CEO and CFO to reflect the impact and influence he has on the operational results of the Company's homebuilding business. His overall compensation is focused on standardizing best practices among the Company's operational units to improve its products and services, gain efficiencies, reduce costs and improve profitability.

- Other NEOs: The Company's Senior Vice President – Chief Accounting Officer, Mr. Paul W. Buchanan, and Senior Vice President – General Counsel, Mr. Peter S. Reinhart, have, as result of their respective positions, less direct influence on the Company's strategic and operational decisions. Therefore, overall compensation levels for these NEOs reflects both objective financial measures of the Company and the attainment of personal objectives (as determined by the CFO and the CEO, who may consult with other members of senior management). The Committee periodically reviews the compensation for these two executives relative to the Peer Group and broad-based compensation survey data, with consideration of internal pay relationships in years when market benchmarking is not conducted. The Committee does not consider the specific participants in the broad-based compensation survey data to be a material factor in its review. The Committee believes that a review of market data periodically (but not necessarily every year) is sufficient for these positions based on their roles and historical compensation levels. In fiscal 2010, internal pay relationships and the Committee's evaluation of each individual's performance contributions served as the primary considerations for these two executives because the Committee maintained the base salary, annual bonus opportunity and stock option grants for these individuals at levels similar to or less than the past two years.

Variable Incentive Compensation and Discretionary Awards

The Company's compensation philosophy emphasizes variable incentive compensation elements (bonus and long-term incentives) that reflect the Company's financial and stock performance. For executives who report to the CEO or CFO, the variable compensation elements also include personal performance objectives. For all executive officers, the Committee retains the flexibility to adjust incentive awards downward or to consider discretionary bonus awards. Discretionary awards may be appropriate, for example, to reward progress toward strategic objectives or to reflect strong leadership while addressing industry-wide market conditions or to serve as a retention bonus for valued executives.

Peer Group Considerations

As context for setting the compensation levels for the CEO, CFO and COO in fiscal 2010, the Committee considered the compensation levels and practices of its Peer Group companies. The Company's Peer Group includes the following 11 publicly-traded homebuilding companies: (1) Beazer Homes USA, Inc.; (2) D.R. Horton, Inc.; (3) KB Home; (4) Lennar Corporation; (5) M.D.C. Holdings, Inc.; (6) Meritage Homes Corporation; (7) NVR, Inc.; (8) Pulte Homes, Inc.; (9) Ryland Group, Inc.; (10) The Standard Pacific Corp.; and (11) Toll Brothers, Inc. The companies in the Peer Group were selected by the Committee, in consultation with PM&P, because of their comparable business profile. In particular, the Company's revenue size relative to the Peer Group and the presence of the Peer Group companies in the Company's markets were considered the most relevant measure for selection of peer companies within the homebuilding industry. In January 2010, Centex Corporation was removed from the Peer Group due to its merger with Pulte Homes, Inc. and Meritage Homes Corporation was added to the Peer Group as the next closest comparator company. The Committee and PM&P will continue to review the appropriateness of the Peer Group composition. For the other NEOs, the Committee places equal or greater weight on its consideration of internal pay equity, an evaluation of individual performance contributions and other factors described in detail below.

Market Conditions Considerations

In determining overall compensation for all the NEOs, the Committee also takes into account leadership abilities and risk management contributions, which are especially critical during difficult market conditions.

During fiscal 2010, the homebuilding industry continued to be impacted by a lack of consumer confidence, increasing home foreclosure rates, large supplies of resale and new home inventories, and more restrictive lending standards for homebuyers. The result has been continued weak demand for new homes, slower sales, higher than normal cancellation rates, and increased price discounts and other sales incentives to attract homebuyers.

The heightened importance of cash flow and liquidity, as well as the Company's budget cuts and downsizing, were considered by the Committee in making executive compensation decisions for fiscal 2010. As a result, the fiscal 2010 annual bonus formulas of the CEO and CFO continued to place a heavier focus on cash flow and liquidity. While the salary of the CEO remained the same as fiscal 2009, the CFO's salary was increased to align with the Peer Group, as discussed in more detail below. At the end of the first quarter of fiscal 2010, the Company appointed Mr. Pellerito as COO and increased his salary consistent with his increased responsibilities. The salaries of the Chief Accounting Officer and General Counsel did not increase from the prior fiscal year and their fiscal 2010 bonus formulas remained the same as fiscal 2009, including payouts made entirely in cash for all NEOs.

The Committee established these compensation levels taking into consideration competitive market pressures, both within and outside of the homebuilding industry, and the strength of leadership required in this challenging business environment.

Fiscal Year 2010 Compensation Elements and Compensation Mix

Compensation Elements at a Glance

There are five main compensation elements that support the Company's compensation objectives, each of which is discussed in detail below.

1. Base salaries;
2. Annual bonuses;
3. Stock grants (for example, stock options and restricted stock unit awards);
4. Long-Term Incentive Plan (defined below) (payable in both cash and stock); and
5. Various employee benefits, including limited perquisites.

Compensation Mix

Fixed vs. Variable Compensation. A significant portion of executives' "Total Direct Compensation" (which includes base salary, bonuses and stock grants) opportunity is attributed to variable compensation – that is, the ultimately realized compensation is dependent on either individual or Company performance. Of the elements of Total Direct Compensation, base salary is fixed compensation, while bonuses and stock grants are variable compensation. Bonuses for the CEO and the CFO were based upon objective formulas tied to financial performance goals that include the Company's (a) ROACE and (b) net debt reduction. For the COO, the bonus reflects his responsibilities both before and after his promotion and includes the achievement of tailored personal objectives that relate to this transition period. For the other NEOs, bonuses were determined based on both the Company's ROACE and the achievement of tailored personal objectives. An important part of each NEO's compensation package also consists of stock options, the ultimate value of which is tied to the Company's stock performance. These variable elements are intended to align the executives' performance and interests with Company performance and long-term shareholder value.

The intent of the Committee was to maintain variable compensation opportunity as a significant percentage of Total Direct Compensation opportunity for all NEOs for fiscal 2010 and to maintain its approximate level from year to year. In addition, the Committee intends for Total Direct Compensation and the level of variable compensation realized to align with the Peer Group in years when the Company performs at median levels compared to the Peer Group. In fiscal 2007, 2008, 2009 and 2010, the percentage of variable compensation received had declined from historical levels because total bonus amounts ultimately received by NEOs were zero for the CEO for fiscal 2007 and significantly lower than historical amounts for all NEOs for fiscal 2007, 2008, 2009 and 2010, with fiscal 2010 bonus amounts, on average, approximately 92% lower than the maximum award during the last ten years. In fiscal 2010, the Committee also awarded stock grants to each of the NEOs, as discussed below, at continued lower amounts and below the Peer Group long-term incentive values for the CEO and CFO.

Long-Term vs. Short-Term Compensation. An important portion of each NEO's Total Direct Compensation is long-term compensation, which normally includes stock option and/or restricted stock unit awards and deferred share awards granted in lieu of cash for a portion of total bonus amounts. In fiscal 2010, there were no awards of restricted stock units or deferred shares to NEOs. In fiscal 2009 and 2010, due to the reduced amount of the bonuses, deferred share awards were not granted and the total bonus amounts were paid 100% in cash. Short-term compensation consists of base salary and the cash portion of annual bonus amounts. Long-term compensation consists of stock option awards and, in prior years, restricted stock unit awards which are intended to foster long-term commitment by the executive, employee-shareholder alignment and improved long-term shareholder value. In fiscal 2010, the Committee also adopted a special Long Term Incentive Plan ("the LTIP") for the named executive officers and other key senior executives of the Company, as discussed below. The Committee does not currently anticipate considering a similar LTIP program until after the expiration of the three-year LTIP performance period. The average long-term compensation amounts (including stock and option grants at their grant date fair value and the LTIP award annualized at target) as a percent of Total Direct Compensation for fiscal years 2006 through 2010 for the CEO and CFO were 54% and 42%, respectively. The average long-term compensation amount (including stock and option grants at their grant date fair value and the LTIP award annualized at target) as a percent of Total Direct Compensation for fiscal 2010 for the COO was 41%. The average long-term compensation percentages (including stock and option grants at their grant date fair value and the LTIP award annualized at target) for Messrs. Buchanan and Reinhart for the same five-year period were 21% each, reflecting the Committee's belief that while it is important for these executives to be compensated in part based on the long-term performance of the Company, they have less direct influence on the long-term financial success of the Company as compared to the CEO, CFO and COO.

Details of Compensation Elements

Base Salaries

Base salaries are intended to reward executives for their day-to-day contributions to the Company. The Committee believes that base salaries within the competitive median range are necessary to retain the Company's executive talent pool, and it determined that the fiscal 2010 base salaries of the Company's executive officers were necessary to retain their services.

Base salaries of all the NEOs are reviewed annually by the Committee and are subject to adjustment based on factors that may include individual performance, change in responsibilities, average salary increases or decreases in the industry, compensation for similar positions involving the Company's Peer Group or other comparable companies if comparable data was unavailable from the Peer Group companies, as well as other factors such as cost of living and internal pay relationships with other executives. The Committee also consults with PM&P in determining the need for salary adjustments.

- CEO: For fiscal 2007, 2008, 2009 and 2010, the CEO did not receive any adjustments in his existing annual base salary. Furthermore, the Committee did not increase the CEO's base salary for fiscal 2011. This is reflective of the Company's budget cuts and downsizing due to industry conditions. In addition, based on discussions with PM&P, the Committee has determined that the CEO's fiscal 2010 base salary is near the median base salary level of other chief executive officers at Peer Group companies.

- CFO: For fiscal 2010, the CFO received a 20% increase in his base salary to align his base salary closer to the median base salary level of chief financial officers at Peer Group companies. The Committee desires to position base salary for the CFO near the Peer Group median and salaries for Peer Group CFOs had increased considerably more rapidly than at the Company. Based on year-end discussions with PM&P, the Committee had determined that the CFO's fiscal 2010 base salary fell at the median. The Committee did not increase the CFO's base salary for fiscal 2011.

- COO: In view of Mr. Pellerito's new responsibilities as COO, the Committee increased his base salary to $500,000, which is below the median base salary level of other chief operating officers at Peer Group companies. The Committee determined that Mr. Pellerito's base salary should fall below the Peer Group median given that he is new to the role. The Committee did not increase the COO's base salary for fiscal 2011.

- Other NEOs: For fiscal 2010, Messrs. Buchanan and Reinhart did not receive any increase in their respective base salaries. However, for fiscal 2011, Messrs. Buchanan and Reinhart each received a 2% salary increase. In making these determinations, the Committee considered the individual performance of each executive, the merit budget for employees of the Company generally, and the cost of living.

Bonuses

Regular Bonuses. The Company provides each of the NEOs with an opportunity to earn bonuses, which are intended to reward executives for the attainment of short-term financial objectives and, in the case of certain NEOs, individual performance objectives. Fiscal 2010 bonus awards were made pursuant to the Company's amended and restated Hovnanian Enterprises, Inc. Senior Executive Short-Term Incentive Plan (the "Short-Term Incentive Plan") and the Stock Incentive Plan, each of which is a shareholder approved plan, although no stock awards were paid as part of the fiscal 2010 bonus awards under either plan.

Bonus opportunities are intended to be competitive with industry-wide practices in order to retain and attract executive talent. For fiscal 2010, similar to fiscal 2009, the earned bonuses for the NEOs were paid 100% in cash.

The regular annual bonus opportunities in fiscal 2010 for each of the NEOs are shown in the following table. The performance goals for each NEO are discussed below.

	CEO	CFO	COO (1)	Chief Accounting Officer	General Counsel
Return on Avg. Common Equity ("ROACE") (2)	% of Pre-tax Income based on ROACE	$ Bonus based on ROACE	N/A	$ Bonus based on ROACE	$ Bonus based on ROACE
Net Debt	$ Bonus based on Net Debt	$ Bonus based on Net Debt	N/A	N/A	N/A
Tailored Personal Objectives	N/A	N/A	$ Bonus based on achievement of specific goals	$ Bonus based on achievement of specific goals	$ Bonus based on achievement of specific goals
Formula	Total award is greater of ROACE or Net Debt awards, with maximum of $949,500	Total award is greater of ROACE or Net Debt awards, with maximum of $350,000	Total award is based on goal achievement, with a maximum of $187,500	Total award is sum of ROACE and personal objectives awards, with maximum of 30% of salary	Total award is sum of ROACE and personal objectives awards, with maximum of 20% of salary

(1) Discusses only the bonus formula after promotion to an executive officer position.

(2) Based on fiscal 2010 results, the ROACE award component was zero.

Historically, bonuses for the CEO and the CFO were linked solely to a measure of the Company's return on equity (ROACE, as the current example), a common industry practice. For fiscal 2008, bonus formulas for these NEOs were reoriented by including a net debt reduction component. For fiscal 2009 and 2010, the net debt reduction component was changed to a net debt amount component. In light of prevailing market conditions, the Committee, in consultation with PM&P, determined that continuing this additional bonus measure based on specified targets for the reduction of the Company's net debt amount provided clarity and was well-aligned with the Company's focus on cash flow and liquidity. The Committee considered reduction in costs as a component of the bonus, but determined that the focus on debt reduction and return on equity were more appropriate in the current economic climate for the Company and cost savings would be reflected in the ROACE component. Specifically, the bonus formulas for the CEO and the CFO for fiscal 2010 provided that bonuses would be equal to the greater of (a) the executive's bonus formula based on the Company's ROACE and (b) the new bonus formula based on the Company's net debt amount. "ROACE" is defined as "net income" divided by "average common equity" (stockholder's equity less preferred stock at the beginning of the fiscal year and at the end of each fiscal quarter during the year divided by five). "Net debt" is defined as the "total debt" (balances of bank debt, senior secured notes, senior notes, and senior subordinated notes) net of any cash (including restricted cash) and cash equivalents as of the last day of fiscal 2010. Net debt assumes "debt extinguishment accounting" and adds back to cash any investments in new joint ventures, newly identified properties above and beyond the fiscal 2010 original budget, deposits, land purchases, land development costs and work-in-progress home construction costs. For fiscal 2010, the Committee approved a $250,000 increase in the maximum bonus amount for the CEO in recognition of his increased responsibilities in assuming the position of Chairman of the Board. The Committee also approved a $95,200 increase in the maximum bonus amount for the CFO in order to align his compensation opportunity more closely with the Peer Group median level.

For fiscal 2010, the bonus formula for the COO was based on the achievement of tailored personal objectives since he was promoted to his current position during the fiscal year.

For fiscal 2010, the bonus formulas for Messrs. Buchanan and Reinhart remained the same as their fiscal 2009 formulas. Messrs. Buchanan and Reinhart have, as result of their respective positions, less direct influence on the Company's strategic and operational decisions compared to the CEO and the CFO and, therefore, their bonus formulas were not revised to include a net debt amount component. Specifically, these NEOs' fiscal 2010 bonus formulas provide, as in fiscal 2009, that bonuses would be based on both (a) a formula based on the Company's ROACE and (b) the attainment of tailored personal objectives.

Fiscal 2010 bonus formulas for each of the NEOs are further tailored as set forth below and are assessed annually. For all of the ROACE bonus formulas discussed below for each of the NEOs, net income used in calculating ROACE is after taxes and preferred dividends and, at the Committee's discretion, excludes land charges.

- CEO: The CEO's bonus formula for fiscal 2010 provided for a bonus award equal to the greater of (a) a fixed percentage of pre-tax income based on the Company's ROACE and (b) a fixed dollar amount based on the Company's net debt amount, with his final bonus from both formulas not to exceed $949,500. The methodology underlying the ROACE portion of the formula was historically designed to yield an annual bonus that would result in Total Direct Compensation opportunity that falls within the median range of the Peer Group for comparable financial performance.

FOR THE CEO, THE BONUS FORMULA IS THE GREATER OF:

(a) ROACE Calculation Method*

ROACE percentage	% Pre-tax Income
0.0%	0.00%
5.0%	1.00%
10.0%	1.25%
15.0%	1.50%
20.0%	2.00%

* The bonus is interpolated between the points shown in the table, and may be extrapolated beyond the maximum ROACE percentage shown at a rate of 0.10% of pre-tax income per percentage point increase in ROACE, which is the rate applied between the last two tiers of the above chart, but is subject to a maximum bonus of $949,500, which is subject to the maximum bonus payable under the Short-Term Incentive Plan.

AND

(b) Net Debt Amount Calculation Method*

	Net Debt (millions)	
Greater	$1,150	$1,105

	than $1,150		
Bonus (thousands)	$0	$500.0	$949.5

* The bonus is interpolated between the points shown in the table and capped at $949,500. Prior to fiscal 2009, there was no imposed cap on the CEO’s bonus. Had there been no cap in fiscal 2010, the bonus could have been as high as $2,000,000. The Committee intends to consider removing or increasing the cap when the Company returns to profitability.

Based on the bonus formula above, Mr. Hovnanian earned a cash bonus of $949,500 which was entirely attributed to the net debt amount calculation method of his bonus formula. For the reason discussed above, this bonus was paid 100% in cash.

* CFO: The CFO’s bonus formula provided for a bonus amount equal to the greater of (a) a fixed dollar amount based on the Company’s ROACE and (b) a fixed dollar amount based on the Company’s net debt amount, with his final bonus not to exceed $350,000. The ROACE portion of the formula was historically designed to yield an annual bonus that would result in Total Direct Compensation opportunity that falls within the median range of the Peer Group for comparable financial performance.

FOR THE CFO, THE BONUS FORMULA IS THE GREATER OF:

(a) ROACE Calculation Method*

ROACE percentage		Bonus (thousands)
0.0%	$0	
4.7%		
5.0%		
10.0%	}}}}}}}}}}}}}	$350.0
15.0%		
20.0%		
25.0%		

* The bonus is interpolated between the points shown in the table and capped at $350,000. The bonus is subject to the maximum payment under the Short-Term Incentive Plan.

AND

(b) Net Debt Amount Calculation Method*

	Net Debt (millions)		
	Greater than $1,150	$1,150	$1,107
Bonus (thousands)	$0	$187.5	$350.0

* The bonus is interpolated between the points shown in the table and capped at $350,000. Prior to fiscal 2009, there was no imposed cap on the CFO’s bonus. Had there been no cap in fiscal 2010, the bonus could have been as high as $750,000. The Committee intends to consider removing or increasing the cap when the Company returns to profitability.

Based on the bonus formula above, Mr. Sorsby earned a cash bonus of $350,000 which was entirely attributed to the net debt amount calculation method of his bonus formula. For the reason discussed above, this bonus was paid 100% in cash.

For fiscal 2011, for the CEO and CFO, the bonus formula component related to net debt (as described above) will shift to a calculation based on earnings before interest, taxes, depreciation and amortization (“EBITDA”) improvement and cash balances. The Committee believes that the goals established for fiscal 2011 support the financial objectives of the Company and have been set at levels that are challenging, but attainable. Furthermore, the maximum bonus levels are capped at no more than the actual 2010 bonus amount.

* COO: The COO’s bonus for the first quarter of fiscal 2010 was related to his former position as Group President while his bonus for the remaining three quarters of fiscal 2010 was based on tailored personal objectives related to his new role. Mr. Pellerito’s Group President bonus formula was based on profitability, return on inventory, customer satisfaction and mortgage capture for the Group he managed. There was also a portion that was payable at the CEO’s discretion. Mr. Pellerito’s Group President bonus formula was designed to challenge him to achieve increasingly better business results. For example, Mr. Pellerito achieved a bonus based on profitability and return on inventory only two times during the five-year period from fiscal 2006 through fiscal 2010. In addition, the performance levels required for customer satisfaction goals during that same five-year period were increased four times, reflecting the Company’s commitment to its customers. For fiscal 2010, no profitability or return on inventory bonus was paid under the Group President bonus formula to Mr. Pellerito. Mr. Pellerito did receive a payment for the customer satisfaction, mortgage capture and discretionary components of his Group President bonus formula, though the customer satisfaction and mortgage capture payments were reduced by 50% since the Group for which he was responsible was not profitable. The cash bonus paid to Mr. Pellerito under the Group President bonus formula in fiscal 2010 was $44,798. Mr. Pellerito’s personal objectives related to his role as COO were focused on improving the operational results of the Company’s homebuilding business by standardizing best practices among the Company’s operational units to improve its products and services, gain efficiencies, reduce costs and improve profitability. The Committee determined that Mr. Pellerito fully met his fiscal 2010 personal objectives (the “outstanding” category below) and approved a cash bonus of $187,500 which was his maximum for the portion of time he was COO. In total, for fiscal 2010, Mr. Pellerito received a cash bonus of $232,298 under both his Group President and COO bonus formulas.

COO Calculation Method – for Meeting Personal Objectives Measure*

Goals	Bonus
Threshold	$62,500
Target	$125,000
Outstanding	$187,500

* “Threshold,” “target,” and “outstanding” levels are determined by the CEO, who may consult with other members of senior management, and are used for internal evaluation purposes only. The amounts represented in the table above are prorated based on the portion of fiscal 2010 during which Mr. Pellerito served as COO and are subject to the maximum bonus payable under the Short-Term Incentive Plan and Stock Incentive Plan, as applicable.

For fiscal 2011, the COO’s bonus formula will be based on EBITDA improvement and cash balances. The Committee believes that the goals established for fiscal 2011 are challenging, but attainable. Furthermore, the COO’s maximum bonus level is capped at $250,000.

* Other NEOs: Fiscal 2010 incentive opportunities for Messrs. Buchanan and Reinhart were based on a combination of Company performance and individual performance factors that were within each of these executives’ control and that would have a positive impact on the Company. Therefore, the bonus program for these NEOs targets the

achievement of both (a) ROACE financial performance objectives for the Company and (b) personal objectives, and, for fiscal 2010, was capped at 50% of the maximum percentages of base salary they could otherwise achieve under the personal objectives portion of their respective bonus formulas.

FOR OTHER NEOs, THE BONUS FORMULA IS BOTH:

(a) Calculation Method – for Achievement of Financial Performance Measure*

ROACE Percentage	Paul Buchanan	Peter Reinhart
0.0%	$0	$0
5.0%	10% of base salary	10% of base salary
10.0%	20% of base salary	20% of base salary
15.0%	40% of base salary	30% of base salary
20.0%	60% of base salary	40% of base salary
25.0%	90% of base salary	80% of base salary

* The bonuses are interpolated between the points shown in the table. The total bonuses payable under both components are capped at 50% of the maximum percentages of base salary these NEOs could otherwise achieve under the personal objectives portion of their respective bonus formulas and are subject to the maximum bonus payable under the Short-Term Incentive Plan and Stock Incentive Plan, as applicable.

AND

(b) Calculation Method – for Meeting Personal Objectives Measure*

Goals	Paul Buchanan	Peter Reinhart
Threshold	Up to 20% of base salary	Up to 20% of base salary
Target	Up to 40% of base salary	Up to 30% of base salary
Outstanding	Up to 60% of base salary	Up to 40% of base salary

* “Threshold,” “target,” and “outstanding” levels are determined by the CFO and the CEO, who may consult with other members of senior management, and are used for internal evaluation purposes only. As stated above, the total bonuses payable under both components are capped at 50% of the maximum percentages of base salary these NEOs could otherwise achieve under the personal objectives portion of their respective bonus formulas and are subject to the maximum bonus payable under the Short-Term Incentive Plan and Stock Incentive Plan, as applicable.

Mr. Buchanan’s fiscal 2010 personal objectives included supervising the preparation of the proxy financial schedules, supporting the implementation of the Company’s enterprise management software platform and enhancements to the Company’s financial management system, and the management of special projects assigned by the CEO and CFO. Mr. Reinhart’s fiscal 2010 personal objectives included negotiating the resolution of storm water issues and management and resolution of significant litigation.

Based on the bonus formulas above and the Committee’s determinations regarding each executive’s personal objectives, none of these NEOs earned bonuses related to the ROACE calculation method for fiscal year 2010, but each did earn a cash bonus for meeting his fiscal 2010 personal objectives in full (the “outstanding” category); however, since the outstanding payouts for meeting personal objectives would exceed the cap described above, the bonuses were reduced by 50% to comply with the cap, resulting in payments of $86,100 and $61,500 for Mr. Buchanan and Mr. Reinhart, respectively.

For fiscal 2011, there was no change to the bonus formulas for these NEOs.

Since fiscal 2007, the NEOs have also been offered the opportunity to earn a one-time retention bonus equal to 3% of such NEO's fiscal year end 2007 base salary if the NEO remains employed with the Company through the end of the first fiscal year in which the Company's ROACE returns to 20%. At the end of fiscal 2010, the Company's ROACE did not meet this threshold, so there were no resulting retention bonuses paid out in this year.

Discretionary Bonuses. The Committee has the authority to make discretionary bonus awards, which it considers under special circumstances, including exceptional contributions not reflected in the regular bonus measures, new hire sign-on bonuses and retention rewards. No discretionary bonus awards were granted to the NEOs in fiscal 2010 for periods in which they were executive officers.

Stock Grants

The Committee may make grants of stock options, stock appreciation rights, restricted stock and restricted stock units, unrestricted shares of stock, or stock-based awards settled in cash pursuant to the Stock Incentive Plan. In fiscal 2010, the Committee awarded stock options to the NEOs, subject to an election to receive restricted stock units ("RSUs") instead for some of the NEOs. No other stock-based awards were made to NEOs in fiscal 2010, aside from the LTIP grant discussed below.

Stock options are intended to establish a strong commitment to maintain employment with the Company and focus on creating long-term shareholder value. In addition, stock options are selected over other types of awards because their design inherently rewards executives only if the stock price increases, which provides a balance with cash incentives and retention-oriented restricted stock grants.

Because the ultimate value received by stock option holders is directly tied to increases in the Company's stock price, stock options serve to link the interests of management and shareholders and to motivate executive officers to make decisions that will increase the long-term total return to shareholders. Additionally, grants under the Stock Incentive Plan include vesting and termination provisions that the Committee believes will encourage stock option holders to remain long-term employees of the Company.

The Committee ultimately approves the size of the grants taking into account the recommendations by the CEO (other than for his own grant) and other criteria as determined by the Committee. The Committee generally targets a specific number of options rather than a specific option value. Consequently, in spite of the fact that the stock price has remained significantly lower than historical levels, each NEO's option grants have remained relatively consistent, with the exception of the special performance grant for the CEO and CFO in 2009 and a promotion-based increase for the COO. The Committee's determination and rationale for the fiscal 2010 grants is described below.

Stock options and RSUs generally vest in four equal annual installments, commencing on the second anniversary date of the grant providing a five-year period before becoming fully vested.

Fiscal 2010 Stock Option Awards

In determining the fiscal 2010 equity awards for the NEOs, the Committee considered, without giving specific weight to any one factor, then available information on Peer Group equity awards for the NEOs, PM&P guidance regarding the anticipated range of decline in equity award values across industries, the Company's available share pool and the potential impact on shareholder dilution, the Company's stock performance, the historical equity awards provided to each NEO, the desire to retain the employment of each NEO, and the desire to continue to link a portion of each NEO's compensation with future Company performance. All stock option awards in fiscal 2010 were made in the form of options to purchase shares of Class A Common Stock, except for the CEO whose award was made in the form of options to purchase shares of Class B Common Stock because the Committee took into consideration the potential benefits to the Company previously expressed by the Board of Directors of the continuity of share ownership and control of the Hovnanian family.

- CEO and CFO. The CEO was granted 375,000 stock options which represented the same level as fiscal 2008 and a decrease of 375,000 stock options from fiscal 2009. The CFO received a total of 75,000 stock options, which represented the same level as fiscal 2008 and a decrease of 75,000 stock options from fiscal 2009. As compared to long-term incentive values granted to Peer Group chief executive officers and chief financial officers, the long-term values granted to the CEO and CFO (including the option grants and annualized value of the LTIP at target, discussed below), were considerably below those of the Peer Group chief executive officer and chief financial officer medians.

    - COO. In recognition of his increased responsibilities, the COO was granted 50,000 stock options which represented a 43% increase from stock options granted to him in fiscal 2009. As compared to long-term incentive values granted to Peer Group chief operating officers, the long-term value granted to the COO (including the option grant and annualized value of the LTIP at target, discussed below), was below that of the Peer Group chief operating officer medians as he is new to the position. Note that only six of the eleven Peer Group companies report the chief operating officer position in their proxies.

- Other NEOs. Messrs. Buchanan and Reinhart were each granted 15,000 stock options in fiscal 2010, which represented a decrease of 10,000 stock options each from fiscal 2009 and which were considerably below the Peer Group Median.

Long Term Incentive Plan

In fiscal 2010, the Company adopted the LTIP under its stockholder-approved Stock Incentive Plan to aid the Company in retaining key employees and to motivate them to exert their best efforts to promptly return the Company to profitability and lower debt levels by providing rewards at the end of a multi-year period. The LTIP is intended to incentivize achievement of specified pre-tax profit goals and specified improvements in the Company's capital structure through reductions in homebuilding debt.

Each of the NEOs is a participant in the LTIP and their awards, if any, will be determined based on actual performance for the full 36-month performance period, subject to the vesting requirements over an additional 24-month period described below. This performance period commenced on November 1, 2010 (the beginning of fiscal 2011) and will end on October 31, 2013 (that is, the performance period covers fiscal 2011, 2012 and 2013). After the performance period, the awards remain subject to vesting conditions for fiscal 2014 and 2015. The executive will not receive the full award unless the company achieves the pre-tax profit and homebuilding debt performance goals and the executive remains employed for the entire five-year period. The Committee does not currently anticipate considering a similar LTIP program until after the expiration of the three-year LTIP performance period.

Pre-tax profit and homebuilding debt were chosen as the performance metrics for the LTIP because they are critical during this challenging economic cycle. The Committee determined that other goals, such as revenue growth and cost reductions, would be reflected in pre-tax profit calculations, but in a balanced way with an emphasis on achieving profitability. The Committee believed that a focus on revenue growth alone would not adequately emphasize profitability and that a focus on cost-cutting alone could emphasize short-term achievements that may sacrifice future profitability. The Committee also determined that if the current difficult economic conditions continue during all or most of the LTIP's performance period and achievement of pre-tax profit is not attainable, then realization of reduced homebuilding debt would put the Company in a better financial position to weather such an extended downturn and return to profitability when the economic conditions ultimately improve.

Awards, if any, will be based on a specific target multiple of each participant's base salary in effect on the date the participant is granted the award (the "Grant Date," or June 11, 2010 for all NEOs) and, if shares of stock are elected as a form of payout, the closing price of the Class A Common Stock on the Grant Date, regardless of whether the share price increases or decreases by the time the Award is determined or distributed. The Committee required that at least

20% of the payout be in the form of cash. All stock awards under the LTIP were made in the form of rights to receive shares of Class A Common Stock, except for the CEO whose award was made in the form of rights to receive shares of Class B Common Stock because the Committee took into consideration the potential benefits to the Company previously expressed by the Board of Directors of the continuity of share ownership and control of the Hovnanian family. The following describes for each NEO his target multiple of base salary and form of his irrevocable payout election:

	Target Multiple of Base Salary	Payout Method
CEO	3.00	20% cash / 80% shares
CFO	2.00	20% cash / 80% shares
COO	2.00	20% cash / 80% shares
Other NEOs	1.00	50% cash / 50% shares

In the Grants of Plan-Based Awards in Fiscal 2010 table, the cash payout portions of the LTIP grants are reported as "Non-Equity Incentive Plan Awards" and the share payout portions are reported as "Equity Incentive Plan Awards." For purposes of the Summary Compensation Table, the share payout portions are reflected as "Stock Awards" in fiscal 2010 at their grant date fair value under Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 718, Compensation – Stock Compensation ("ASC Topic 718"), which was based on the probable outcome as of the Grant Date. Conversely, the actual amounts earned on the cash payout portions, if any, will be reflected in the Summary Compensation Table as "Non-Equity Incentive Plan Compensation" in fiscal 2013 (which coincides with the end of the performance period) or, if participants achieve a minimum performance payment during an earlier fiscal year, even though such payment remains subject to subsequent vesting restrictions, then such minimum payment would be reflected in that earlier fiscal year.

For purposes of the LTIP, "Pre-tax Profit" is defined as earnings (loss) before income tax payments as reflected on our audited financial statements, excluding the impact of any items deemed to be extraordinary items for financial reporting purposes. "Homebuilding Debt" is defined as total (recourse) notes payable excluding accrued interest, as reflected on our consolidated audited balance sheet, less any debt issued after January 2010 that has an equity component such as debt convertible into equity.

The following table illustrates the percent of the target award that can be achieved at each performance level. Awards will be interpolated between performance levels but will not be extrapolated above the maximum performance levels listed below.

		Homebuilding Debt as of 10/31/2013 (in billions)					
		Greater than $1.70	$1.65	$1.60	$1.55	$1.50	$1.40 or less
	$100 or more	100% of target award	125% of target award	150% of target award	175% of target award	200% of target award	250% of target award
FY 2013 Pre-tax Profit (in millions)	$75	75% of target award	100% of target award	125% of target award	150% of target award	175% of target award	225% of target award
	$50	50%	75%	100%	125%	150%	200%

	of target award	of target award	of target award	of target award	of target award	of target award
$25	25% of target award	50% of target award	75% of target award	100% of target award	125% of target award	175% of target award
Less than $0	0% of target award	25% of target award	50% of target award	75% of target award	100% of target award	150% of target award

If the Company reaches breakeven or positive Pre-tax Profit for either of fiscal 2011 or 2012, a participant will be eligible for a minimum payment equal to 50% of the target award provided that he meets the vesting requirements described below. This minimum payment is inclusive of and not incremental to any other award granted to the participant under the LTIP and will not exceed 50% of target award if the Company achieves breakeven or positive Pre-tax Profit in both fiscal 2011 and 2012.

As a condition of earning each portion of the award, and as a retention inducement, other than in cases of death, disability or qualified retirement following the performance period, a participant must be employed through the vesting dates outlined below. The vesting percentages relate to the award value as of October 31, 2013.

1. 50% of the award will become vested on October 31, 2013 and payable in January 2014;

2. 30% of the award will become vested on October 31, 2014 and payable in January 2015; and

3. 20% of the award will become vested on October 31, 2015 and payable in January 2016.

Other Employee Benefits

The Company maintains additional employee benefits that the Committee believes enhance executive safety, efficiency and time that the executive is able to devote to Company affairs.

In addition to benefits generally provided to employees of the Company, certain NEOs are also eligible to participate in one or more of the following programs:

- Auto allowance, including car maintenance and fuel expense;
- Personal use of the Company’s automobiles (including driver’s compensation) and a fractional share in an aircraft;
- Executive term life insurance;
- Annual Executive Physical Exam Program;
- Golf membership or country club fee reimbursement; and
- Personal income tax preparation.

The Committee annually reviews the elements and level of executive perquisites for the NEOs. In particular, in evaluating the appropriateness of these benefits for the CEO, the Committee took into consideration the degree to which the CEO is required to travel to various Company locations and business functions on a daily basis. Based on its review, the Committee requested that the CEO use Company-provided transportation to enhance the efficient use of his time and due to safety concerns.

The Company's contributions to the NEOs' 401(k) plan and executive deferred compensation plan ("EDCP") accounts were suspended on February 20, 2009 and continued to be suspended throughout fiscal 2010. However, in fiscal 2010, a one-time Employer Non-Elective Contribution was made to all employees' 401 (k) plan accounts from 2009 401(k) plan unapplied forfeitures.

Specific benefits and the incremental costs of such benefits are described in detail in the footnotes to the Summary Compensation Table. The Company does not offer any defined benefit pension plans to its employees.

Tax Deductibility and Accounting Implications

As a general matter, the Committee always takes into account the various tax and accounting implications of compensation. When determining amounts of equity grants to executives and employees, the Committee also examines the accounting cost associated with the grants.

The Company's annual bonus and stock option programs are intended to allow the Company to make awards to executive officers that are deductible under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") which otherwise sets limits on the tax deductibility of compensation paid to a company's most highly compensated executive officers (with the exception of the Company's CFO). The Committee will continue to seek ways to limit the impact of Section 162(m) of the Internal Revenue Code. However, the Committee believes that the tax deduction limitation should not compromise the Company's ability to establish and implement incentive programs that support the compensation objectives discussed above. Accordingly, achieving these objectives and maintaining required flexibility in this regard may result in compensation that is not deductible for federal income tax purposes. The bonus and LTIP formulas approved by the Committee for fiscal 2010 were intended to be established in accordance with the requirements for deductibility as performance-based compensation under Section 162(m) of the Internal Revenue Code.

Timing and Pricing of Stock Options

For fiscal 2010, stock options were granted on the second Friday in June for all eligible employees, consistent with our practice of granting equity awards annually on the second Friday in June. The Company's practice of setting "fixed" equity award grant dates is designed to avoid the possibility that the Company could grant stock awards prior to the release of material, non-public information which is likely to result in an increase in its stock price, or delay the grant of stock awards until after the release of material, non-public information that is likely to result in a decrease in the Company's stock price. Exercise prices of stock options were set at the closing price per share of the Company's Class A Common Stock on the NYSE on the date the options were granted.

Stock Ownership Guidelines

The Board of Directors of the Company adopted stock ownership guidelines, recommended by the Committee, which set forth minimum amounts of stock ownership, directly or beneficially, for certain senior executive officers. On an annual basis, the Committee reviews adherence to the Company's stock ownership guidelines, which are incorporated into the Company's Corporate Governance Guidelines. The Company believes these guidelines further enhance the Company's commitment to aligning the interests of executive management with those of its stockholders.

In its annual review in 2008, the Committee determined that once the stock ownership guidelines were met, they would be deemed satisfied for subsequent annual review periods, regardless of decreases in the Company's stock price, so long as the executive or non-employee Director does not sell any portion of the share amounts which were originally included in determining that the recommended thresholds were met. The Committee reviewed this determination in fiscal 2010 and maintained this policy.

As of January 18, 2011 (the record date for the Annual Meeting), all senior executive officers had met the Company's stock ownership guidelines.

Senior Executive Officers

The guidelines provide that the following senior executive officers of the Company are encouraged to achieve and maintain minimum stock ownership amounts as follows:

Chairman and CEO – 5x current base salary
CFO – 2x current base salary

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes the compensation for the fiscal years ended October 31, 2010, October 31, 2009 and October 31, 2008 of the chief executive officer, the chief financial officer, and the next three most highly compensated executive officers serving as executive officers as of October 31, 2010. These five individuals compose our named executive officers or "NEOs."

Summary Compensation Table

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards (4)	Non-Equity Incentive Plan Compen-sation (5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compen-sation (6)	Total (7)
Ara K. Hovnanian, (8) President, Chief	2010	$1,092,606	—	$2,622,255	$1,413,750	$949,500	—	$188,189	$6,266,300
Executive Officer and	2009	$1,092,606	—	—	$1,380,000	$699,500	—	$267,015	$3,439,121
Chairman of the Board	2008	$1,092,606	—	$503,641	$1,256,250	$979,302	—	$336,344	$4,168,143
J. Larry Sorsby, Executive Vice President	2010	$572,308	—	$960,001	$282,750	$350,000	—	$52,229	$2,217,288
and Chief	2009	$500,000	$75,000	—	$276,000	$254,800	—	$58,822	$1,164,622
Financial Officer	2008	$499,023	$75,000	$183,456	$251,250	$356,721	—	$182,059	$1,547,509
Thomas J. Pellerito, Chief Operating Officer	2010	$468,870	$28,750	$799,999	$188,500	$203,548	—	$38,276	$1,727,943
Paul W. Buchanan, Senior Vice President — Chief Accounting	2010	$287,000	—	$143,499	$56,550	$86,100	—	$18,506	$591,655
Officer	2009	$286,192	$50,000	—	$46,000	$86,100	—	$34,331	$502,623
	2008	$280,000	$50,000	$60,480	$50,250	$117,600	—	$46,880	$605,210
Peter S. Reinhart, Senior Vice President —	2010	$307,500	—	$153,749	$56,550	$61,500	—	$29,724	$609,023
General Counsel	2009	$306,635	$50,000	—	$46,000	$61,500	—	$69,461	$533,596

2008	$300,000	$50,000	$43,200	$50,250	$84,000	—	$48,646	$576,096

(1) The “Salary” Column. The effective date of the last base salary increase for both Messrs. Buchanan and Reinhart was December 1, 2008 which was after the beginning of fiscal 2009 resulting in a prorated base salary for fiscal 2009.

(2) The “Bonus” Column. In accordance with SEC rules, the “Bonus” column discloses discretionary cash bonus awards. Discretionary cash retention awards were awarded in December 2007 for the CFO in the amount of $150,000 and for the Chief Accounting Officer and the General Counsel in the amount of $100,000 each, that vested and became payable 50% in July 2008 and 50% in January 2009. Mr. Pellerito was awarded a discretionary cash bonus of $28,750 for service performed prior to his becoming an executive officer. The cash portion of bonuses earned based on the NEOs meeting either financial performance-based measures or personal objectives portions of their regular bonus programs are reflected in the Summary Compensation Table as “Non-Equity Incentive Plan Compensation” and described under footnote (5) below.

(3) The “Stock Awards” Column. This column reflects the grant date fair value of LTIP awards, deferred share awards and restricted stock units granted in the fiscal year indicated, which were computed in accordance FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in Footnotes 3 and 15 to the Company’s audited financial statements for the fiscal year indicated in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2010. The grant date fair value of the LTIP awards is based upon the probable outcome of the performance conditions. The maximum value of the LTIP shares at grant date fair value is: $6,555,638, $2,400,002, $2,000,000, $358,747 and $384,374 for Messrs. Hovnanian, Sorsby, Pellerito, Buchanan and Reinhart, respectively. The LTIP award levels above are subject to future performance over a three-year period (fiscal 2011-2013) and, if earned, awards are subject to vesting restrictions that extend until October 2015, or a total of five years from grant. There is no assurance that the LTIP awards will be earned at the levels shown above and actual awards could be zero if the performance goals are not achieved.

(4) The “Option Awards” Column. Similar to the “Stock Awards” column, this column reflects the grant date fair value of stock options awarded in the fiscal year indicated, which were computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in Footnotes 3 and 15 to the Company’s audited financial statements for the fiscal year indicated in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and included in this Amendment. Fifty percent of the 2009 stock option awards for Messrs. Hovnanian and Sorsby were granted in the form of performance-based options. See the footnotes to the Outstanding Equity Awards at Fiscal 2010 Year-End table for a discussion of the performance criteria.

(5) “Non-Equity Incentive Plan Compensation” Column. This column represents the cash portion of the performance-based bonus awards earned by the NEOs in the fiscal year indicated.

(6) “All Other Compensation” Column. This column discloses all other compensation for the fiscal year indicated, including reportable perquisites and other personal benefits.

For fiscal 2010, total perquisites and other personal benefits, and those that exceeded the greater of $25,000 or 10% of total perquisites and other personal benefits for each NEO, were as follows:

Fiscal 2010 Perquisites (Supplemental Table)

Name	Total Perquisites and Description		Fiscal 2010 Perquisites that Exceeded the Greater of $25,000 or 10% of Total Perquisites	
	Total Fiscal 2010 Perquisites	Types of Perquisites	Personal Use of Company’s	Personal Use of Company’s

		(a)	Fractional Aircraft Share (b)	Automobiles (c)
Ara K. Hovnanian	$185,865	(1) (2) (4) (5) (6) (7)	$60,746	$80,411
J. Larry Sorsby	$49,904	(3) (4) (5)	N/A	N/A
Thomas J. Pellerito	$35,952	(3) (4) (5)	N/A	N/A
Paul W. Buchanan	$16,202	(2) (4) (5)	N/A	N/A
Peter S. Reinhart	$27,400	(3) (4) (5)	N/A	N/A

(a) (1) Personal use of the Company’s fractional aircraft share; (2) Personal use of the Company’s automobiles; (3) Perquisites related to executives’ use of their own vehicles; (4) Subsidized medical premiums; (5) Use of the Company’s Annual Executive Physical Exam Program; (6) Golf/country club membership fees; and (7) Personal income tax preparation.

(b) The incremental costs of personal use of the Company’s fractional aircraft share are calculated as (1) the total operating costs (including trip-based management fees) directly associated with personal trips, plus (2) the allocable share of all other costs of the aircraft for the fiscal year (including depreciation or lease payments) based upon the percentage of total hours flown during the fiscal year represented by personal trips. No “deadhead” flights occurred in fiscal 2010.

(c) The incremental costs of personal use of the Company’s automobiles are calculated as the allocable share of all costs of the automobiles for the fiscal year (including depreciation and the Company's driver's salary and benefits) based upon the percentage of total miles driven during the fiscal year represented by personal trips.

In addition to the perquisites and other personal benefits listed above, the NEOs received the following other compensation in fiscal 2010:

Fiscal 2010 All Other Compensation Other Than Perquisites (Supplemental Table)

Name	Charitable Cash Contribution (a)	Term Life Insurance Premiums	Company Contributions to the Executive’s Retirement Plan (401(k)) (b)	Company Contributions to the Executive Deferred Compensation Plan (“EDCP”)
Ara K. Hovnanian	—	$473	$1,852	—
J. Larry Sorsby	$75,000	$473	$1,852	—
Thomas J. Pellerito	—	$473	$1,852	—
Paul W. Buchanan	—	$452	$1,852	—
Peter S. Reinhart	—	$473	$1,852	—

(a) In December 2007, the Committee approved a $175,000 cash contribution in the name of Mr. Sorsby to the Children’s Hospital of Philadelphia, payable in three installments as follows: $50,000 in 2008, $50,000 in 2009, and $75,000 in 2010.

(b) This column represents a one-time Employer Non-Elective Contribution made to all employees’ 401(k) plan accounts from 2009 401(k) plan unapplied forfeitures.

(7) “Total” Compensation Column. This column reflects the sum of all the columns (the Salary, Bonus, Stock Awards, Option Awards, Non-Equity Incentive Plan Compensation, Change in Pension Value and Nonqualified Deferred Compensation Earnings, and All Other Compensation columns) of the Summary Compensation Table.

Fiscal 2010 Total Compensation (Supplemental Table)

The Fiscal 2010 Total Compensation (Supplemental Table) below includes the same amounts as the “Salary,” “Bonus,” “Non-Equity Incentive Plan Compensation,” “Change in Pension Value and Nonqualified Deferred Compensation Earnings,” and “All Other Compensation” columns of the Summary Compensation Table for fiscal 2010, but values stock awards and option awards for the fiscal year differently, as explained in footnote (a) below.

The table below is intended to provide additional, supplemental compensation disclosure and not as a replacement for the Summary Compensation Table.

Fiscal 2010 Total Compensation (Supplemental Table)

Name	Fiscal 2010 Salary	Cash Awards of Fiscal 2010 Bonus	Stock Awards (a)	Intrinsic Expense Value of Outstanding Options in Fiscal 2010 (b)	Change in Pension Value and Nonqualified Deferred Compensa-tion Earnings	All Other Compensa-tion in Fiscal 2010	Total of All Columns of Supple-mental Table
Ara K. Hovnanian	$1,092,606	$949,500	—	—	—	$188,189	$2,230,295
J. Larry Sorsby	$ 572,308	$350,000	—	—	—	$ 52,229	$ 974,537
Thomas J. Pellerito	$ 468,870	$232,298	$3,936	—	—	$ 38,276	$ 743,380
Paul W. Buchanan	$ 287,000	$ 86,100	$5,925	—	—	$ 18,506	$ 397,531
Peter S. Reinhart	$ 307,500	$ 61,500	$5,925	—	—	$ 29,724	$ 404,649

(a) "Stock Awards" in this column represent the portion of the RSU awards granted to Messrs. Buchanan and Reinhart on June 8, 2007 and to Mr. Pellerito on June 13, 2008 which vested and were issued in fiscal 2010 at the stock price on the date of issue. The value of LTIP awards granted in fiscal 2010 is not represented in the above table because the performance period had not begun as of the date of the table.

(b) The “Intrinsic Expense Value of Outstanding Options in Fiscal 2010” column is based on the intrinsic expense value or degree to which the stock option was “in-the-money” of stock option awards granted in fiscal 2010 at the grant date, instead of the grant date fair values of option awards granted in fiscal 2010, as discussed under footnotes (2) and (3) above.

(8) For fiscal 2010, the Committee approved a $250,000 increase in the maximum bonus amount for the CEO in recognition of his increased responsibilities in assuming the position of Chairman of the Board.

Grants of Plan-Based Awards In Fiscal 2010

The following table summarizes both:

(1) The potential equity and non-equity incentive plan awards that could have been or could be earned by each of the NEOs at the defined levels of “Threshold,” “Target” and “Maximum” based on the performance-based awards granted to the NEOs in fiscal 2010; and

(2) All other plan-based awards, such as stock options, granted in fiscal 2010. Each of the following columns is described in the footnotes below the table.

-Active.12254502.6

Grants of Plan-Based Awards In Fiscal 2010

	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold	Target	Maximum	Estimated Future Payouts Under Equity Incentive Plan Awards (#) Threshold	Target	Maximum	All Other Option Awards: Number of Securities Underlying Options (#) (4)	Exercise or Base Price of Option Awards ($/Sh) (5)	Grant Date Fair Value of Stock and Option Awards (6)
Ara K.	(1)		—	$949,500	N/A	N/A	N/A			
Hovnanian	6/11/2010(2)							375,000	$4.73	$1,413,750
	6/11/2010(3)				—	554,388	1,385,970			$2,622,255
	6/11/2010(3)	—	$655,564	$1,638,909						
J. Larry	(1)	—	$350,000	$350,000	N/A	N/A	N/A			
Sorsby	6/11/2010(2)							75,000	$4.73	$282,750
	6/11/2010(3)				—	202,960	507,400			$960,001
	6/11/2010(3)	—	$240,000	$600,000						
Thomas J.	(1)	$7,207			N/A	N/A	N/A			
Pellerito	(1)	$62,500	$125,000	$187,500	N/A	N/A	N/A			
	6/11/2010(2)							50,000	$4.73	$188,500
	6/11/2010(3)				—	169,133	422,833			$799,999
	6/11/2010(3)	—	$200,000	$500,000						
Paul W.	(1)	$57,400	$86,100	$ 86,100	N/A	N/A	N/A			
Buchanan	6/11/2010(2)							15,000	$4.73	$56,550
	6/11/2010(3)				—	30,338	75,845			$143,499
	6/11/2010(3)	—	$143,500	$358,750						
Peter S.	(1)	$61,500	$61,500	$ 61,500	N/A	N/A	N/A			
Reinhart	6/11/2010(2)							15,000	$4.73	$56,550
	6/11/2010(3)				—	32,505	81,263			$153,749
	6/11/2010(3)	—	$153,750	$384,375						

(1) Regular Bonuses for CEO and CFO. As stated above under "Regular Bonuses" in the Compensation Discussion and Analysis, the fiscal 2010 bonus formulas for Messrs. Hovnanian and Sorsby are based on the greater of the ROACE calculation method and the Net Debt Amount calculation method, provided that their final bonuses do not

exceed $949,500 and $350,000, respectively. These NEOs would not earn any bonus under the Net Debt Amount calculation method if the "net debt amount" (as defined above under "Regular Bonuses" in the Compensation Discussion and Analysis) was $1,150,000,000 or greater and would not earn any bonus under the ROACE calculation method if the ROACE percentage (as defined above under "Regular Bonuses" in the Compensation Discussion and Analysis) was zero or lower (as was the case in fiscal 2010). Therefore, no values have been disclosed at the "threshold" level for purposes of the above table for these NEOs.

For purposes of the above table presentation, bonuses earned at the "target" levels for the CEO and the CFO would be equal to the greater of (a) the ROACE calculation method which has a "target" percentage of 15% in accordance with the respective bonus formula tables and (b) the amount that could be earned under the Net Debt Amount calculation at the "target" level or the "mid-point" range of the respective bonus formula tables as described above under "Regular Bonuses" in the Compensation Discussion and Analysis, provided that their final bonuses do not exceed $949,500 and $350,000 for the CEO and CFO, respectively. Based on the greater of both components of their respective "target" levels of the bonus formulas, the ROACE portion of the bonus formulas would be greater than the Net Debt portion for Mr. Sorsby. As a result, the total cash bonus payable to Mr. Sorsby at this level would be $350,000. Mr. Hovnanian's ROACE calculation method would provide for a payment of 1.5% of pre-tax income and, because pre-tax income was not determinable at the time the fiscal 2010 bonus formula was established, no target amount is reflected for Mr. Hovnanian in the above table.

The maximum cash bonuses that could be earned by Messrs. Hovnanian and Sorsby for fiscal 2010 under either the ROACE calculation method or the Net Debt Amount calculation method were $949,500 and $350,000, respectively.

Regular Bonuses for COO. As stated above under "Regular Bonuses" in the Compensation Discussion and Analysis, the fiscal 2010 bonus formula for Mr. Pellerito was based on his Group President role for the first quarter of fiscal 2010 and his COO role for the remaining three quarters of fiscal 2010. Consequently, the first row for Mr. Pellerito represents his prorated Group President bonus formula and the second row represents his prorated COO bonus formula.

Mr. Pellerito's Group President bonus formula was based on profitability, return on inventory, customer satisfaction and mortgage capture. For purposes of the above table, Mr. Pellerito's "threshold" performance level with respect to his Group President bonus formula is defined as when pre-tax profit is zero or lower and when the customer satisfaction and mortgage capture results have reached the minimum level required for payment. Based on the "threshold" level, Mr. Pellerito would have earned a total cash bonus of $7,207. Because Mr. Pellerito's Group President bonus formula provided for a payment based on a percentage of pre-tax profit and, because pre-tax profit was indeterminable at the time the fiscal 2010 bonus formula was established, no target or maximum amount is reflected for Mr. Pellerito in the above table.

Mr. Pellerito's COO bonus program was based on tailored personal objectives. For purposes of the above table, Mr. Pellerito's "threshold" performance with respect to his COO bonus formula is defined as when the "threshold" achievement of the personal objectives established upon his appointment to COO is achieved. Based upon the "threshold" achievement of his personal objectives, Mr. Pellerito would have earned a total cash bonus of $62,500. For purposes of this table presentation, the "target" level is defined as when the "target" or a "substantial" percentage of the personal objectives established for Mr. Pellerito is achieved. Based upon the "target" achievement of his personal objectives, Mr. Pellerito would have earned a total cash bonus of $125,000. For purposes of this table presentation, the "maximum" level is defined as when all or an "outstanding" level of the personal objectives established for Mr. Pellerito are achieved. Based upon the "maximum" achievement of his personal objectives, Mr. Pellerito would have earned a total cash bonus of $187,500.

Regular Bonuses for the Chief Accounting Officer and General Counsel. As stated above under "Regular Bonuses" of the Compensation Discussion and Analysis, the fiscal 2010 bonus formulas for Messrs. Buchanan and Reinhart are based on both the ROACE calculation method and the "Meeting Personal Objectives" method, subject to a cap of 50%

of the maximum percentages of base salary they could otherwise achieve under the personal objectives portion of their respective bonus formulas.

For purposes of the above table presentation, the "threshold" level is defined as when the ROACE percentage is at or below zero and the "threshold" achievement of the personal objectives established for Messrs. Buchanan and Reinhart at the beginning of the fiscal year as described above in the Compensation Discussion and Analysis under "Regular Bonuses" is achieved. Based on the "threshold" level, these NEOs would not have earned a bonus payout for fiscal 2010 based on the ROACE percentage and, based upon the "threshold" achievement of their personal objectives, Messrs. Buchanan and Reinhart each would have earned bonus payouts of 20% of their base salaries. As a result, for fiscal 2010, Messrs. Buchanan and Reinhart at "threshold" would have earned total cash bonuses of $57,400 and $61,500, respectively.

For purposes of this table presentation, the "target" level is defined as when the Company's ROACE percentage is at 15% and if the "target" or a "substantial" percentage of the personal objectives established for Messrs. Buchanan and Reinhart at the beginning of the fiscal year is achieved. Since the payouts based on their respective "target" levels would exceed 50% of the maximum percentages of base salary they could otherwise achieve under the personal objectives portion of their respective bonus formulas, the bonuses for Messrs. Buchanan and Reinhart at this level would be capped at $86,100 and $61,500, respectively.

For purposes of this table presentation, the "maximum" level is defined as the maximum award earned under the ROACE calculation method and if all or an "outstanding" percentage of the personal objectives established for Messrs. Buchanan and Reinhart at the beginning of the fiscal year are achieved. The maximum bonus payable under the ROACE calculation is capped at a 25% ROACE level for Messrs. Buchanan and Reinhart. Since the payouts based on the maximum level would exceed 50% of the maximum percentages of base salary they could otherwise achieve under the personal objectives portion of their respective bonus formulas, the bonuses for Messrs. Buchanan and Reinhart at this level would be capped at $86,100 and $61,500, respectively.

(2) Stock Options Awards. These rows represent the number of stock options (not tied to any financial or personal objectives performance measure) awarded each NEO in fiscal 2010. Mr. Hovnanian's stock option award was granted in the form of options to purchase shares of Class B Common Stock and the stock option awards for the remaining NEOs were granted in the form of options to purchase shares of Class A Common Stock.

(3) LTIP. The first row for each NEO represents the share portion of his LTIP award. Mr. Hovnanian's share award was granted in the form of rights to receive shares of Class B Common Stock and the share portion of the LTIP awards for the remaining NEOs were granted in the form of rights to receive shares of Class A Common Stock. The second row represents the cash portion of each NEO's LTIP award. As a multi-year plan, the Committee considered the annualized target value of the LTIP awards of: $996,908, 353,982, $294,985, $84,661 and $90,708 for Messrs. Hovnanian, Sorsby, Pellerito, Buchanan and Reinhart, respectively.

For purposes of the above table presentation, the "threshold" level is defined as when pre-tax profit is less than zero and when homebuilding debt is greater than $1.7 billion. The "target" level is defined as when pre-tax profit is $50 million and homebuilding debt is $1.6 billion. The "maximum" level is defined as when pre-tax profit is $100 million or greater and homebuilding debt is $1.4 billion or less. The maximum value of the LTIP shares as of the grant date is: $6,555,638, $2,400,002, $2,000,000, $358,747 and $384,374 for Messrs. Hovnanian, Sorsby, Pellerito, Buchanan and Reinhart, respectively.

As a condition of earning each portion of the LTIP award, except in the case of death, disability or qualified retirement (as defined below), the NEO must be employed through the vesting dates. In the event of death prior to the end of the performance period, the NEO's beneficiary would be eligible for a pro rata award in January 2014 based on results for the full performance period and the number full months of service during the performance period. In the event of death following the end of the performance period, the NEO's beneficiary would be eligible to receive any unpaid, earned portion of the award. In the event of termination due to disability prior to the end of the performance period, the NEO would be eligible to receive a pro rata award on the scheduled payout dates based on results for the full performance period and the number full months of service during the performance period. In the event of termination due to disability following the end of the performance period, the NEO would be eligible to receive any unpaid, earned portions of the award on the scheduled payout dates as if there was no termination of employment. In the event of a qualified retirement following the end of the performance period the NEO would be eligible to receive any unpaid, earned portions of the award on the scheduled payout dates as if there was no termination of employment. "Retirement" means 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.

(4) “Option Awards: Number of Securities Underlying Options” Column. This column discloses the number of stock options (not tied to any financial or personal objectives performance measure) awarded to an NEO in fiscal 2010. Mr. Hovnanian’s stock option award was granted in the form of options to purchase shares of Class B Common Stock and the awards for the remaining NEOs were granted in the form of options to purchase Class A Common Stock.

(5) “Exercise or Base Price of Option Awards” Column. The option exercise price is the closing price per share of the Company’s Class A Common Stock on the NYSE on the day of the option grant.

(6) “Grant Date Fair Value of Stock and Option Awards” Column. The grant date fair value of the stock option and LTIP awards was computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in Footnotes 3 and 15 to the Company’s audited financial statements for the fiscal year indicated in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and included in this Amendment. This value for options was calculated based on the Black-Scholes option pricing model in which the option fair value as of the grant date (June 11, 2010) was determined to be $3.77. The grant date fair value for LTIP awards is based upon the probable outcome of the performance conditions.

Outstanding Equity Awards at Fiscal 2010 Year-End

The following table shows all unexercised stock options, unvested deferred shares, and unvested restricted stock units held at the end of fiscal 2010 by the NEOs.

Outstanding Equity Awards at Fiscal 2010 Year-End

		OPTION AWARDS					STOCK AWARDS		
Name	Grant Date (1)	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Market Value of Shares of Stock that have not	Equity Incentive Plan Awards: Number of Unearned Shares or other Rights	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or

							vested ($)	that have not vested (#)	other Rights that have not vested ($)
Ara Hovnanian	03/13/01	250,000	—	—	$ 6.35	3/12/2011	—	—	—
	11/06/01	500,000	—	—	$ 5.58	11/5/2011	—	—	—
	11/13/02	600,000		—	$15.90	11/12/2012	—	—	—
	06/13/08	93,750	281,250	—	$ 6.46	6/12/2018	—	—	—
	06/12/09	—	750,000(2)	—	$ 2.55	6/11/2019	—	—	—
	06/11/10	—	375,000	—	$ 4.73	6/10/2020	—	— (3)	— (3)
J. Larry Sorsby	03/01/01	50,000	—	—	$ 5.35	2/28/2011	—	—	—
	11/06/01	50,000	—	—	$ 5.58	11/5/2011	—	—	—
	11/08/02	50,000		—	$16.35	11/7/2012	—	—	—
	06/13/08	18,750	56,250	—	$ 6.46	6/12/2018	—	—	—
	06/12/09	—	150,000(2)	—	$ 2.55	6/11/2019	—	—	—
	06/11/10	—	75,000	—	$ 4.73	6/10/2020	—	— (3)	— (3)
Thomas Pellerito	01/23/02	10,000	—	—	$ 9.99	1/22/2012	—	—	—
	01/23/03	20,000	—	—	$15.95	1/22/2013	—	—	—
	06/13/08	10,000	—	—	$ 6.46	6/12/2018	—	—	—
	06/12/09	35,000	—	—	$ 2.55	6/11/2019	—	—	—
	06/11/10	50,000	—	—	$ 4.73	6/10/2020	—	— (3)	— (3)
Paul Buchanan	03/18/02	15,000	—	—	$12.13	3/17/2012	—	—	—
	06/13/08	15,000	—	—	$ 6.46	6/12/2018	—	—	—
	06/12/09	25,000	—	—	$ 2.55	6/11/2019	—	—	—
	06/11/10	15,000	—	—	$ 4.73	6/10/2020	—	— (3)	— (3)
Peter Reinhart	03/18/02	15,000	—	—	$12.13	3/17/2012	—	—	—
	06/13/08	15,000	—	—	$ 6.46	6/12/2018	—	—	—
	06/12/09	25,000	—	—	$ 2.55	6/11/2019	—	—	—
	06/11/10	15,000	—	—	$ 4.73	6/10/2020	—	— (3)	— (3)

(1) The options listed above that were granted prior to 2007 vest 25% per year beginning on the third anniversary of the date of grant except for Mr. Pellerito whose options granted prior to 2007 vested 25% per year beginning on the first anniversary of the date of grant. The options listed above that were granted after 2007 vest 25% per year beginning on the second anniversary of the date of grant; provided, however, that upon termination due to death, disability or retirement (as defined under "Stock Grants"), the options, to the extent not previously vested and exercised, shall immediately become fully vested and exercisable. Currently, Messrs. Pellerito, Buchanan and Reinhart are the only NEOs with option grants who qualify for accelerated vesting on the basis of retirement. All stock option grants were made in the form of Class A Common Stock except for the CEO whose grant was made in the form of Class B Common Stock.

(2) Included in these numbers are 375,000 and 75,000 performance-based options for Mr. Hovnanian and Mr. Sorsby, respectively. These performance-based options follow the same time vesting schedule as standard stock options, provided that the Committee determines that (1) the Company's EBITDA for fiscal 2009 is at least $200,000,000 greater than the Company's EBITDA for fiscal 2008 and (2) the Company's EBITDA for fiscal 2010 is at least $300,000,000 greater than the Company's EBITDA for fiscal 2008. For this purpose, "EBITDA" is defined as 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. At the end of fiscal 2009, the Committee determined that the first performance hurdle was achieved since the Company's EBITDA for fiscal 2009 was at least $200,000,000 greater than in fiscal 2008. At the end of fiscal 2010, the Committee determined that the second performance hurdle was achieved since the Company's EBITDA for fiscal 2010 was at least $300,000,000 greater than in fiscal 2008.

(3) Represents the number and value of shares underlying the LTIP awards granted on June 11, 2010. Because the performance period for the LTIP commenced on November 1, 2010, which was after the date of this table, the number and value of shares underlying the awards are based on threshold performance. At threshold performance, no shares would be paid out to the NEOs.

Option Exercises and Stock Vested in Fiscal 2010

The following table discloses information with respect to stock options exercised by the NEOs in fiscal 2010 and stock awards held by them that vested in fiscal 2010:

Option Exercises and Stock Vested in Fiscal 2010

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#) (1)	Value Realized on Exercise ($) (2)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (3)
Ara K. Hovnanian	250,000	$376,250	—	—
J. Larry Sorsby	40,000	$60,050	—	—
Thomas J. Pellerito	—	—	834	$3,936
Paul W. Buchanan	15,000	$29,831	1,250	$5,925
Peter S. Reinhart	5,000	$8,094	1,250	$5,925

(1) All exercised options were Class A Common Stock with expiration dates in fiscal 2010.

(2) Based on the difference between the closing market price of the Company's Class A Common Stock on the NYSE on the day of exercise of the option and the exercise price of the option.

(3) Based on the closing market price of the Company's Class A Common Stock on the NYSE on the day of vesting.

Nonqualified Deferred Compensation for Fiscal 2010

The following table provides a summary of the NEOs' participation in the Company's nonqualified executive deferred compensation plan ("EDCP") during fiscal 2010. Executives may defer both salary and performance-based bonus award payments under the EDCP. For Mr. Pellerito, Mr. Buchanan and Mr. Reinhart, the table also provides information regarding RSUs that were considered to have vested in a prior fiscal year due to their "retirement eligibility" because of age and/or years of service, but upon which the underlying shares of Class A Common Stock have not yet been delivered.

Nonqualified Deferred Compensation for Fiscal 2010

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year (1)	Aggregate Withdrawals/ Distributions (2)	Aggregate Balance at Last Fiscal Year (3)
Ara K. Hovnanian	—	—	$(303,353)	—	$3,085,530
J. Larry Sorsby	—	—	$(67,341)	—	$684,951
Thomas J. Pellerito	—	—	—	—	—
	—	—	$1,842	$3,936	$9,771
Paul W. Buchanan	—	—	$(14,394)	—	$146,409
	—	—	$2,350	$5,925	$9,775
Peter S. Reinhart	—	—	—	—	—
	—	—	$2,350	$5,925	$9,775

(1) "Aggregate Earnings in Last Fiscal Year" Column. This column represents the unrealized earnings/(losses) of the EDCP's total "account balance" as described in the narrative below. For Mr. Pellerito, Mr. Buchanan and Mr. Reinhart, the second row under their names represents earnings/(losses) on the undelivered portion of the shares of Class A Common Stock underlying their RSUs that had been considered vested in a prior fiscal year, which earnings/ (losses) have been "realized" only to the extent of the shares delivered during fiscal 2010. No such earnings are considered above-market or preferential and, accordingly, are not included in the Summary Compensation Table.

(2) "Aggregate Withdrawals/Distribution" Column. This column represents the payouts or distributions to the NEOs of vested amounts of deferred compensation pursuant to their elections. For Mr. Pellerito, the second row under his name represents the value "realized" upon the delivery of the first 25% of the shares of Class A Common Stock underlying his RSUs that had been considered vested in a prior fiscal year, based upon the closing market price of the Company's Class A Common Stock on the NYSE on the date of delivery. For Mr. Buchanan and Mr. Reinhart, the second row under their names represents the value "realized" upon the delivery of the second 25% of the shares of Class A Common Stock underlying their RSUs that had been considered vested in a prior fiscal year, based upon the closing market price of the Company's Class A Common Stock on the NYSE on the date of delivery.

(3) "Aggregate Balance at Last Fiscal Year" Column. This column represents the net balance of the NEOs' EDCP accounts as of October 31, 2010 based on an aggregation of all sub-accounts (discussed below). The majority of such balances reflects executive and Company contributions that were included in Summary Compensation tables in previous years. For Mr. Pellerito, Mr. Buchanan and Mr. Reinhart, the second row under their names represents the market value of the remaining undelivered portion of the shares of Class A Common Stock underlying their RSUs that had been considered vested in a prior fiscal year, based upon the closing market price of the Company's Class A Common Stock on the NYSE as of October 29, 2010, the last trading day prior to fiscal year-end. The grant date fair value of these shares ($16,144 for Mr. Pellerito and $53,625 each for Mr. Buchanan and Mr. Reinhart) is included in the Summary Compensation Table in a previous year.

Narrative to the Non-Qualified Deferred Compensation Table for Fiscal 2010

Total Account Balances

The EDCP's total account balance is equal to the sum of (1) the "Deferral Account" balance, (2) the "Company Contribution Account" balance and (3) the "Deferred Share Deferral Account" balance. The "Deferral Account" balance amount includes that portion of a participant's annual base salary, cash bonus and any "401(k) excess" contribution amount, as elected by the participant, that is deferred in accordance with the EDCP's provisions. The "Company Contribution Amount" balance consists of the annual company matching contribution amounts under the plan. The "Deferred Share Deferral Account" balance includes the value of vested stock awarded under any Company stock incentive plan for which shares may have been deferred under the EDCP.

EDCP's Election Options

In connection with the cash payments deferred under the EDCP, a participant may elect one or more of the "Measurement Funds" available under the EDCP, for the purpose of crediting or debiting additional amounts to his or her Account Balance:

Fund Class	Measurement Fund
Money Market	Vanguard Var Ins Money Market
Intermediate-Term Bond	PIMCO VIT Total Return Instl
High Yield Bond	Vanguard Var Ins High Yield Bond
Large Value	T. Rowe Price Equity Income
Large Growth	Vanguard Var Ins Capital Growth
Mid-Cap Growth	Invesco V.I. Dynamics I
Mid-Cap Growth	T. Rowe Price Mid-Cap Growth
Small Blend	Royce Capital Micro-Cap Inv
Small Growth	Vanguard Var Ins Small Co Growth
Foreign Large Growth	T. Rowe Price International Stock
Foreign Small/Mid Value	First Eagle Overseas Variable
Moderate Allocation	Vanguard Var Ins Balanced

Potential Payments upon Termination or Change-In-Control Table

The following table summarizes payments and benefits that would be payable to each of the NEOs in the event of their termination of employment or upon the occurrence of a change-in-control ("triggering event"). For purposes of this table, the effective date of termination is assumed to be October 29, 2010, the last business day of fiscal 2010.

Potential Payments upon Termination or Change-In-Control Table

Named Executive Officer	Voluntary Termination		Involuntary Termination			Change in Control
Form of Compensation	With or Without Good Reason	Normal Retirement	Without Cause	With Cause	Death or Disability	Without Termination
Ara K. Hovnanian						
Accelerated vesting of cash performance-based awards (1)	—	—	$949,500	—	$949,500	—
Accelerated vesting of equity awards (2)	—	—	—	—	$757,500	—
Contractual disability/death payment (3)	—	—	—	—	$10,000,000	—
Total	—	—	$949,500	—	$11,707,000	—
J. Larry Sorsby						

Accelerated vesting of cash performance-based awards (1)	—	—	$350,500	—	$350,000	—
Accelerated vesting of equity awards (2)	—	—	—	—	$151,500	—
Contractual disability/death payment (3)	—	—	—	—	—	—
Total	—	—	$350,000	—	$501,500	—
Thomas J. Pellerito						
Accelerated vesting of cash performance-based awards (1)	$232,298	$232,298	$232,298	—	$232,298	—
Accelerated vesting of equity awards (2)	$44,246	$44,246	$44,246	$44,246	$44,246	—
Contractual disability/death payment (3)	—	—	—	—	—	—
Total	$276,544	$276,544	$276,544	$44,246	$276,544	—
Paul W. Buchanan						
Accelerated vesting of cash performance-based awards (1)	$86,100	$86,100	$86,100	—	$86,100	—
Accelerated vesting of equity awards (2)	$34,150	$34,150	$34,150	$34,150	$34,150	—
Contractual disability/death payment (3)	—	—	—	—	—	—
Total	$120,250	$120,250	$120,250	$34,150	$120,250	—
Peter S. Reinhart						
Accelerated vesting of cash performance-based awards (1)	$61,500	$61,500	$61,500	—	$61,500	—
Accelerated vesting of equity awards (2)	$34,150	$34,150	$34,150	$34,150	$34,150	—
Contractual disability/death payment (3)	—	—	—	—	—	—
Total	$95,650	$95,650	$95,650	$34,150	$95,650	—

For purposes of this table presentation, consideration of the forms of compensation or additional payments or benefits to an NEO in the event of a triggering event include:

(1) Accelerated vesting of cash performance-based awards. According to the Company's bonus program's policies and procedures, the 2010 performance-based bonus award is considered earned only if he is on the payroll and employed by the Company on the scheduled date that it is paid. However, if an NEO's termination were due to retirement on or after age 58, a reduction in force, position elimination, death or disability, the NEO would be eligible for a prorated payment through his termination date, less any amounts previously paid. The values in the table represent 100% of the NEOs' fiscal 2010 bonuses that were payable no later than January 15, 2011.

(2) Accelerated vesting of equity awards.

- Option and Restricted Stock Unit Awards. Under circumstances other than death, disability or qualified retirement, any unvested stock options are cancelled in accordance with the Company's stock option and restricted stock unit agreements. Because Mr. Pellerito, Mr. Buchanan, and Mr. Reinhart have reached certain age and/or service requirements specified in these agreements, any termination of employment would be considered a qualified retirement. The amounts in this table are calculated at the closing market price of the Company's stock on October 29, 2010 ($3.56).

-Active.12254502.6

(3) Contractual Disability and Death Payment.

- Mr. Hovnanian's contractual arrangement: In February 2006, the Company entered into an agreement with Mr. Hovnanian, which provides that in the event of his disability or death during his employment with the Company he (or his designated beneficiary, estate or legal representative) will be entitled to receive a lump sum payment of $10 million. This agreement replaced a pre-existing agreement in which Mr. Hovnanian (or his legal representative or estate) would have received, in the event of his disability or death during his employment with the Company, payments equal to the average of the sum of his annual base salary and the annual bonus amount earned by him in respect of the three full preceding calendar years.

For purposes of this table, the following programs were also considered.

- Base salary continuation plan payments. The Company does not maintain such plans.

- Contractual disability/death payments. Only Mr. Hovnanian has this arrangement, which is described under footnote (3) above.

- Other perquisites and benefits. There are no existing severance arrangements or policies which would extend perquisites or other benefits to the NEOs upon a triggering event that would not otherwise be also available to any employee of the Company.

Non-Employee Director Compensation

The Committee annually reviews the compensation program for directors who are not employees of the Company and makes recommendations to the Board of Directors for their approval. The compensation program for non-employee Directors has not changed since fiscal 2005 except as discussed below. In fiscal 2006, the Committee reviewed a study of non-employee Director compensation involving the Company's Peer Group prepared by PM&P. In December 2009, the Board of Directors approved the following non-employee Director compensation for fiscal 2010, which reflected no changes since fiscal 2005 except as discussed below:

- Annual retainer of $40,000 with an additional retainer of $20,000 for each committee on which a Director serves (each paid 50% in cash and 50% in stock);

- Annual grant of 5,000 stock options with an additional 2,000 stock options for each committee on which a Director serves (for fiscal 2009 and 2010, additional stock options were granted to non-employee Directors as discussed below); and

- Meeting fees of $3,000 per board meeting held in person, $2,000 per telephonic board meeting, $5,000 per committee meeting held in person and $2,500 per telephonic committee meeting.

For fiscal 2009 and 2010, after consideration of the grant date fair value of stock option grants in comparison with historical grant values and information on general industry director compensation levels, as well as the added value and guidance the non-employee Directors provided in the strategic decisions concerning the Company's capital structure and refinancing of the Company's debt, the Committee recommended and the Board of Directors approved, additional stock option grants of 10,000 annual stock options and 4,000 stock options for each committee on which a Director serves. The total value of stock and stock option awards for fiscal 2010 approximates the median for general industry companies with similar revenue size.

For fiscal 2011, the Committee engaged PM&P to conduct an independent, comprehensive review of non-employee Director compensation, including a review of Director compensation for the Peer Group. Based on this review and after consideration of the compensation philosophy, the historical and marketplace compensation values and practices for Director compensation, as well as the anticipated Director time commitments and added value activities for fiscal 2011, the Committee recommended and the Board of Directors approved the continuation for fiscal 2011 of the annual retainers (cash and stock) and meeting fees at the same levels as fiscal 2010. These retainer and meeting fee levels have remain unchanged since fiscal 2005. The Committee will further review and determine the level of annual and committee stock option grants closer to the June 2011 grant date.

For additional information related to non-employee Director compensation, please also refer to the “Director Compensation for Fiscal 2010” table below.

In conjunction with promoting high ethical standards for the distribution of equity-based incentives, the Committee also established the second Friday in January of each year as the date for payment of the non-employee Director annual and committee retainers and the date for establishment of the stock price for purposes of calculation of the stock portion of the non-employee Director annual and committee retainers. The Committee also established the second Friday in June as the date of the annual stock option grant for all non-employee Directors of the Company, which is the same as the grant date for all employees. The Company’s practice of setting “fixed” equity award grant dates is designed to avoid the possibility that the Company could grant stock awards prior to the release of material, non-public information which is likely to result in an increase in its stock price, or delay the grant of stock awards until after the release of material, non-public information that is likely to result in a decrease in the Company’s stock price. Exercise prices of stock options were set at the closing price per share of the Company’s Class A Common Stock on the NYSE on the date the options were granted.

The Board of Directors of the Company adopted stock ownership guidelines, recommended by the Committee, which set forth minimum amounts of stock ownership, directly or beneficially, for the Company’s Directors. The guidelines provide that non-employee Directors are encouraged to achieve and maintain stock ownership amounts which equal 2x the total value of their annual retainer (which represents $80,000 in total or 4x the cash portion of the annual retainer) within 5 years after they become subject to the guidelines. On an annual basis, the Committee reviews adherence to the Company’s stock ownership guidelines, which are incorporated into the Company’s Corporate Governance Guidelines. The Company believes these guidelines further enhance the Company’s commitment to aligning the interests of non-employee Directors with those of its stockholders. All non-employee Directors are in compliance with these stock ownership guidelines.

The following table summarizes the compensation of the Company’s non-employee Directors related to their services in fiscal 2010.

Director Compensation for Fiscal 2010

Name	Fees Earned or Paid in Cash (1)	Stock Awards(2)	Options Awards(3)	Non-Equity Incentive Plan compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Robert B. Coutts	$75,001	$29,999	$79,170	—	—	—	$184,170
Edward A. Kangas	$173,003	$49,997	$124,410	—	—	—	$347,410
Joseph A. Marengi	$65,001	$29,999	$79,170	—	—	—	$174,170
John J. Robbins	$80,001	$29,999	$79,170	—	—	—	$189,170
	$175,003	$49,997	$124,410	—	—	—	$349,410

Stephen D.
Weinroth

(1) "Fees Earned or Paid in Cash" Column. The amounts in this column represent the combined value of fiscal 2010 annual retainer and meeting fees paid in cash (including approximately 50% of the total annual retainer fee) as shown below. The remaining approximately 50% of the total annual retainer fee is paid in shares of the Company's Class A Common Stock. For a full description of the annual retainer and meeting fees, share awards and stock option awards to non-employee directors, see the discussion preceding this table.

Total Fees Earned and Paid in Cash (Supplemental Table)

Name	FY10 Meeting Fees	FY10 Annual Retainer Fees Cash Payment (represents 50% of the total Annual Retainer Fees(a)	Cash Total
Robert B. Coutts	$45,000	$30,001	$75,001
Edward A. Kangas	$123,000	$50,003	$173,003
Joseph A. Marengi	$35,000	$30,001	$65,001
John J. Robbins	$50,000	$30,001	$80,001
Stephen D. Weinroth	$125,000	$50,003	$175,003

(a) Subject to rounding.

(2) "Stock Awards" Column. The amounts in this column represent the remaining 50% of the total annual retainer fee paid in shares of the Company's Class A Common Stock for fiscal 2010 computed in accordance with FASB ASC Topic 718 as shown in the table below. The assumptions used in the calculation of these amounts are included in footnotes 3 and 15 to the Company's audited financial statements for fiscal 2010 included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and included this Amendment.

Total Annual Retainer (Supplemental Table)

Name	FY10 Annual Retainer Fees Stock Payment (represents 50% of the total Annual Retainer Fees) (a) (b)	Number of Shares Represented	FY10 Annual Retainer Fees Cash Payment (represents 50% of the total Annual Retainer Fees); also shown in footnote (1) above (b)	Total Annual Retainer for Fiscal 2010
Robert B. Coutts	$29,999	7,481	$30,001	$60,000
Edward A. Kangas	$49,997	12,468	$50,003	$100,000
Joseph A. Marengi	$29,999	7,481	$30,001	$60,000
John J. Robbins	$29,999	7,481	$30,001	$60,000
Stephen D. Weinroth	$49,997	12,468	$50,003	$100,000

(a) Non-employee Director stock awards have no vesting restrictions and are valued as of the closing market price of the Company's Class A Common Stock on the NYSE on the date of grant.

(b) Subject to rounding.

(3) "Option Awards" Column. The amounts in this column reflect options to purchase shares of Class A Common Stock awarded in fiscal 2010 and are based on the grant date fair value of the option awards computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in footnotes 3 and 15 to the Company's audited financial statements for fiscal 2010 included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and in this Amendment.

The following table discloses the grant date fair value (based on Black-Scholes option pricing model) for the total stock options granted to non-employee Directors in fiscal 2010:

Grant Date Fair Value for the Total Stock Options Granted to Non-Employee Directors in Fiscal 2010 (Supplemental Table)

Non-Employee Director	Number of Options Granted (as of June 11, 2010 grant date) (a)	Option Fair Value per Share At Grant Date	Total Grant Date Fair Value
Robert B. Coutts	21,000	$3.77	$79,170
Edward A. Kangas	33,000	$3.77	$124,410
Joseph A. Marengi	21,000	$3.77	$79,170
John J. Robbins	21,000	$3.77	$79,170
Stephen D. Weinroth	33,000	$3.77	$124,410

(a) For fiscal 2010, non-employee Directors were granted 15,000 options to purchase shares of Class A Common Stock for serving on the Company's Board of Directors and an additional 6,000 options to purchase shares of Class A Common Stock for each Board committee on which the non-employee director served.

The following table shows the total numbers of all unexercised stock options (exercisable and unexercisable) that each of the non-employee directors held at the end of fiscal 2010:

Outstanding Option Awards at Fiscal 2010 Year-End (Supplemental Table)

Name	Grant date (a)	Number of Securities Underlying Unexercised Options(#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Robert B. Coutts	6/13/08	4,668	2,332	—	$6.46	6/12/18
	6/12/09	7,000	14,000	—	$2.55	6/11/19
	6/11/10	—	21,000	—	$4.73	6/10/20
Edward A. Kangas	6/13/08	7,334	3,666	—	$6.46	6/12/18
	6/12/09	11,000	22,000	—	$2.55	6/11/19

	6/11/10	—	33,000	—	$4.73	6/10/20
Joseph A. Marengi	6/13/08	4,668	2,332	—	$6.46	6/12/18
	6/12/09	7,000	14,000	—	$2.55	6/11/19
	6/11/10	—	21,000	—	$4.73	6/10/20
John J. Robbins	11/06/01	5,000	—	—	$5.58	11/05/11
	6/13/08	4,668	2,332	—	$6.46	6/12/18
	6/12/09	7,000	14,000	—	$2.55	6/11/19
	6/11/10	—	21,000	—	$4.73	6/10/20
Stephen D. Weinroth	11/06/01	10,000	—	—	$5.58	11/05/11
	6/13/08	7,334	3,666	—	$6.46	6/12/18
	6/12/09	11,000	22,000	—	$2.55	6/11/19
	6/11/10	—	33,000	—	$4.73	6/10/20

(a) Stock options vest one-third per year beginning on the first anniversary of the date of grant. If prior to the stock option termination date the non-employee Director ceases to be a member of the Board of Directors due to death, disability or Retirement, the stock option, to the extent not previously vested and exercised, immediately becomes fully vested and exercisable and remains exercisable until the earlier of (1) the stock option termination date and (2) the first anniversary of the non-employee Director’s death, disability, or Retirement. “Retirement” is defined as termination as a member of the Board of Directors on or after age 60, or on or after age 58 with at least 15 years of Service to the Company immediately preceding such termination. All stock option grants were made in the form of Class A Common Stock.

ITEM 12

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

As of January 18, 2011, the outstanding voting securities of the Company consisted of 63,494,586 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 14,564,421 shares of Class B Common Stock, each share entitling the holder thereof to ten votes, or one vote, as the case may be. Other than as set forth in the table below, there are no persons known to the Company to be the beneficial owners of shares representing more than 5% of either the Company’s Class A Common Stock or Class B Common Stock.

The following table sets forth as of January 18, 2011 (1) the Class A Common Stock and Class B Common Stock of the Company beneficially owned by holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company and (2) the Class A Common Stock, Class B Common Stock and Depositary Shares of the Company beneficially owned by each Director, each nominee for Director, each executive officer named in the tables set forth under “Item 11 – Executive Compensation” and all Directors and executive officers as a group:

	Class A Common Stock (1)		Class B Common Stock (1)		Depositary Shares (1)(3)	
Directors, Nominees for Director, Certain Executive Officers, Directors and Executive Officers as a Group and Holders of More Than 5%	Amount and Nature of Beneficial Ownership	Percent of Class(2)	Amount and Nature of Beneficial Ownership	Percent of Class (2)	Amount and Nature of Beneficial Ownership	Percent of Class (2)
	7,567,392	11.92%	7,138,646	49.01%		

Estate of Kevork S. Hovnanian (4)						
Ara K. Hovnanian (5)	5,598,044	8.63%	1,082,665	7.39%		
Paul W. Buchanan (6)	70,276	0.11%				
Robert B. Coutts	44,086	0.07%				
Edward A. Kangas	97,769	0.15%				
Joseph A. Marengi	54,086	0.09%				
Thomas J. Pellerito	1,034,999	1.63%				
Peter S. Reinhart	78,386	0.12%			3,000	0.1%
Peter S. Reinhart as Trustee of the Sirwart Hovnanian 1994 Marital Trust (7)			5,210,091	35.77%		
John J. Robbins	66,642	0.10%				
J. Larry Sorsby	290,552	0.46%				
Stephen D. Weinroth	138,269	0.22%	4,500	0.03%		
All Directors and executive officers as a group (11 persons)	14,609,784	22.42%	13,435,902	91.66%	5,000	0.1%

(1) The figures in the table with respect to Class A Common Stock do not include the shares of Class B Common Stock beneficially owned by the specified persons. Shares of Class B Common Stock are convertible at any time on a share for share basis to Class A Common Stock. Beneficial ownership is determined in accordance with the rules of the SEC and generally attributes ownership to persons who have or share voting or investment power with respect to the relevant securities. Shares of Common Stock that may be acquired within 60 days upon exercise of outstanding stock options are deemed to be outstanding. Securities not outstanding, but included in the beneficial ownership of each such person, are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person. Except as indicated in these footnotes, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all securities shown as beneficially owned by them. Shares of Class A Common Stock subject to options currently exercisable or exercisable within 60 days, whether or not in-the-money, include the following: A. Hovnanian (1,350,000), P. Buchanan (18,750), R. Coutts (11,667), E. Kangas (18,333), J. Marengi (11,667), T. Pellerito (32,500), P. Reinhart (18,750), J. Robbins (16,667), J. Sorsby (168,750), S. Weinroth (28,333), and all Directors and executive officers as a group (1,677,292). Shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days, whether or not in-the-money, include the following: A. Hovnanian (93,750).

On July 29, 2008, the Company's Board of Directors declared a dividend of one Preferred Stock Purchase Right for each outstanding share of Class A and Class B Common Stock. The dividend was paid to stockholders of record on August 15, 2008. Subject to the terms, provisions and conditions of the Rights Plan, if the Preferred Stock Purchase Rights become exercisable, each Preferred Stock Purchase Right would initially represent the right to purchase from the Company one ten−thousandth of a share of Series B Junior Preferred Stock for a purchase price of $35.00. However, prior to exercise, a Preferred Stock Purchase Right does not give its holder any rights as a stockholder, including without limitation, any dividend, voting or liquidation rights.

(2) Based upon the number of shares outstanding plus options currently exercisable or exercisable within 60 days held by each such Director, nominee, executive officer or holder.

(3) Each Depositary Share represents 1/1,000th of a share of 7.625% Series A Preferred Stock.

(4) Includes 7,127,392 shares of Class A Common Stock and 7,138,646 shares of Class B Common Stock held by the Executors of the Estate of Kevork S. Hovnanian, deceased. Ara K. Hovnanian is special purpose Executor with respect to investments in the Company, but such shares are not also included in his separate figures of beneficial ownership. Also, includes 440,000 shares of Class A Common Stock held in the name of Sirwart Hovnanian, wife of the Company's deceased Chairman Kevork S. Hovnanian. The business address of each of the Executors is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.

(5) Includes 200,000 shares of Class A and 100,000 shares of Class B Common Stock held in a grantor retained annuity trust (the "AKH GRAT") for which Ara K. Hovnanian is trustee, 372,116 shares of Class A Common Stock and 431,394 shares of Class B Common Stock held in family related trusts as to which Ara K. Hovnanian has shared voting power and shared investment power and 37,374 shares of Class A Common Stock and 142,274 shares of Class B Common Stock held by Mr. Hovnanian's wife and children. Ara K. Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential pecuniary interest in the AKH GRAT and such other accounts and trusts.

(6) Includes 49,026 shares of Class A Common Stock that are held jointly with Mr. Buchanan's spouse, Gail R. Buchanan. Paul W. Buchanan and Gail R. Buchanan share voting and investment power with respect to such shares.

(7) Includes 4,833,826 shares of Class B Common Stock held by the Kevork S. Hovnanian Family Limited Partnership, a Connecticut limited partnership (the "Limited Partnership"). Peter S. Reinhart, as trustee of the Sirwart Hovnanian 1994 Marital Trust (the "Marital Trust"), is the managing general partner of the Limited Partnership and as such has the sole power to vote and dispose of the shares of Class B Common Stock held by the Limited Partnership, as well as of the 376,265 shares of Class B Common Stock held directly by the Marital Trust. Mr. Reinhart disclaims beneficial ownership of the shares held by the Limited Partnership and the Marital Trust.

The following table provides information as of October 31, 2010, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Class A Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)(2)	Number of Class B Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)(2)	Weighted average exercise price of outstanding Class A Common Stock options, warrants and rights(3)	Weighted average exercise price of outstanding Class B Common Stock options, warrants and rights(4)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (in thousands)(1)
	(a)	(a)	(b)	(b)	(c)
Equity compensation plans approved by security holders:	8,590	3,345	$10.16	$4.07	835

Equity compensation plans not approved by security holders:					
Total	9,976	1,959	$10.16	$4.07	835

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

(2) Includes the maximum number of shares that are potentially issuable under the share portion of performance-based long term incentive program awards made to certain associates.

(3) Does not take into account 3,132 shares that may be issued upon the vesting of restricted stock and performance-based awards discussed in (2) above, nor 641 shares of restricted stock vested and deferred at the associates' election, because they have no exercise price.

(4) Does not take into account 1,386 shares that may be issued upon the vesting of the performance-based awards discussed in (2) above, nor 459 shares of restricted stock vested and deferred at the associates' election, because they have no exercise price.

ITEM 13

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The Board has adopted a written Related Person Transaction Policy (the "Related Person Transaction Policy") to assist it in reviewing, approving and ratifying related person transactions and to assist the Company in the preparation of related disclosures required by the SEC. This Related Person Transaction Policy supplements the Company's other policies that may apply to transactions with related persons, such as the Company's Corporate Governance Guidelines and its Code of Ethics.

The Related Person Transaction Policy provides that all Related Person Transactions (as defined in the Related Person Transaction Policy) covered by the Related Person Transaction Policy and involving a director, director nominees, executive officer or greater than 5% shareholder or an immediate family member of any such person are prohibited, unless approved or ratified by the disinterested members of the Board of Directors or the Corporate Governance and Nominating Committee. The Company's employees, directors, director nominees, executive officers and their immediate family members are required to provide prompt and detailed notice of any purported Related Person Transaction to the Company's General Counsel or Chief Financial Officer, who in turn must promptly forward such notice and information to the Chairperson of the Board of Directors or the Corporate Governance and Nominating Committee and will advise the Corporate Governance and Nominating Committee or disinterested directors as to whether the Related Person Transaction will be required to be disclosed in applicable regulatory filings. The Company's General Counsel will document all non-reportable and reportable Related Person Transactions.

In reviewing Related Person Transactions for approval or ratification, the Corporate Governance and Nominating Committee or disinterested directors will consider the relevant facts and circumstances, including, without limitation: the commercial reasonableness of the terms;

- the benefit and perceived benefit (or lack thereof) to the Company;
- opportunity costs of alternate transactions;
- the materiality and character of the related person's direct or indirect interest, and the actual or apparent conflict of interest of the related person; and

- with respect to a non-employee director or nominee, whether the transaction would compromise the director's (1) independence under the NYSE rules and Rule 10A-3 of the Exchange Act, if such non-employee director serves on the Audit Committee; (2) independence under the Company's Certificate of Incorporation; (3) status as an outside director under Section 162(m) of the Internal Revenue Code if such non-employee director serves on the Committee; or (4) status as a "non-employee director" under Rule 16b-3 of the Exchange Act if such non-employee director serves on the Committee.

The Corporate Governance and Nominating Committee or the disinterested directors will not approve or ratify a Related Person Transaction unless, after considering all relevant information, it has determined that the transaction is in, or is not inconsistent with, the Company's best interests and the best interests of its shareholders.

Generally, the Related Person Transaction Policy applies to any current or proposed transaction in which:

- the Company was or is to be a participant;
- the amount involved exceeds $120,000; and
- any related person had or will have a direct or indirect material interest.

A copy of our Related Person Transaction Policy is available as part of our Corporate Governance Guidelines on our website at www.khov.com under "Investors Relations/Corporate Governance."

Related Person Transactions

The related transactions discussed below were entered into prior to the adoption of our Related Person Transaction Policy and were approved by the Board of Directors.

During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately $31.1 million from an entity that is owned by Hirair Hovnanian, a family relative of our Chairman of the Board and Chief Executive Officer. As of October 31, 2010, we have an option deposit of $3.1 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated $8.8 million in accordance with ASC 810-10 under "Consolidated inventory not owned" in the Consolidated Balance Sheets. Neither the Company nor the Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the years ended October 31, 2010, 2009 and 2008, an engineering firm owned by Tavit Najarian, a relative of our Chairman of the Board and Chief Executive Officer provided services to the Company totaling $1.3 million, $1.7 million, and $2.6 million, respectively. Neither the Company nor our Chairman of the Board and Chief Executive Officer has or had a financial interest in the relative's company from which the services were provided.

In December 2005, we entered into an agreement to purchase land in New Jersey from an entity that is owned by Hirair Hovnanian, a family relative of our Chairman of the Board and Chief Executive Officer at a base price of $25 million. The land was to be acquired in four phases over a period of three years from the date of acquisition of the first phase. On June 11, 2008, the parties amended the purchase agreement and closed title to 43 of the 86 lots in phase one. The purchase of the balance of phase one was deferred, but such purchase must occur simultaneously with the scheduled closing of phase four. The purchase prices for all phases are subject to an increase in the purchase price of the phase of not less than 7% per annum from February 1, 2008; a deposit in the amount of $500,000 has been made by the Company. On November 12, 2009, the parties closed title to 83 lots located in phase two. On June 22, 2010, the parties closed title to 88 lots located in phase three. As of October 31, 2010 there are 137 lots remaining to be purchased in phase four. Neither the Company nor the Chairman of the Board and Chief Executive Officer has or had a financial interest in the relatives' company from whom the land is being purchased.

The following transaction was reviewed and approved by the Corporate Governance and Nominating Committee in accordance with our Related Person Transaction Policy:

During the year ended October 31, 2010, a real estate development firm owned by Mazin Kalian, a relative of our Chairman of the Board and Chief Executive Officer, provided consulting services to the Company totaling $155,000, which amount included significant travel related expenses. The consulting services consisted primarily of negotiations, community design and cost analysis with respect to a potential joint venture.

Director Independence

The Board of Directors has determined that Messrs. Coutts, Kangas, Marengi, Robbins and Weinroth are independent as defined under the Company's Certificate of Incorporation and the NYSE rules.

ITEM 14

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP in each of fiscal 2010 and 2009 for professional services rendered for the audit of our consolidated financial statements, for the reviews of the unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarterly periods during fiscal 2010 and 2009, the audit of the effectiveness of the Company's internal control over financial reporting as of October 31, 2010 and 2009, or for services normally provided by our independent registered public accounting firm in connection with statutory or regulatory filings or engagements, including comfort and consent letters in connection with SEC filings and financing transactions, were $2,511,000 and $2,761,000, respectively. The aggregate fees billed by Ernst & Young LLP in each of fiscal 2010 and 2009 for these audit services were $70,000 and $370,000, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte & Touche LLP in each of fiscal 2010 and 2009 for assurance and related services that were reasonably related to performance of the audit or review of the Company's consolidated financial statements and that are not reported under "Audit Fees" above were $2,000 and $3,000, respectively. These services consisted of employee benefit plan audits, and accounting consultation. The aggregate fees billed by Ernst & Young LLP in each of fiscal 2010 and 2009 for these audit-related services were zero and $271,000, respectively.

Tax Fees

The aggregate fees billed by Deloitte & Touche LLP in each of fiscal 2010 and 2009 for professional services rendered for tax compliance, tax advice and tax planning were $22,000 and $536,000, respectively. The aggregate fees billed by Ernst & Young LLP in each of fiscal 2010 and 2009 for these tax services were $22,000 and $185,000, respectively.

All Other Fees

There were no fees billed for products and services provided by Deloitte & Touche LLP or by Ernst & Young LLP in either of fiscal 2010 and 2009 other than the services described above.

Pre-Approval Policies and Procedures

All of the services covered under the captions “Audit Fees,” “Audit-Related Fees”, “Tax Fees” and “All Other Fees” were pre-approved by the Audit Committee pursuant to the pre-approval policy described below under “Audit and Non-Audit Services Pre-Approval Policy.”

Policies & Procedures Established By Audit Committee

In accordance with SEC regulations, the Audit Committee has established procedures for the appointment, compensation, retention and oversight of the independent registered public accounting firm engaged to prepare or issue an audit report or other audit, review, or attest services. The Company’s independent registered public accounting firm reports directly to the Audit Committee, and the Audit Committee is responsible for the resolution of disagreements between such firm and management regarding financial reporting.

In fiscal year 2003, the Audit Committee established whistle blowing procedures as required by Section 301 of the Sarbanes-Oxley Act of 2002 and Section 303A.07(c)(iii) of the NYSE Corporate Governance Rules. These procedures are discussed in the Company’s Code of Ethics (Section IV.G.) which is available on the Company’s public website at www.khov.com under “Investor Relations/Corporate Governance.”

Audit and Non-Audit Services Pre-Approval Policy

The Audit Committee has also established procedures for the pre-approval of audit and permitted non-audit services provided by an independent registered public accounting firm. The Company’s “Audit and Non-Audit Services Pre-Approval Policy” (“Pre-Approval Policy”) was most recently reviewed and approved by the Audit Committee at its meeting held on October 15, 2010.

As set forth in the Pre-Approval Policy, audit services require specific approval by the Audit Committee, except for certain services that have received general pre-approval by the Audit Committee.

In accordance with the Pre-Approval Policy, the Audit Committee annually reviews and pre-approves the services that may be provided by the independent registered public accounting firm without obtaining specific pre-approval from the Audit Committee. Prior to establishing the list of pre-approved services, the Audit Committee determines if the Company’s independent registered public accounting firm is an effective provider of services. The Audit Committee may revise the list of general pre-approved services from time to time, based on subsequent determinations. For fiscal year 2011, there are four categories of services that have received general pre-approval by the Audit Committee: Audit, Audit-Related, Tax and All Other Services and the pre-approved dollar amount for such services may not exceed $100,000 per engagement.

The Audit Committee may delegate to one or more of its members the authority to approve in advance all significant audit or permitted non-audit services to be provided by the independent registered public accounting firm, so long as decisions are presented to the full Audit Committee at its next scheduled meeting.

-Active.12254502.6

PART IV
ITEM 15
EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Exhibits:

3(a)	Certificate of Incorporation of the Registrant.(1)
3(b)	Certificate of Amendment of Certificate of Incorporation of the Registrant.(5)
3(c)	Restated Bylaws of the Registrant.(24)
4(a)	Specimen Class A Common Stock Certificate.(13)
4(b)	Specimen Class B Common Stock Certificate.(13)
4(c)	Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated July 12, 2005.(11)
4(d)	Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
4(e)	Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C.(22)
4(f)	Indenture dated March 26, 2002, relating to 8% Senior Notes, among the Registrant, the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 8% Senior Notes due April 1, 2012.(10)
4(g)	Indenture dated March 26, 2002, relating to 8 7/8% Senior Subordinated Notes, among the Registrant, the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 8 7/8% Senior Subordinated Notes due April 1, 2012.(10)
4(h)	Indenture dated May 9, 2003, relating to 7 3/4% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 7 3/4% Senior Subordinated Notes due May 15, 2013.(4)
4(i)	Indenture dated as of November 3, 2003, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Deutsche Bank Trust Company (as successor trustee), as Trustee.(2)

4(j)	First Supplemental Indenture, dated as of November 3, 2003, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including Form of 6 1/2% Senior Notes due January 15, 2014.(2)
4(k)	Second Supplemental Indenture, dated as of March 18, 2004, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(18)
4(l)	Third Supplemental Indenture, dated as of July 15, 2004, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(18)
4(m)	Fourth Supplemental Indenture, dated as of April 19, 2005, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(18)
4(n)	Fifth Supplemental Indenture, dated as of September 6, 2005, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee.(18)
4(o)	Sixth Supplemental Indenture, dated as of February 27, 2006, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee (including form of 7 1/2% Senior Notes due 2016).(19)
4(p)	Seventh Supplemental Indenture, dated as of June 12, 2006, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee (including form of 8 5/8% Senior Notes due 2017).(20)
4(q)	Indenture dated as of March 18, 2004, relating to 6 3/8% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 6 3/8% Senior Notes due 2014.(15)
4(r)	Indenture dated as of November 30, 2004, relating to 6 1/4% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee, including form of 6 1/4% Senior Notes due 2015.(6)
4(s)	Indenture dated as of August 8, 2005, relating to 6 1/4% Senior Notes due 2016, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Deutsche Bank Trust Company (as successor trustee), as Trustee including form of 6 1/4% Senior Notes due 2016.(7)
4(t)	Indenture dated as of May 27, 2008, relating to 11 1/2% Senior Secured Notes due 2013, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other Guarantors named therein and Wilmington Trust Company (as successor to Deutsche Bank Trust Company), as Trustee, including form of 11 1/2% Senior Secured Notes due 2013.(23)
4(u)	Indenture dated as of December 3, 2008, relating to 18.0% Senior Secured Notes due 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other Guarantors named therein and Wilmington Trust Company, as Trustee, including form of 18.0% Senior Secured Notes due 2017.(12)
4(v)	Indenture dated as of October 20, 2009, relating to the 10 5/8% Senior Secured Notes due 2016, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors named therein and Wilmington Trust Company, as Trustee, including the form of 10 5/8% Senior Secured Notes due 2016.(14)
10(a)	First Lien Pledge Agreement, dated as of October 20, 2009, relating to the 10 5/8% Senior Secured Notes due 2016.(14)

10(b)	First Lien Security Agreement, dated as of October 20, 2009, relating to the 10 5/8% Senior Secured Notes due 2016.(14)
10(c)	Form of Intellectual Property Security Agreement, dated as of October 20, 2009, relating to the 10 5/8% Senior Secured Notes due 2016.(14)
10(d)	Intercreditor Agreement dated as of May 27, 2008.(23)
10(e)	First Amendment, dated as of October 20, 2009, to the Intercreditor Agreement dated as of May 27, 2008.(14)
10(f)	Second Lien Pledge Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(24)
10(g)	Second Lien Security Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(24)
10(h)	First Amendment, dated as of October 20, 2009, to the Second Lien Pledge Agreement dated as of May 27, 2008.(25)
10(i)	First Amendment, dated as of October 20, 2009, to the Second Lien Security Agreement dated as of May 27, 2008.(25)
10(j)	Intellectual Property Security Agreement, relating to the 11 1/2% Senior Secured Notes due 2013, dated as of May 27, 2008.(23)
10(k)	Intercreditor Agreement dated as of December 3, 2008.(12)
10(l)	First Amendment, dated as of October 20, 2009, to the Intercreditor Agreement dated as of December 3, 2008.(14)
10(m)	Third Lien Pledge Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(12)
10(n)	Third Lien Security Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(12)
10(o)	Intellectual Property Security Agreement, relating to the 18.0% Senior Secured Notes due 2017, dated as of December 3, 2008.(12)
10(p)	First Amendment, dated as of October 20, 2009, to the Third Lien Pledge Agreement dated as of December 3, 2008.(25)
10(q)	First Amendment, dated as of October 20, 2009 to the Third Lien Security Agreement dated as of December 3, 2008.(25)
10(r)*	Description of Nonemployee Director Compensation.(1)
10(s)*	Base Salaries of Executive Officers.(29)
10(t)*	Form of Nonqualified Stock Option Agreement (Class A shares).(25)
10(u)*	Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan.(16)
10(v)*	1983 Stock Option Plan (as amended and restated).(17)
10(w)	Management Agreement dated August 12, 1983, for the management of properties by K. Hovnanian Investment Properties, Inc.(3)
10(x)	Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(21)
10(y)*	Executive Deferred Compensation Plan as amended and restated on December 19, 2008.(8)
10(z)*	Amended and Restated Senior Executive Short-Term Incentive Plan.(26)
10(aa)*	Death and Disability Agreement between the Registrant and Ara K. Hovnanian, dated February 2, 2006.(9)
10(bb)*	Form of Hovnanian Deferred Share Policy for Senior Executives.(8)
10(cc)*	Form of Hovnanian Deferred Share Policy.(8)
10(dd)*	Form of Nonqualified Stock Option Agreement (Class B shares).(8)
10(ee)*	Form of Incentive Stock Option Agreement.(8)
10(ff)*	Form of Stock Option Agreement for Directors.(8)
10(gg)*	Form of Restricted Share Unit Agreement.(8)
10(hh)*	Form of Incentive Stock Option Agreement.(27)

10(ii)*	Form of Restricted Share Unit Agreement.(27)
10(jj)*	Form of Performance Vesting Incentive Stock Option Agreement.(27)
10(kk)*	Form of Performance Vesting Nonqualified Stock Option Agreement.(27)
10(ll)*	Form of Restricted Share Unit Agreement for Directors.(25)
10(mm)*	Form of Long Term Incentive Program Award Agreement (Class A Shares).(28)
10(nn)*	Form of Long Term Incentive Program Award Agreement (Class B Shares).(28)
12	Statements re Computation of Ratios.(29)
21	Subsidiaries of the Registrant.(29)
23(a)	Consent of Deloitte & Touche LLP.
23(b)	Consent of Ernst & Young LLP.
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.

* Management contracts or compensatory plans or arrangements.

(1) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2008(No. 001-08551) of the Registrant.

(2) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K (No. 001-08551) filed on November 7, 2003.

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

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

(5) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K (No. 001-08551) filed December 9, 2008.

(6) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2004 (No. 001-08551) of the Registrant.

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

(8) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2008 (No. 001-08551) of the Registrant.

(9) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2006 (No. 001-08551) of the Registrant.

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

(11) Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on July 13, 2005.

(12) Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on December 8, 2008.

(13) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2009 (No. 001-08551).

(14) Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on October 26, 2009.

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

(16) Incorporated by reference to definitive Proxy Statement on Schedule 14A of the Registrant filed on February 1, 2010.

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

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

(19) Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K (No. 001-08551) filed on February 27, 2006.

(20) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551) filed on June 15, 2006.

(21) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2003 (No. 001-08551), of the Registrant.

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

(23) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551), filed June 2, 2008.

(24) Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551), filed December 21, 2009.

(25) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2009 (No. 001-08551), of the Registrant.

(26) Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on March 22, 2010.

(27) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended July 31, 2009 (No. 001-08551), of the Registrant.

(28) Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2010 (No. 001-08551), of the Registrant.

(29) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2010 (No. 001-08551), of the Registrant, originally filed on December 22, 2010.

-Active.12254502.6

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.	
By:	/s/ ARA K. HOVNANIAN
	Ara K. Hovnanian Chairman of the Board, Chief Executive Officer, and President January 25, 2011

-Active.12254502.6

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

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

-Active.12254502.6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries (the "Company") as of October 31, 2010 and 2009, and the related consolidated statements of operations, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of October 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 25, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/DELOITTE & TOUCHE LLP

Parsippany, NJ
January 25, 2011

-Active.12254502.6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of operations, equity, and cash flows of Hovnanian Enterprises, Inc. and subsidiaries ("the Company") for the year ended October 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

As discussed in Note 12 to the consolidated financial statements, effective November 1, 2007, the Company changed its method of accounting for uncertainty in income tax positions upon the adoption of Statements of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (codified in Accounting Standards Codification 740-10, "Income Taxes").

/s/Ernst & Young, LLP

New York, New York
December 23, 2008

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	October 31, 2010	October 31, 2009
ASSETS		
Homebuilding:		
Cash and cash equivalents	$359,124	$419,955
Restricted cash (Note 6)	108,983	152,674
Inventories (Note 13):		
Sold and unsold homes and lots under development	591,729	631,302
Land and land options held for future development or sale	348,474	372,143
Consolidated inventory not owned:		
Specific performance options	21,065	30,534
Variable interest entities (Note 18)	32,710	45,436
Other options	7,962	30,498
Total consolidated inventory not owned	61,737	106,468
Total inventories	1,001,940	1,109,913
Investments in and advances to unconsolidated joint ventures (Note 19)	38,000	41,260
Receivables, deposits, and notes	61,023	44,418
Property, plant, and equipment - net (Note 5)	62,767	73,918
Prepaid expenses and other assets	83,928	98,159
Total homebuilding	1,715,765	1,940,297
Financial services:		
Cash and cash equivalents	8,056	6,737
Restricted cash (Note 6)	4,022	4,654
Mortgage loans held for sale (Notes 7 and 8)	86,326	69,546
Other assets	3,391	3,343
Total financial services	101,795	84,280
Total assets	$1,817,560	$2,024,577

See notes to consolidated financial statements.

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	October 31, 2010	October 31, 2009
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse land mortgages (Note 8)	$4,313	$ -
Accounts payable and other liabilities	319,749	325,722
Customers' deposits (Note 6)	9,520	18,811
Nonrecourse mortgages secured by operating properties (Note 8)	20,657	21,507
Liabilities from inventory not owned (Note 18)	53,249	96,908
Total homebuilding	407,488	462,948
Financial services:		
Accounts payable and other liabilities	16,142	14,507
Mortgage warehouse line of credit (Notes 7 and 8)	73,643	55,857
Total financial services	89,785	70,364
Notes payable:		
Senior secured notes (Note 9)	784,592	783,148
Senior notes (Note 9)	711,585	822,312
Senior subordinated notes (Note 9)	120,170	146,241
Accrued interest (Notes 8 and 9)	23,968	26,078
Total notes payable	1,640,315	1,777,779
Income taxes payable (Note 12)	17,910	62,354
Total liabilities	2,155,498	2,373,445
Equity:		
Hovnanian Enterprises, Inc. stockholders' equity deficit:		
Preferred stock, $.01 par value - authorized 100,000 shares; issued 5,600 shares with a liquidation preference of $140,000, at October 31, 2010 and 2009	135,299	135,299
Common stock, Class A, $.01 par value - authorized 200,000,000 shares; issued 74,809,683 shares at October 31, 2010 and 74,376,946 shares at October 31, 2009 (including 11,694,720 shares at October 31, 2010 and 2009 held in Treasury)	748	744
Common stock, Class B, $.01 par value (convertible to Class A at time of sale) - authorized 30,000,000 shares; issued 15,256,543 shares at October 31, 2010 and 15,265,067 shares at October 31, 2009 (including 691,748 shares at October 31, 2010 and 2009 held in Treasury)	153	153
Paid in capital - common stock	463,908	455,470
Accumulated deficit	(823,419)	(826,007)
Treasury stock -at cost	(115,257)	(115,257)
Total Hovnanian Enterprises, Inc. stockholders' equity deficit	(338,568)	(349,598)
Noncontrolling interest in consolidated joint ventures	630	730
Total equity deficit	(337,938)	(348,868)
Total liabilities and equity	$1,817,560	$2,024,577

See notes to consolidated financial statements.

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
(In thousands except per share data)	October 31, 2010	October 31, 2009	October 31, 2008
Revenues:			
Homebuilding:			
Sale of homes	$1,327,499	$1,522,469	$3,177,853
Land sales and other revenues	12,370	38,271	78,039
Total homebuilding	1,339,869	1,560,740	3,255,892
Financial services	31,973	35,550	52,219
Total revenues	1,371,842	1,596,290	3,308,111
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	1,104,049	1,398,087	3,010,902
Cost of sales interest	84,440	105,814	145,961
Inventory impairment loss and land option write-offs (Note 13)	135,699	659,475	710,120
Total cost of sales	1,324,188	2,163,376	3,866,983
Selling, general and administrative	178,331	239,606	377,068
Total homebuilding expenses	1,502,519	2,402,982	4,244,051
Financial services	23,074	29,295	35,567
Corporate general and administrative	59,900	81,980	82,846
Other interest	97,919	94,655	30,375
Other operations	9,715	23,541	9,837
Goodwill and intangible amortization and impairment	-	-	36,883
Total expenses	1,693,127	2,632,453	4,439,559
Gain on extinguishment of debt (Note 9)	25,047	410,185	-
Income (loss) from unconsolidated joint ventures (Note 19)	956	(46,041)	(36,600)
Loss before income taxes	(295,282)	(672,019)	(1,168,048)
State and federal income tax (benefit) provision (Note 12):			
State	(6,536)	25,287	13,760
Federal	(291,334)	19,406	(57,218)
Total income taxes	(297,870)	44,693	(43,458)
Net income (loss)	$2,588	$(716,712)	$(1,124,590)
Per share data:			
Basic:			
Income (loss) per common share	$0.03	$(9.16)	$(16.04)
Weighted-average number of common shares outstanding	78,691	78,238	70,131
Assuming dilution:			
Income (loss) per common share	$0.03	$(9.16)	$(16.04)
Weighted-average number of common shares outstanding	79,683	78,238	70,131

See notes to consolidated financial statements.

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	A Common Stock		B Common Stock		Preferred Stock						
(Dollars In thousands)	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Paid-In Capital	(Accumulated Deficit) Retained Earnings	Treasury Stock	Non Controlling Interest	
Balance, November 1, 2007	47,569,167	$593	14,647,092	$153	5,600	$135,299	$276,998	$1,024,017	$(115,257)	$1,490	$
Adoption of FASB Interpretation No. 48 (Note 12)								(8,722)			
Stock issuance May 14, 2008 offering	14,000,000	140					125,739				
Stock options, amortization and issuances	238,448	2					7,553				
Restricted stock, amortization issuances and forfeitures	294,198	3					8,336				
Conversion of Class B to Class A common stock	7,346		(7,346)								
Loss from noncontrolling interest in consolidated joint ventures										(514)	
Net loss								(1,124,590)			(
Balance, October 31, 2008	62,109,159	738	14,639,746	153	5,600	135,299	418,626	(109,295)	(115,257)	976	
Stock options, amortization and issuances							5,030				
Stock option cancellations							15,687				
Restricted stock	506,640	6					16,127				

amortization, issuances and forfeitures										
Conversion of Class B to Class A common stock	66,427		(66,427)							
Loss from noncontrolling interest in consolidated joint ventures										(246)
Net loss								(716,712)		
Balance, October 31, 2009	62,682,226	744	14,573,319	153	5,600	135,299	455,470	(826,007)	(115,257)	730
Stock options, amortization and issuances	152,590	1					5,094			
Restricted stock amortization, issuances and forfeitures	271,623	3					3,344			
Conversion of Class B to Class A common stock	8,524		(8,524)							
Loss from noncontrolling interest in consolidated joint ventures										(100)
Net income								2,588		
Balance, October 31, 2010	63,114,963	$748	14,564,795	$153	5,600	$135,299	$463,908	$(823,419)	$(115,257)	$630

See notes to consolidated financial statements.

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
(In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Cash flows from operating activities:			
Net income (loss)	$2,588	$(716,712)	$(1,124,590)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	12,576	18,527	18,426
Goodwill and intangible amortization and impairment	-	-	36,883
Compensation from stock options and awards	8,706	13,218	25,247
Stock option cancellations	-	15,687	-
Amortization of bond discounts and deferred financing costs	5,051	15,479	8,668
Excess tax payments from share-based payments	-	-	6,312
(Gain) loss on sale and retirement of property and assets	(69)	487	(2,262)
(Income) loss from unconsolidated joint ventures	(956)	46,041	36,600
Distributions of earnings from unconsolidated joint ventures	2,251	4,093	7,461
Gain on extinguishment of debt	(25,047)	(410,185)	-
Deferred income taxes	-	-	105,302
Inventory impairment and land option write-offs	135,699	659,475	710,120
Decrease (increase) in assets:			
Mortgage notes receivable	(16,780)	21,056	91,963
Restricted cash, receivables, prepaids, deposits, and other assets	40,400	(74,293)	88,745
Inventories	(27,726)	354,676	666,372
State and federal income tax assets	-	126,826	(46,440)
Increase (decrease) in liabilities:			
State and federal income tax liabilities	(44,444)	62,354	-
Customers' deposits	(9,291)	(9,865)	(36,545)
Accounts payable, accrued interest and other accrued liabilities	(50,471)	(156,592)	(130,196)
Net cash provided by (used in) operating activities	32,487	(29,728)	462,066
Cash flows from investing activities:			
Proceeds from sale of property and assets	474	1,069	3,835
Purchase of property, equipment, and other fixed assets and acquisitions	(2,456)	(750)	(5,238)
Investment in and advances to unconsolidated joint ventures	(5,262)	(32,185)	(16,837)
Distributions of capital from unconsolidated joint ventures	7,228	11,959	16,601
Net cash used in investing activities	(16)	(19,907)	(1,639)
Cash flows from financing activities:			
Proceeds (payments) from mortgages and notes	3,463	(2,368)	-
Net proceeds from Senior Secured Notes	-	752,046	571,941
Net (payments) relating to revolving credit facility	-	-	(221,632)

Net payments related to mortgage warehouse lines of credit	17,786	(28,934)	(86,342)
Deferred financing cost from note issuances	(1,656)-	-	
Principal payments and debt repurchases	(111,576)	(1,092,473)	(13,338)
Excess tax payments from share-based payment	-	-	(6,312)
Proceeds from sale of stock and employee stock plan	-	-	127,079
Net cash (used in) provided by financing activities	(91,983)	(371,729)	371,396
Net (decrease) increase in cash and cash equivalents	(59,512)	(421,364)	831,823
Cash and cash equivalents balance, beginning of year	426,692	848,056	16,233
Cash and cash equivalents balance, end of year	$367,180	$426,692	$848,056
Supplemental disclosures of cash flows:			
Cash paid (received) during the period for:			
Income taxes	$(253,425)	$(145,443)	$(98,176)

Supplemental disclosure of noncash investing activities:

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

In 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 consolidated financial statements.

-Active.12254502.6

HOVNANIAN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. Basis of Presentation

Basis of Presentation - The accompanying consolidated financial statements include our accounts and those of all wholly-owned subsidiaries, and variable interest entities in which we are deemed to be the primary beneficiary, after elimination of all significant intercompany balances and transactions. Our fiscal year ends October 31.

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (ASC) as the primary source of accounting principles generally accepted in the United States of America ("US GAAP") recognized by the FASB to be applied by nongovernmental entities.

2. Business

Our operations consist of homebuilding, financial services, and corporate. Our homebuilding operations are made up of six reportable segments defined as Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West. Homebuilding operations comprise the substantial part of our business, with approximately 98% of consolidated revenues for the years ended October 31, 2010, 2009, and 2008. We are a Delaware corporation, currently building and selling homes in 192 consolidated new home communities in Arizona, California, Delaware, Florida, Georgia, Illinois, Kentucky, Maryland, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, Washington, D.C., and West Virginia. We offer a wide variety of homes that are designed to appeal to first-time buyers, first and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. Our financial services operations, which are a reportable segment, provide mortgage banking and title services to the homebuilding operations' customers. We do not retain or service the mortgages that we originate but rather sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, accounting, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality, and safety.

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

3. Summary of Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with US 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.

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

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

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

Substantially all of the mortgage loans originated are sold within a short period in the secondary mortgage market on a servicing released, nonrecourse basis although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or make whole investors for mortgages we have sold. To date, we have not made significant payments associated with our loans and we have reserves for potential losses. Included in the mortgage loans held for sale at October 31, 2010 is $1.1 million of mortgage loans, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

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.

Cash and Cash Equivalents - Cash and cash equivalents include cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury Bills and government money market funds with maturities of 90 days or less when purchased. Our cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. We believe we mitigate this risk by depositing our cash in major financial institutions. At October 31, 2010, $317.1 million of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

Fair Value of Financial Instruments - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Our financial instruments consist of cash and cash equivalents, restricted cash, receivables, deposits and notes, accounts payable and other liabilities, customer deposits, mortgage loans held for sale, nonrecourse land and operating properties mortgages, mortgage warehouse lines of credit, accrued interest, and the senior secured, senior and senior subordinated notes payable. The fair value 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.

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

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

We have decided to mothball (or stop development on) certain communities where we determine the current performance does not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale". As of October 31, 2010, the book value of the 58 mothballed communities was $174.4 million, net of impairment charges of $580.2 million. We regularly review communities to determine if mothballing is appropriate or to re-activate previously mothballed communities as we did with 16 communities in the twelve months ended October 31, 2010.

The recoverability of inventories and other long-lived assets are assessed in accordance with the provisions of ASC 360-10, “Property, Plant and Equipment - Overall”. ASC 360-10 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 the remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

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

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

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

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;
- community-specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;
- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community; 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 amount of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community. 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 virtually the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative fair value basis.

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

Inventories held for sale, which are land parcels where we have decided not to build homes, represented $54.9 million of our total inventories at October 31, 2010, and are reported at the lower of carrying amount or fair value less costs to sell. In determining whether land held for sale is impaired, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Insurance Deductible Reserves - For homes delivered in fiscal 2010 and 2009, our deductible under our general liability insurance is $20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in 2010 is $0.1 million up to a $5 million limit. For bodily injury claims in 2009, our deductible was $20 million. Our aggregate retention in 2010 and 2009 is $21 million for construction defect and warranty claims, and $20 million for bodily injury claims. We do not have a deductible on our worker's compensation insurance in fiscal 2010. For fiscal 2009, our worker's compensation insurance deductible was $0.5 million per occurrence. Reserves for estimated losses for fiscal 2010 and 2009 have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty data and other industry data to assist our management 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 worker's compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices, and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Interest - Interest attributable to properties under development during the land development and home construction period is capitalized and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized, which occurs when assets qualifying for interest capitalization are less than our outstanding debt balances, is expensed as incurred in “Other interest.”

During the preparation of our consolidated financial statements for the year ended October 31, 2010, we identified an error in the calculation of the supplemental disclosure of cash paid for interest, net of capitalized interest on the consolidated statement of cash flows for the years ended October 31, 2009 and 2008, wherein we had reduced cash paid for interest by an incorrect amount of capitalized interest. We have corrected the amounts previously presented in our 2009 and 2008 financial statements of $244.8 million and $143.5 million, respectively, in footnote (4) to the chart below. We believe the correction is not material to our previously issued consolidated financial statements; therefore, we have restated the supplemental disclosure for our 2009 and 2008 consolidated financial statements in this 2010 Annual Report on Form 10-K. The restatement has no impact on our consolidated financial position, results of operations or cash flows for any period presented.

Interest costs incurred, expensed and capitalized were:

	Year Ended		
(Dollars in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Interest capitalized at beginning of year	$164,340	$170,107	$155,642
Plus interest incurred(1)	154,307	194,702	190,801
Less cost of sales interest expensed	84,440	105,814	145,961
Less other interest expensed(2)(3)(4)	97,919	94,655	30,375
Interest capitalized at end of year(5)	$136,288	$164,340	$170,107

(1) Data does not include interest incurred by our mortgage and finance subsidiaries.
(2) Our assets that qualify for interest capitalization (inventory under development) do not exceed our debt, and therefore, the portion of interest not covered by qualifying assets must be directly expensed.
(3) Interest on completed homes and land in planning, which does not qualify for capitalization, must be expensed directly.
(4) Cash paid for interest, net of capitalized interest is the sum of other interest expensed, as defined above, and interest paid by our mortgage and finance subsidiaries adjusted for the change in accrued interest, which is calculated as follows:

	Year Ended		
(Dollars in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Other interest expensed	$97,919	$94,655	$30,375
Interest paid by our mortgage and finance subsidiaries	1,848	1,728	3,601
Decrease (increase) in accrued interest	2,110	46,399	(28,533)
Cash paid for interest, net of capitalized interest	$101,877	$142,782	$5,443

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

Land Options - Costs incurred to obtain options to acquire improved or unimproved home sites are capitalized. Such amounts are either included as part of the purchase price if the land is acquired or charged to operations if we determine we will not exercise the option. If the options are with variable interest entities and we are the primary beneficiary, we record the land under option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned”. If the option obligation is to purchase under specific performance or has terms that require us to record it as financing, then we record the option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned”. In accordance with ASC 810-10 “Consolidation - Overall”, we record costs associated with other options on the Consolidated Balance Sheets under “Land and land options held for future development or sale.”

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but 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 significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, “Investments - Equity Method and Joint Ventures - Overall”, we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture’s projected cash flows. This process requires significant management judgment and estimate. During fiscal 2009 and 2008, we wrote down certain joint venture investments by $26.4 million and $11.3 million, respectively. There were no write-downs in fiscal 2010.

Deferred Bond Issuance Costs - Costs associated with the issuance of our senior secured, senior and senior subordinated notes are capitalized and amortized over the associated term of each note’s issuance.

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

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

Advertising Costs - Advertising costs are expensed as incurred. During the years ended October 31, 2010, 2009, and 2008, advertising costs expensed totaled to $18.2 million, $19.3 million and $57.3 million, respectively.

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

We recognize tax liabilities in accordance with ASC 740-10, 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.

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

In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2010, approximately 3.4 million shares have been purchased under this program, none of which were repurchased during the years ended October 31, 2010, 2009 or 2008.

On August 4, 2008, our Board of Directors adopted a shareholder rights plan (the "Rights Plan") designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards (NOL) and built-in losses under Section 382 of the Internal Revenue Code. Our ability to use NOLs and built-in losses would be limited, if there was an "ownership change" under Section 382. This would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of our stock increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382. Under the Rights Plan, one right was distributed for each share of Class A Common Stock and Class B Common Stock outstanding as of the close of business on August 15, 2008. Effective August 15, 2008, if any person or group acquires 4.9% or more of the outstanding shares of Class A Common Stock without the approval of the Board of Directors, there would be a triggering event causing significant dilution in the voting power of such person or group. However, existing stockholders who owned, at the time of the Rights Plan's adoption, 4.9% or more of the outstanding shares of Class A Common Stock will trigger a dilutive event only if they acquire additional shares. The approval of the Board of Directors' decision to adopt the Rights Plan may be terminated by the Board at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 15, 2018, unless it expires earlier in accordance with its terms. The approval of the Board of Directors' decision to adopt the Rights Plan was submitted to a stockholder vote and approved at a special meeting of stockholders held on December 5, 2008. Also at the Special Meeting on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our net operating loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in the amended Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to (i) increase the direct or indirect ownership of our stock by any person (or public group) from less than 5% to 5% or more of our common stock; (ii) increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or (iii) create a new public group. Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

Preferred Stock - On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000 per share. Dividends on the Series A Preferred Stock are not cumulative and are paid at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the Nasdaq Global Market under the symbol "HOVNP." In fiscal 2010, 2009 and 2008, we did not pay any dividends due to covenant restrictions in our indentures.

Depreciation - Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of the assets ranging from 3 to 40 years.

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

Stock Options - We account for our stock options under ASC 718-10, "Compensation - Stock Compensation - Overall", which requires the fair-value based method of accounting for stock awards granted to employees and measures and records the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

The fair value for options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for October 31, 2010, October 31, 2009 and October 31, 2008: risk free interest rate of 3.24%, 3.89% and 4.27%, respectively; dividend yield of zero; historical volatility factor of the expected market price of our common stock of 0.90 for the year ended 2010, 0.83 for the year ended 2009 and 0.50 for the year ended 2008; a weighted-average expected life of the option of 7.12 years for 2010, 5.92 years for 2009 and 5.86 years for 2008; and an estimated forfeiture rate of 13.42% for fiscal 2010, 12.58% for fiscal 2009 and 8.40% for fiscal 2008. The benefits of tax deductions in excess of recognized compensation cost are reported as both a financing cash inflow and an operating cash outflow.

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

For the years ended October 31, 2010, October 31, 2009 and October 31, 2008, total stock-based compensation expense was $8.7 million, $28.9 million and $25.2 million, respectively. Included in this total stock-based compensation expense was incremental expense for stock options of $5.0 million, $20.7 million and $13.1 million for the years ended October 31, 2010, October 31, 2009 and October 31, 2008, respectively. Because we are currently in a position of fully reserving any tax benefits generated from losses, the amount net of tax is not presented.

Per Share Calculations - Basic earnings per share is computed by dividing income or loss attributable to common shareholders (the "numerator") by the weighted-average number of common shares, adjusted for nonvested 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 nonvested 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 years in the periods ended October 31, 2009 and 2008, there were no incremental shares attributed to nonvested stock and outstanding options to purchase common stock because we had a net loss in each of those years, and any incremental shares would not be dilutive. The total shares that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS were 4.6 million, 6.8 million, and 7.9 million for the years ended October 31, 2010, 2009 and 2008, respectively, because to do so would have been anti-dilutive for the periods presented.

Computer Software Development - In accordance with ASC 350-10 "Intangibles - Goodwill and Other", we capitalize certain costs incurred in connection with developing or obtaining software for internal use. Once the software is substantially complete and ready for its intended use, the capitalized costs are amortized over the systems' estimated useful life.

Noncontrolling Interest - In December 2007, the FASB issued an update to ASC 810. The amended guidance contained in ASC 810 requires a non-controlling interest in a subsidiary to be reported as equity and the amount of consolidated net income or loss specifically attributable to the non-controlling interest to be identified in the consolidated financial statements. Our net income (loss) attributable to non-controlling interest is insignificant for all periods presented and therefore is reported in "Other operations" in the Consolidated Statements of Operations. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any non-controlling equity investment retained in a deconsolidation. We implemented this standard effective November 1, 2009, resulting in a change in the classification of non-controlling interests on the balance sheets and statements of equity.

Recent Accounting Pronouncements - In June 2009, the FASB issued an update to ASC 810, which amends the existing quantitative guidance used in determining the primary beneficiary of a Variable Interest Entity (VIE) by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE 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. ASU 2009-17 was effective for us on November 1, 2010. We expect the adoption of ASU 2009-17 to result in the deconsolidation of all VIEs currently consolidated and a reduction in the amount of consolidated inventory not owned and corresponding liabilities from inventory not owned in our consolidated financial statements, which is not expected to have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements," which requires additional disclosures about transfers between Levels 1 and 2 of the fair value hierarchy and disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. This guidance was effective for the Company in our second quarter of fiscal 2010, except for the Level 3 activity disclosures, which are effective for us in fiscal 2012. The adoption of this guidance, which is related to disclosure only did not (with respect to Levels 1 and 2) and will not (with respect to Level 3 activity) have a material impact on our consolidated financial statements.

Reclassifications – Certain amounts in the 2008 and 2009 Consolidated Financial Statements have been reclassified to conform to the 2010 presentation.

4. Leases

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

Years Ending October 31,	(In Thousands)
2011	$13,626
2012	11,863
2013	7,457
2014	5,087
2015	4,471
After 2015	6,158
Total	$48,662

Net rental expense for the three years ended October 31, 2010, 2009 and 2008, was $19.9 million, $54.9 million and $45.2 million, respectively. These amounts include rent expense for various month-to-month leases on model homes, furniture, and equipment. These amounts also include abandoned lease cost accruals, as well as the amortization of those accruals over the lease term, for leased space that we have abandoned due to our reduction in size and consolidation of certain locations. Certain leases contain renewal or purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

5. Property, Plant and Equipment

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture, and equipment used to conduct day-to-day business and are recorded at cost less accumulated depreciation.

Property, plant, and equipment balances as of October 31, 2010 and 2009 were as follows:

	October 31,	
(In thousands)	2010	2009
Land	$3,932	$3,932
Buildings	68,141	69,063
Building improvements	13,483	15,464
Furniture	8,498	10,084
Equipment	41,751	42,747
Total	135,805	141,290
Less accumulated depreciation	73,038	67,372
Total	$62,767	$73,918

6. Restricted Cash and Deposits

“Restricted cash” on the Consolidated Balance Sheets, amounting to $113.0 million and $157.3 million as of October 31, 2010 and 2009, respectively, primarily represents cash collateralizing our letter of credit agreements and facilities and is discussed in Note 8. In addition, we collateralize our surety bonds with cash. The balances of this surety bond collateral were $14.5 million and $14.7 million at October 31, 2010 and 2009, respectively. The remaining balance is for customers’ deposits of $6.2 million and $7.4 million as of October 31, 2010 and 2009, respectively, which are restricted from use by us.

Total “Customers’ deposits” are shown as a liability on the Consolidated Balance Sheets. These liabilities are significantly more than the applicable years’ escrow cash balances because in some states the deposits are not restricted from use and in other states we are able to release the majority of this escrow cash by pledging letters of credit and surety bonds.

7. Mortgage Loans Held for Sale

Our mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market with servicing released within a short period of time. Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. We have elected the fair value option to record loans held for sale and therefore these loans are recorded at fair value with the changes in the value recorded in net income (loss) in fiscal 2010 and 2009. Loans held for sale, not subject to an effective accounting hedge were carried at the lower of cost or fair value in fiscal 2008. Gains and losses on changes in the fair value are recognized in the Statements of Operations in “Revenues: Financial services.” We currently use forward sales of mortgage-backed securities, interest rate commitments from borrowers and mandatory and/or best efforts forward commitments to sell loans to investors to protect us from interest rate fluctuations. These short-term instruments, which do not require any payments to be made to the counter-party or investor in connection with the execution of the commitments, are recorded at fair value. Gains and losses on changes in the fair value are recognized in the Statements of Operations in “Revenues: Financial services”. Loans held for sale of $1.1 million and $3.5 million at October 31, 2010 and 2009, respectively, represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market.

At October 31, 2010 and 2009, respectively, $74.8 million and $64.2 million of such mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note 8). We may incur losses with respect to mortgages that were previously sold that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have not made significant payments associated with our loans. We have reserves for potential losses on mortgages we previously sold. The reserves are included in the "Mortgage loans held for sale" balance on the Consolidated Balance Sheet.

8. Mortgages and Notes Payable

We have nonrecourse mortgages for a small number of our communities totaling $4.3 million as well as our Corporate Headquarters totaling $20.7 million which are secured by the related real property and any improvements. These loans have installment obligations with annual principal maturities in the years ending October 31 of approximately: $5.2 million in 2011, $1.0 million in 2012 and 2013, $1.1 million in 2014, $1.2 million in 2015 and $15.5 million after 2015. The interest rates on these obligations range from 5.67% to 8.82% at October 31, 2010.

In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. Also in connection with the refinancing, we entered into certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of $89.5 million and $130.3 million of letters of credit outstanding as of October 31, 2010 and October 31, 2009, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of October 31, 2010 and October 31, 2009, the amount of cash collateral in these segregated accounts was $92.3 million and $135.2 million, respectively, which is reflected in "Restricted cash" on the Consolidated Balance Sheets.

Average interest rates and average balances outstanding under the revolving credit facility (as in effect at such year end) are as follows:

(Dollars in thousands)	October31, 2009	October31, 2008
Average monthly outstanding borrowings	$25,000	$171,350
Average interest rate during period	5.0%	7.0%
Average interest rate at end of period(1) (2)	0.0%	0.0%
Maximum outstanding at any month end	$100,000	$344,375

(1) Average interest rate at the end of the period excludes any charges on unused loan balances.
(2) Not applicable as there was no amount outstanding at October31, 2010, 2009 and 2008. We terminated our then existing amended credit facility on October 20, 2009, in connection with the issuance of our senior secured first lien notes.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage"), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with Citibank, N.A. ("Citibank Master Repurchase Agreement") is a short-term borrowing facility that provides up to $50 million through April 5, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable upon the sale of each mortgage loan to a permanent investor at LIBOR plus 4.00%. As of October 31, 2010, the aggregate principal amount of all borrowings under the Citibank Master Repurchase Agreement was $41.5 million.

In addition to the Citibank Master Repurchase Agreement discussed above, on July 19, 2010, K. Hovnanian Mortgage executed a secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement") which is a short-term borrowing facility that provides up to $25 million through July 18, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at LIBOR floor of 2.00% plus applicable margin ranging from 2.50% to 3.00% based on the takeout investor and type of loan. This agreement was amended on October 13, 2010 to temporarily increase the commitment to $50 million until December 16, 2010 (the interest rate remained the same). As of October 31, 2010, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was $32.1 million.

Both the Citibank Master Repurchase Agreement and the Chase Master Repurchase Agreement require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the facilities, 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 two agreements, we do not consider any of these covenants to be substantive or material. As of October 31, 2010, we believe we were in compliance with the covenants of the Citibank Master

Repurchase Agreement and the Chase Master Repurchase Agreement.

9. Senior Secured, Senior and Senior Subordinated Notes

Senior Secured, Senior and Senior Subordinated Notes balances as of October 31, 2010 and 2009, were as follows:

	Year Ended	
(In thousands)	October 31, 2010	October 31, 2009
Senior Secured Notes:		
11 1/2% Senior Secured Notes due May 1, 2013 (net of discount)	$475	$474
10 5/8% Senior Secured Notes due October 15, 2016 (net of discount)	772,415	770,972
18% Senior Secured Notes due May 1, 2017	11,702	11,702
Total Senior Secured Notes	$784,592	$783,148
Senior Notes:		
8% Senior Notes due April 1, 2012 (net of discount)	$35,475	$35,425
6 1/2% Senior Notes due January 15, 2014	54,373	81,347
6 3/8% Senior Notes due December 15, 2014	29,214	83,714
6 1/4% Senior Notes due January 15, 2015	52,720	82,270
6 1/4% Senior Notes due January 15, 2016 (net of discount)	171,616	171,369
7 1/2% Senior Notes due May 15, 2016	172,269	172,269
8 5/8% Senior Notes due January 15, 2017	195,918	195,918
Total Senior Notes	$711,585	$822,312
Senior Subordinated Notes:		
6% Senior Subordinated Notes due January 15, 2010	$0	$13,609
8 7/8% Senior Subordinated Notes due April 1, 2012	66,639	68,039
7 3/4% Senior Subordinated Notes due May 15, 2013	53,531	64,593
Total Senior Subordinated Notes	$120,170	$146,241

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, joint ventures and subsidiaries holding interests in our 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 Company’s ability and that of certain of its subsidiaries, including K. Hovnanian, the issuer of the senior secured, senior, and senior subordinated notes, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and nonrecourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first-lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured, senior, and senior subordinated notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness, and nonrecourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends for the foreseeable future. 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 indenture governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of October 31, 2010, 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 depending on market conditions and covenant restrictions.

At October 31, 2010, we had total issued and outstanding $1,630.6 million ($1,616.3 million, net of discount) senior secured, senior and senior subordinated notes. These notes have annual principal maturities in the following years ending October 31: $102.2 million in 2012, $54.0 million in 2013, $54.4 million in 2014, and $1,420.0 million thereafter.

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

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

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

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

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

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

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

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

On May 27, 2008, we issued $600 million ($594.4 million net of discount) of 11 1/2% Senior Secured Notes due 2013. The notes are secured, subject to permitted liens and other exceptions, by a second-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due 2016. The notes are redeemable in whole or in part at our option at 102% of principal commencing November 1, 2010, 101% of principal commencing May 1, 2011, and 100% of principal commencing May 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011, with the net cash proceeds from certain equity offerings at 111.50% of principal. A portion of the net proceeds of the issuance were used to repay the outstanding balance under the then existing amended credit facility. These second lien notes were the subject of a tender offer discussed below.

During fiscal 2010 and 2009, we completed a number of transactions to restructure and reduce our outstanding debt. These transactions resulted in a net “Gain on extinguishment of debt” of $25.0 million and $410.2 million, respectively, which are reflected on the Consolidated Statements of Operations for the years ended October 31, 2010 and 2009. The following table reconciles the book value of our debt from October 31, 2008 through October 31, 2010 and a detailed description of each of the transactions follows below:

(Dollars in millions)	
Senior secured, senior and senior subordinated notes as of November 1, 2008	$2,505.8
December 2008 debt exchange	(42.1)
Open market repurchases during fiscal 2009	(628.5)
July 2009 tender offers	(119.2)
October 2009 tender offers	(742.5)
October 2009 debt issuance of 10 5/8 senior secured notes due 2016, net of discount	770.9
Discount amortization recorded as interest expense	1.2
Discount written off as gain on extinguishment of debt for debt repurchases, tender offers and exchanges	6.1
Senior secured, senior and senior subordinated notes as of October 31, 2009 (net of discount)	1,751.7
Open Market repurchases during fiscal 2010	(123.5)
January 2010 6% Senior Subordinated Notes matured and paid	(13.6)
Discount amortization recorded as interest expense	1.7
Senior secured, senior and senior subordinated notes as of October 31, 2010 (net of discount)	$1,616.3

On December 3, 2008, we issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of our unsecured senior notes as follows: $0.5 million aggregate principal amount of the 8% Senior Notes due 2012, $12.0 million aggregate principal amount of the 6 1/2% Senior Notes due 2014, $1.1 million aggregate principal amount of the 6 3/8% Senior Notes due 2014, $3.3 million aggregate principal amount of the 6 1/4% Senior Notes due 2015, $24.8 million aggregate principal amount of the 7 1/2% Senior Notes due 2016, $28.7 million aggregate principal amount of the 6 1/4% Senior Notes due 2016 and $1.0 million aggregate principal amount of the 8 5/8% Senior Notes due 2017. 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. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all of the assets owned by us, K. Hovnanian, and the guarantors to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due 2016 and the 11 1/2% Senior Secured Notes due 2013. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011, and 100% of principal commencing November 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011, with the net cash proceeds from certain equity offerings at 118.0% of principal.

During the three months ended January 31, 2010, the remaining $13.6 million of our 6% Senior Subordinated Notes due 2010 matured and was paid. During the year ended October 31, 2010, we repurchased in open market transactions $27.0 million principal amount of 6 1/2% Senior Notes due 2014, $54.5 million principal amount of 6 3/8% Senior Notes due 2014, $29.5 million principal amount of 6 1/4% Senior Notes due 2015, $1.4 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $11.1 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $97.9 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $25.0 million during the year ended October 31, 2010, net of the write-off of unamortized discounts and fees. The gains from the exchanges and repurchases are included in the Consolidated Statement of Operations 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.

On October 20, 2009, we completed cash tender offers and consent solicitations whereby we purchased (1) in a fixed-price tender offer approximately $599.5 million principal amount of 11 1/2% Senior Secured Notes due 2013 for approximately $635.5 million, plus accrued and unpaid interest, (2) in a fixed-price tender offer approximately $17.6 million principal amount of 18.0% Senior Secured Notes due 2017 for approximately $17.6 million, plus accrued and unpaid interest, and (3) in a fixed price tender offer for certain series of our unsecured notes, a total of approximately $125.4 million principal amount of 8% Senior Notes due 2012, 6 1/2% Senior Notes due 2014, 6 3/8% Senior Notes due 2014, 6 1/4% Senior Notes due 2015, and 7 1/2% Senior Notes due 2016 for approximately $100.0 million, plus accrued and unpaid interest. These tender offers resulted in a loss on extinguishment of debt of $36.4 million, net of the write-off of unamortized discounts and fees.

On October 20, 2009, we issued $785.0 million ($770.9 million net of discount) of 10 5/8% Senior Secured Notes due October 15, 2016. The notes 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 notes are redeemable in whole or in part at our option at 107.969% of principal commencing October 15, 2012, 105.313% of principal commencing October 15, 2013, 102.656% of principal commencing October 15, 2014, and 100% of principal commencing October 15, 2015. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before October 15, 2012 with the net proceeds from certain equity offerings at 110.625% of principal. The net proceeds from this issuance, together with cash on hand, were used to fund certain cash tender offers for our senior secured notes and certain series of our unsecured senior notes.

The 10 5/8% Senior Secured Notes due 2016 are secured by a first-priority lien, 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, in the case of the 11 1/2% Senior

Secured Notes due 2013 and the 18% Senior Secured Notes due 2017, to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due 2016. At October 31, 2010, the aggregate book value of the real property collateral securing these notes was approximately $759.5 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 $300.0 million as of October 31, 2010, which includes $92.3 of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

10. Operating and Reporting Segments

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

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

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

Financial Services

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

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

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.

Subsequent to the issuance of our consolidated financial statements for the year ended October 31, 2010, we determined that the disclosure of assets as of October 31, 2010 for our Northeast and Mid-Atlantic segments contained a misclassification. We have corrected the amounts previously presented for assets for the Northeast and Mid-Atlantic segments of $537.7 million and $96.3 million, respectively, to $456.5 million and $177.5 million, respectively. We believe the correction is not material to our previously issued consolidated financial statements. The correction has no impact on our consolidated balance sheets as of October 31, 2010 and 2009, or consolidated statements of operations and related income (loss) per common share amounts, consolidated statements of cash flows or consolidated statements of equity for the years ended October 31, 2010, 2009 and 2008.

-Active.12254502.6

Financial information relating to operations of our segments was as follows:

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Revenues:			
Northeast	$298,713	$364,876	$704,723
Mid-Atlantic	282,052	297,706	513,719
Midwest	93,358	117,308	211,587
Southeast	93,493	119,779	632,050
Southwest	393,639	422,808	610,045
West	178,480	234,740	577,228
Total homebuilding	1,339,735	1,557,217	3,249,352
Financial services	31,973	35,550	52,219
Corporate and unallocated	134	3,523	6,540
Total revenues	$1,371,842	$1,596,290	$3,308,111
(Loss) income before income taxes:			
Northeast	$(92,605)	$(341,147)	$(114,416)
Mid-Atlantic	(4,762)	(85,817)	(142,249)
Midwest	(13,226)	(24,390)	(37,415)
Southeast	(11,219)	(67,891)	(146,406)
Southwest	23,192	(60,777)	(101,470)
West	(61,769)	(304,539)	(524,701)
Total homebuilding	(160,389)	(884,561)	(1,066,657)
Financial services	8,899	6,255	16,652
Corporate and unallocated	(143,792)	206,287	(118,043)
Loss before income taxes	$(295,282)	$(672,019)	$(1,168,048)

	October 31,	
(In thousands)	2010	2009
Assets:		
Northeast	$456,544	$559,257
Mid-Atlantic	177,503	200,908
Midwest	47,818	54,560
Southeast	58,765	60,441
Southwest	206,001	191,495
West	195,808	163,710
Total homebuilding	1,142,439	1,230,371
Financial services	101,795	84,280
Corporate and unallocated	573,326	709,926
Total assets	$1,817,560	$2,024,577

-Active.12254502.6

	October 31,	
(In thousands)	2010	2009
Investments in and advances to unconsolidated joint ventures:		
Northeast	$16,437	$15,824
Mid-Atlantic	12,568	14,152
Midwest	4,432	4,593
Southeast	4,528	6,146
Southwest	35	545
West	-	-
Total investments in and advances to unconsolidated joint ventures	$38,000	$41,260

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Homebuilding interest expense:			
Northeast	$27,105	$28,566	$35,769
Mid-Atlantic	16,572	18,452	20,739
Midwest	3,807	3,712	5,882
Southeast	5,570	8,050	14,628
Southwest	13,927	23,914	20,462
West	17,896	23,639	48,854
Total homebuilding	84,877	106,333	146,334
Corporate and unallocated	97,482	94,136	30,002
Financial services interest expense (income)	-	42	(79)
Total interest expense, net	$182,359	$200,511	$176,257

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Depreciation and goodwill and intangible amortization and impairment:			
Northeast	$1,167	$1,533	$3,402
Mid-Atlantic	474	577	16,926
Midwest	1,609	3,671	1,790
Southeast	356	1,196	5,084
Southwest	340	503	16,207
West	832	1,009	1,156
Total homebuilding	4,778	8,489	44,565
Financial services	447	489	521
Corporate and unallocated	7,351	9,549	10,222
Total depreciation and goodwill and intangible amortization and impairment	$12,576	$18,527	$55,308

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Net additions to operating properties and equipment:			
Northeast	$426	$41	$275
Mid-Atlantic	-	34	39
Midwest	290	170	1,946
Southeast	-	122	922

Southwest	19	-	-
West	-	22	595
Total homebuilding	735	389	3,777
Financial services	-	11	133
Corporate and unallocated	1,721	350	1,328
Total net additions to operating properties and equipment	$2,456	$750	$5,238

-Active.12254502.6

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Equity in (losses) earnings from unconsolidated joint ventures:			
Northeast	$(29)	$(31,156)	$2,069
Mid-Atlantic	(391)	(3,866)	(10,748)
Midwest	390	(1,808)	(15,836)
Southeast	322	(4,359)	(6,908)
Southwest	664	(4,824)	(37)
West	-	(28)	(5,140)
Total equity in earnings (losses) from unconsolidated joint ventures	$956	$(46,041)	$(36,600)

11. Retirement Plan

In December 1982, we established a defined contribution savings and investment retirement plan (a 401K plan). All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions and our operating results. There were no plan costs charged to operations in fiscal 2010 as forfeited unvested contributions were used to cover such costs. Plan costs charged to operations amounted to $0.2 million and $2.9 million for the years ended October 31, 2009 and 2008, respectively. The decreases in 2010, 2009 and 2008 are due to a decrease in participants as our workforce has been reduced, refunds to our unvested contributions for terminated associates and no profit sharing payment made in 2010, 2009 or 2008. Also in 2009, we suspended the employer match portion of the program.

12. Income Taxes

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

	Year Ended October 31,	
(In thousands)	2010	2009
State income taxes:		
Current	$35,124	$43,020
Deferred		
Federal income taxes:		
Current	(17,214)	19,334
Deferred		
Total	$17,910	$62,354

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

	Year Ended October 31,		
(In thousands)	2010	2009	2008
Current income tax (benefit) expense:			
Federal	$(291,328)	$19,560	$(146,865)
State(1)	(6,542)	25,363	1,157
	(297,870)	44,923	(145,708)
Deferred income tax (benefit) expense:			
Federal		(197)	89,647
State		(33)	12,603

	-	(230)	102,250
Total	$(297,870)	$44,693	$(43,458)

(1) The current state income tax expense is net of the use of state net operating losses amounting to $0.4 million, $0.1 million, and $1.1 million for the years ended October 31, 2010, 2009, and 2008, respectively.

In 2010, we recorded a tax benefit of $297.9 million. During fiscal 2010, the Company was able to carryback its 2009 federal net operating loss five years to previously profitable years that were not available to the Company for carryback prior to the Worker, Homeownership, and Business Assistance Act of 2009, which was signed by President Obama on November 6, 2009. We recorded the benefit for the carryback of $291.3 million in the first quarter of fiscal 2010. The remaining tax benefit for the twelve months ended October 31, 2010 was primarily due to the reversal of reserves for uncertain tax positions where the statute of limitations for those items has lapsed. We received $274.1 million of the federal income tax refund in the second quarter of 2010 and received the remaining $17.2 million in the first quarter of fiscal 2011.

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

In accordance with ASC 740, as described in Note 3, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more-likely-than-not" standard. Given the continued downturn in the homebuilding industry during 2008, 2009, and 2010, resulting in additional inventory and intangible impairments, we are in a three-year cumulative loss position as of October 31, 2010. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable, and in this circumstance, the Company does not rely on projections of future taxable income to support the recovery of deferred tax assets.

During 2010, we reduced the valuation allowance by $176.6 million against our deferred tax assets. Our valuation allowance decreased to $811.0 million at October 31, 2010 from $987.6 million at October 31, 2009 primarily due to the impact of the federal net operating loss carryback recorded in the first quarter of 2010, partially offset by additional reserves recorded for the federal tax benefit generated from the losses during fiscal 2010. Our state net operating losses of approximately $2.0 billion expire between 2011 and 2030. Our federal net operating losses of $904.9 million expire in 2030.

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

	Year Ended October 31,	
(In thousands)	2010	2009
Deferred tax assets:		
Association subsidy reserves	$1,115	$515
Depreciation	169	
Inventory impairment loss	346,464	385,232
Uniform capitalization of overhead	6,165	6,750
Warranty, legal and bonding reserves	28,985	21,515
Deferred income	1,581	1,493
Acquisition intangibles	47,253	54,112
Restricted stock bonus	9,422	9,399
Rent on abandoned space	8,485	9,453
Stock options	2,508	1,908

Provision for losses	31,824	33,060
Joint venture loss	14,815	18,115
Federal net operating losses	316,710	468,129
State net operating losses	157,890	141,985
Other	7,062	764
Total deferred tax assets	980,448	1,152,430
Deferred tax liabilities:		
Rebates and discounts	5,852	6,186
Depreciation		1,086
Acquisition intangibles	243	182
Debt repurchase income	162,934	157,039
Other	372	378
Total deferred tax liabilities	169,401	164,871
Valuation allowance	(811,047)	(987,559)
Net deferred income taxes	$-	$-

-Active.12254502.6

The effective tax rates varied from the statutory federal income tax rate. The effective tax rate is affected by a number of factors, the most significant of which is the valuation allowance recorded against our deferred tax assets. The sources of these factors were as follows:

	Year Ended October 31,		
	2010	2009	2008
Computed "expected" tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	(0.3)	(1.0)	(0.1)
Permanent differences, net	1.2	(1.0)	(0.1)
Deferred tax asset valuation allowance impact	65.2	(39.8)	(30.9)
Other	(0.2)	0.1	(0.2)
Effective tax rate	100.9%	(6.7)%	3.7%

ASC 740-10 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740-10 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We recognize tax liabilities in accordance with ASC 740-10 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 of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

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

The following is a tabular reconciliation of the total amount of unrecognized tax benefits for the year (in millions) excluding interest and penalties:

	2010	2009
Unrecognized tax benefit—November 1,	$42.1	$15.9
Gross increases—tax positions in prior period		28.0
Settlements	(14.0)	
Lapse of statute of limitations	(5.1)	(1.8)
Unrecognized tax benefit—October 31,	$23.0	$42.1

Related to the unrecognized tax benefits noted above, we, as of October 31, 2010 and 2009, have recognized a liability for interest and penalties of $20.8 million and $24.0 million, respectively. For the years ended October 31, 2010, 2009 and 2008, we recognized $(3.2) million, $17.9 million and $1.4 million, respectively, of interest and penalties in income tax benefit/provision.

It is likely that, within the next twelve months, the amount of the Company's unrecognized tax benefits will decrease by approximately $5.6 million, excluding penalties and interest. This amount is primarily due to the expiration of statutes of limitation and resolution of an audit. The total amount of unrecognized tax benefits that, if recognized, would affect the Company’s effective tax rate (excluding any related impact to the valuation allowance) is $23.0 million and $25.3 million as of October 31, 2010 and 2009, respectively. The recognition of unrecognized tax benefits could have an impact on the Company’s deferred tax assets and the valuation allowance.

The examination by the Internal Revenue Service for the year ended October 2007 is final as is the related Joint Committee review for all NOL carrybacks. There are no open federal audits at this time. We are however, subject to various income tax examinations in the states in which we do business. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit, appeal, and in some cases, litigation process. As each audit is concluded, adjustments, if any, are appropriately recorded in the period determined. To provide for potential exposures, tax reserves are recorded, if applicable, based on reasonable estimates of potential audit results. However, if the reserves are insufficient upon completion of an audit, there could be an adverse impact on our financial position and results of operations. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2006 – 2009.

13. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the year ended October 31, 2010, our discount rates used for the impairments recorded range from 17.3% 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. We recorded impairment losses, which are included in the Consolidated Statements of Operations and deducted from inventory, of $122.5 million, $614.1 million, and $596.0 million for the years ended October 31, 2010, 2009, and 2008, respectively.

The following table represents impairments by segment for fiscal 2010, 2009, and 2008:

(Dollars in millions)	Year Ended October 31, 2010		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value $
Northeast	14	$72.2	$156.5
Mid-Atlantic	8	3.4	7.1
Midwest	15	4.6	8.2
Southeast	21	2.2	8.0
Southwest	6	0.9	10.8
West	19	39.2	62.8
Total	83	$122.5	$253.4

(Dollars in millions)	Year Ended October 31, 2009		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value $
Northeast	33	$244.7	$502.6
Mid-Atlantic	55	48.5	148.1

Midwest	11	6.5	19.5
Southeast	101	40.5	116.5
Southwest	46	36.8	90.2
West	67	237.1	450.8
Total	313	$614.1	$1,327.7

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

The Consolidated Statements of Operations line entitled "Homebuilding-Inventory impairment loss and land option write-offs" also includes write-offs of options, and approval, engineering and capitalized interest costs that we record when we redesign communities and/or abandon certain engineering costs and we do not exercise options in various locations because the communities' pro forma profitability is not projected to produce adequate returns on investment commensurate with the risk. The total aggregate write-offs were $13.2 million, $45.4 million, and $114.1 million for the years ended October 31, 2010, 2009, and 2008, respectively. Occasionally, these write-offs are offset by recovered deposits (sometimes through legal action) that had been written off in a prior period as walk-away costs. These recoveries have not been significant in comparison to the total costs written off.

The following table represents write-offs of such costs by segment for fiscal 2010, 2009, and 2008:

	Year Ended October 31,		
(In millions)	2010	2009	2008
Northeast	$4.5	$14.1	$20.7
Mid-Atlantic	8.9	10.7	45.6
Midwest	0.0	1.4	0.7
Southeast	(0.6)	4.3	32.2
Southwest	0.3	14.3	10.4
West	0.1	0.6	4.5
Total	$13.2	$45.4	$114.1

14. Transactions with Related Parties

During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately $31.1 million from an entity that is owned by Hirair Hovnanian, a family relative of our Chairman of the Board and Chief Executive Officer. As of October 31, 2010, we have an option deposit of $3.1 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated $8.8 million in accordance with ASC 810-10 under "Consolidated inventory not owned" in the Consolidated Balance Sheets. Neither the Company nor the Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land from an entity that is owned by Hirair Hovnanian, a family relative of our Chairman of the Board and Chief Executive Officer, totaling

$26.9 million. As of October 31, 2008, all of this property has been purchased, and during fiscal 2008, the Company delivered the remaining four lots that were in inventory. Neither the Company nor the Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the years ended October 31, 2010, 2009, and 2008, an engineering firm owned by Tavit Najarian, a relative of our Chairman of the Board and Chief Executive Officer, provided services to the Company totaling $1.3 million, $1.7 million, and $2.6 million, respectively. Neither the Company nor Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the services were provided.

During the year ended October 31, 2010, a real estate development firm owned by Mazin Kalian, a relative of our Chairman of the Board and Chief Executive Officer, provided consulting services to the Company totaling $0.2 million including significant travel related expenses. The consulting services consisted primarily of negotiations, community design and cost analysis on a potential joint venture.

In December 2005, we entered into an agreement to purchase land in New Jersey from an entity that is owned by Hirair Hovnanian, a family relative of our Chairman of the Board and Chief Executive Officer at a base price of $25 million. The land was to be acquired in four phases over a period of three years from the date of acquisition of the first phase. On June 11, 2008, the parties amended the purchase agreement and closed title to 43 of the 86 lots in phase one. The purchase of the balance of phase one was deferred, but such purchase must occur simultaneously with the scheduled closing of phase four. The purchase prices for all phases are subject to an increase in the purchase price of the phase of not less than 7% per annum from February 1, 2008; a deposit in the amount of $500,000 has been made by the Company. On November 12, 2009, the parties closed title to 83 lots located in phase two. On June 22, 2010, the parties closed title to 88 lots located in phase three. As of October 31, 2010 there are 137 lots remaining to be purchased in phase four. Neither the Company nor the Chairman of the Board and Chief Executive Officer has or had a financial interest in the relatives' company from whom the land is being purchased.

15. Stock Plans

We have a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors (the Committee) or its delegee in accordance with the stock option plan. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 and before June 8, 2007 generally vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. Options granted on or after June 8, 2007 generally vest in four equal installments on the second, third, fourth and fifth anniversaries of the date of the grant. Certain Southeast Region associates were granted and held options to purchase the stock from the acquired company prior to the January 23, 2001 acquisition. These options vest in three installments: 25% on the first and second anniversary and 50% on the third anniversary of the date of the grant. In connection with the acquisition, the options were exchanged for options to purchase the Company's Class A Common Stock. All options expire 10 years after the date of the grant. During the year ended October 31, 2010, each of the five outside directors of the Company was granted options to purchase between 21,000 and 33,000 shares. All shares granted to the outside directors were issued at the same price and terms as those granted to officers and key employees, except the outside directors' options vest in three equal installments on the first, second and third anniversaries of the date of the grant. Stock option transactions are summarized as follows:

	October 31, 2010	Weighted-Average Exercise Price	October 31, 2009	Weighted-Average Exercise Price	October 31, 2008	Weighted-Average Exercise Price
Options outstanding at beginning of period	5,774,767	$9.42	6,959,205	$21.17	6,285,330	$23.43
Granted	1,132,750	$4.73	1,871,313	$2.55	1,128,875	$6.46
Exercised	348,000	$2.86	150,000	$3.00	265,000	$4.53

Forfeited	242,657	$15.33	337,500	$16.45	190,000	$23.46
Cancellations			2,528,251	$36.83		
Expired			40,000	$4.13		
Options outstanding at end of period	6,316,860	$8.72	5,774,767	$9.42	6,959,205	$21.17
Options exercisable at end of period	2,519,600		2,472,324		2,918,835	

The total intrinsic value of options exercised during fiscal 2010, 2009, and 2008 was $0.5 million, $0.2 million and $1.6 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The intrinsic value of 43,000 of the 2,519,600 options outstanding and exercisable at October 31, 2010, was $0.1 million. The remaining options outstanding and exercisable had no intrinsic value. Exercise prices for options outstanding at October 31, 2010 ranged from $2.55 to $60.36.

The weighted-average fair value of grants made in fiscal 2010, 2009, and 2008 was $3.77, $1.84, and $3.35 per share, respectively. The weighted-average fair value of options vested in fiscal 2010, 2009, and 2008 was $8.58, $18.98, and $15.52 per share, respectively.

-Active.12254502.6

The following table summarizes the exercise price range and related number of options outstanding at October 31, 2010:

Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
\$1.84 – \$5.00	2,867,313	\$3.40	9.06
\$5.01 – \$10.00	1,880,375	\$6.18	4.39
\$10.01 – \$20.00	884,704	\$15.90	1.98
\$20.01 – \$30.00	346,438	\$21.69	6.59
\$30.01 – \$40.00	283,030	\$32.54	4.72
\$40.01 – \$50.00	10,000	\$41.45	3.25
\$50.01 – \$60.00	40,000	\$55.05	4.40
\$60.01 – \$70.00	5,000	\$60.36	4.67
	6,316,860	\$8.72	6.30

The following table summarizes the exercise price range and related number of exercisable options at October 31, 2010:

Range of Exercise Prices	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
\$1.84 – \$5.00	43,000	\$2.55	8.67
\$5.01 – \$10.00	1,165,171	\$6.00	2.38
\$10.01 – \$20.00	884,704	\$15.90	1.98
\$20.01 – \$30.00	179,192	\$21.75	6.53
\$30.01 – \$40.00	203,784	\$32.62	4.38
\$40.01 – \$50.00	10,000	\$41.45	3.25
\$50.01 – \$60.00	30,000	\$55.05	4.40
\$60.01 – \$70.00	3,750	\$60.36	4.67
	2,519,600	\$13.50	3.58

A summary of the Company’s nonvested options as of and for the year ended October 31, 2010, is as follows:

	Options	Grant Date Fair Value
Nonvested at beginning of period	3,302,443	\$10.60
Granted	1,132,750	\$3.77
Vested	(442,035)	\$8.58
Forfeited	(195,898)	\$11.83
Nonvested at end of period	3,797,260	\$3.57

For certain associates in certain years, a portion of their bonus is paid by issuing a deferred right to receive our common stock. The number of shares is calculated for each bonus year by dividing the portion of the bonus subject to the deferred right award by our average stock price for the year or the stock price at year-end, whichever is lower.

Twenty-five percent of the deferred right award will vest and shares will be issued one year after the year end and then 25% a year for the next three years. Participants with 20 years of service or over 58 years of age vest immediately. During the years ended October 31, 2010 and 2009, we issued 192,128 and 375,578 shares under the plan. During the years ended October 31, 2010 and 2009, 43,490 and 160,250 shares were forfeited under this plan, respectively. For the year ended 2008, approximately 1,289,937 rights were awarded in lieu $5.5 million of bonus payments. For the years ended October 31, 2010 and 2009 no rights in lieu of bonus payments were awarded. For the years ended October 31, 2010, 2009 and 2008, total compensation cost recognized in the Consolidated Statement of Operations for these deferred compensation awards and other nonvested share awards was $3.7 million, $8.2 million and $12.1 million, respectively. In addition to nonvested share awards summarized in the following table, there were 1,100,250 shares of vested restricted stock at October 31, 2010 and 2009, which were deferred at the associates' election.

A summary of the Company’s nonvested share awards as of and for the year ended October 31, 2010, is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at beginning of period	1,061,065	$11.75
Granted	3,236,683	$4.73
Vested	(332,032)	$10.82
Forfeited	(57,757)	$9.45
Nonvested at end of period	3,907,959	$6.05

Included in the above table are restricted stock awards for a long term incentive plan for certain associates, which is a performance based plan. The awards included above for this plan are based on our current best estimate of the outcome for the performance criteria.

As of October 31, 2010, we have 0.8 million shares authorized for future issuance under our equity compensation plans. In addition, as of October 31, 2010, there was $36.2 million of total unrecognized compensation costs related to nonvested share based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.56 years.

During fiscal 2009, the Chief Executive Officer, Chief Financial Officer, each of the nonexecutive members of the Board of Directors and other senior executives of the Company 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). In fiscal 2009, the Company recorded compensation expense related to the cancellation of stock options of $15.7 million in “Corporate general and administrative” on the Consolidated Statements of Operations.

16. Warranty Costs

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

We 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 2010 and 2009, our deductible under our general liability insurance is $20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in 2010 is $0.1 million up to a $5 million limit. For bodily injury claims in 2009, our deductible was $20 million. Our aggregate retention in 2010 and 2009 is $21 million for construction defect and warranty claims, and $20 million for bodily injury claims. Additions and charges in the warranty reserve and general liability reserve for the years ended October 31, 2010 and 2009 are as follows:

	Year Ended October 31,	
(In Thousands)	2010	2009
Balance, beginning of year	$127,869	$125,738
Additions during year	37,605	54,180
Charges incurred during year	(40,206)	(52,049)
Balance, end of year	$125,268	$127,869

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

Insurance claims paid by our insurance carriers were $23.9 million and $30.8 million for the years ended October 31, 2010 and 2009, respectively, for prior year deliveries.

17. Commitments and Contingent Liabilities

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

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

As previously reported in the Company’s 10-Q for the quarters ended January 31, 2010, April 30, 2010 and July 31, 2010, the Company was engaged in discussions with the U. S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively the States). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we have paid a fine of $1.0 million collectively to the United States and the States named above and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations.

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:

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's subsidiary filed a Motion to Dismiss this second amended complaint. The Court dismissed portions of the second amended complaint. The Court dismissed additional portions of the second amended complaint on April 28, 2010. We have had negotiations with the plaintiffs recently to settle this case. Based on these negotiations we have accrued an immaterial amount for the potential settlement based on our assessment of the outcome. However, our assessment of the potential outcome may differ from the ultimate resolution of this matter.

18. Variable Interest Entities

Per ASC 810-10, 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 ASC 810-10, 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 ASC 810-10, we have concluded that whenever we option land or lots from an entity and pay a nonrefundable deposit, a VIE is created under condition (ii) (b) and (c) of the previous paragraph. We have been deemed to have provided subordinated financial support, which refers to variable interests that will absorb some or all of an entity's expected theoretical losses if they occur. For each VIE created with a significant nonrefundable option fee (we currently define significant as greater than $100,000 because we have determined that in the aggregate the VIEs related to deposits of this size or less are not material), we compute expected losses and residual returns based on the probability of future cash flows as outlined in ASC 810-10. 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 nonrefundable 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 the decision to exercise the option.

Management believes the accounting guidance for VIEs was not clearly thought out for application in the homebuilding industry for land and lot options, as we can have an option and put down a small deposit as a percentage of the purchase price and still have to consolidate the entity. Our exposure to loss as a result of our involvement with the VIE is only the deposit, not its total assets consolidated on 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 October 31, 2010, all seven VIEs we were required to consolidate were as a result of our options to purchase land or lots from the selling entities. We have cash deposits to these VIEs totaling $5.4 million as of October 31, 2010. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIEs as of the date of consolidation was $32.7 million. Because we do not own an equity interest in any of the unaffiliated VIEs that we must consolidate pursuant to ASC 810-10, 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 funded the acquisition of the property with debt and the only asset recorded is the land or lots we have the option to buy with a related offset for the assumed third party financing of the variable interest entity. At October 31, 2010, the balance reported in liabilities from inventory not owned was $27.3 million. Creditors of these seven VIEs have no recourse against us.

We will continue to secure land and lots using options. Including the deposits with the seven VIEs above, at October 31, 2010, we have total cash and letters of credit deposits amounting to approximately $36.3 million to purchase land and lots with a total purchase price of $766.4 million. Not all our deposits are with VIEs. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met.

In June 2009, the FASB issued an update to ASC 10, which amends the existing quantitative guidance used in determining the primary beneficiary of a VIE by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE 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 was effective for us on November 1, 2010. We expect the adoption of SFAS 167 to result in the deconsolidation of all VIEs currently consolidated and a reduction in the amount of consolidated inventory not owned and corresponding liabilities from inventory not owned in our consolidated financial statements, which is not expected to have a material impact on our consolidated financial statements.

19. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

We enter into homebuilding and land development joint ventures from time to time as a means of accessing lot positions, expanding our market opportunities, establishing strategic alliances, managing our risk profile, leveraging our capital base and enhancing returns on capital. Our homebuilding joint ventures are generally entered into with third-party investors to develop land and construct homes that are sold directly to third-party homebuyers. Our land development joint ventures include those 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.

	October 31, 2010		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$17,538	$161	$17,699
Inventories	247,790	73,864	321,654
Other assets	20,321	-	20,321
Total assets	285,649	74,025	359,674
Liabilities and equity:			
Accounts payable and accrued liabilities	$19,076	$17,266	$36,342
Notes payable	159,715	36,791	196,506
Total liabilities	178,791	54,057	232,848
Equity of:			
Hovnanian Enterprises, Inc.	29,208	2,510	31,718
Others	77,650	17,458	95,108
Total equity	$106,858	$19,968	$126,826
Total liabilities and equity	$285,649	$74,025	$359,674
Debt to capitalization ratio	60%	65%	61%

	October 31, 2009		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$22,502	$1,539	$24,041
Inventories	281,556	83,833	365,389
Other assets	25,889	87	25,976
Total assets	$329,947	$85,459	$415,406
Liabilities and equity:			
Accounts payable and accrued liabilities	$19,236	$17,108	$36,344
Notes payable	193,567	40,051	233,618
Total liabilities	212,803	57,159	269,962
Equity of:			
Hovnanian Enterprises, Inc.	32,183	9,068	41,251
Others	84,961	19,232	104,193
Total equity	117,144	28,300	145,444
Total liabilities and equity	$329,947	$85,459	$415,406
Debt to capitalization ratio	62%	59%	62%

As of October 31, 2010 and 2009, we had advances outstanding of approximately $13.5 and $11.5 million to these unconsolidated joint ventures, which were included in the "Accounts payable and accrued liabilities" balances in the table above. On our Consolidated Balance Sheets, our "Investments in and advances to unconsolidated joint ventures" amounted to $38.0 million and $41.3 million at October 31, 2010 and 2009, 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. Impairments of joint venture investments are recorded at fair value while impairments recorded in the joint venture are recorded when undiscounted cash flows trigger the impairment. During fiscal 2009 and 2008, we wrote down certain joint venture investments by $26.4 million and $11.3 million, respectively, based on our determination that the investment in these joint ventures has sustained an other than temporary impairment. During fiscal 2010, we did not write-down any joint venture investments.

	October 31, 2010		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Revenues	$137,073	$19,307	$156,380

Cost of sales and expenses	(135,878)	(21,260)	(157,138)
Joint venture net income (loss)	1,195	(1,953)	(758)
Our share of net income	$683	$469	$1,152

	October 31, 2009		
(Dollars In Thousands)	Homebuilding	Land Development	Total
Revenues	$117,725	$13,626	$131,351
Cost of sales and expenses	(231,751)	(18,367)	(250,118)
Joint venture net loss	(114,026)	(4,741)	(118,767)
Our share of net loss	$(24,279)	$(2,252)	$(26,531)

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

Income (loss) from unconsolidated joint ventures is reflected as a separate line in the accompanying Consolidated Statements of Operations and reflects our proportionate share of the income (loss) of these unconsolidated homebuilding and land development joint ventures. The difference between our share of the income (loss) from these unconsolidated joint ventures disclosed in the tables above compared to the 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 operations and capital decisions of the partnership, including budgets in the ordinary course of business.

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing, however, our more recently established joint ventures have not obtained any financing, therefore all capital is equity. 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 capitalization ratio of our joint ventures is currently 61%. Financing is obtained on a nonrecourse 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 ASC 810-10 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. (See Note 18).

20. Fair Value of Financial Instruments

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

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

Level 2	Fair value determined using significant other observable inputs.
Level 3	Fair value determined using significant unobservable inputs.

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

(In thousands)	Fair Value Hierarchy	Fair Value at October 31, 2010	Fair Value at October 31, 2009
Mortgage loans held for sale (1)	Level 2	$85,358	$65,786
Interest rate lock commitments	Level 2	79	254
Forward contracts	Level 2	(254)	(702)
		$85,183	$65,338

(1) The aggregate unpaid principal balance is $84.1 million and $64.8 million at October 31, 2010 and 2009, respectively.

We elected the fair value option for our loans held for sale for mortgage loans originated subsequent to October 31, 2008 in accordance with ASC 825, which permits us to measure at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the fair value of these servicing rights is included in the Company's loans held for sale as of October 31, 2010. 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 using the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in the Financial Services segment's earnings (loss). The changes in fair values that are included in earnings (loss) are shown, by financial instrument and financial statement line item, below:

	Year Ended October 31, 2010		
(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	$326	$(175)	$448

	Year Ended October 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	$(414)	$(162)	$650

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the year ended October 31, 2010. The assets measured at fair value on a nonrecurring basis are all within the Company's homebuilding operations and summarized below:

Nonfinancial Assets
(In thousands)

			Year Ended October 31, 2010	
	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	$100,524	$(45,082)	$55,442
Land and land options held for future development or sale	Level 3	$152,596	$(77,411)	$75,185

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the year ended October 31, 2010, our discount rates used for the impairments recorded ranged from 17.3% 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. We recorded inventory impairments, which are included in the Consolidated Statements of Operations as “Inventory impairment loss and land option write-offs” and deducted from Inventory of $122.5 million, $614.1 million and $596.0 million for the years ended October 31, 2010, 2009 and 2008, respectively.

The Financial Services segment had a pipeline of loan applications in process of $205 million at October 31, 2010. Loans in process for which interest rates were committed to the borrowers totaled approximately $32.9 million as of October 31, 2010. 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 October 31, 2010, the segment had open commitments amounting to $25.5 million to sell MBS with varying settlement dates through November 18, 2010.

Our financial instruments consist of cash and cash equivalents, restricted cash, receivables, deposits and notes, accounts payable and other liabilities, customers’ deposits, mortgage loans held for sale, nonrecourse land and operating properties mortgages, letter of credit agreements and facilities, mortgage warehouse lines 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 $830.7 million, $515.6 million and $113.6 million, respectively, as of October 31, 2010 and $788.2 million, $603.5 million and $113.3 million, respectively, as of October 31, 2009. The fair value of our other financial instruments approximates their recorded values.

21. Financial Information of Subsidiary Issuer and Subsidiary Guarantors

Hovnanian Enterprises, Inc., the parent company (the “Parent”), is the issuer of publicly traded common stock and preferred stock, which is 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 October 31, 2010, had issued and outstanding approximately $797.2 million of senior secured notes ($784.6 million, net of discount), $713.2 million senior notes ($711.6 million, net of discount), and $120.2 million senior subordinated notes. The senior secured notes, senior notes, and senior subordinated notes are fully and unconditionally guaranteed by the Parent.

In addition to the Parent, each of the wholly owned subsidiaries of the Parent other than the Subsidiary Issuer (collectively, the “Guarantor Subsidiaries”), with the exception of certain of our financial service subsidiaries, joint ventures, subsidiaries holding interests in our joint ventures and our foreign subsidiary (collectively, the “Nonguarantor Subsidiaries”), have guaranteed fully and unconditionally, on a joint and several basis, the obligations of the Subsidiary Issuer to pay principal and interest under the senior secured notes, senior notes, and senior subordinated notes.

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, we have included the accompanying consolidating condensed financial statements. Management does not believe that separate financial statements of the Guarantor Subsidiaries are material to users of our consolidated financial statements. Therefore, separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented.

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

-Active.12254502.6

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2010

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$14,498	$334,551	$1,165,877	$200,839	$	$1,715,765
Financial services			4,435	97,360		101,795
Investments in and amounts due to and from consolidated subsidiaries	(330,310)	2,061,186	(2,202,568)	148,845	322,847	-
Total assets	$(315,812)	$2,395,737	$(1,032,256)	$447,044	$322,847	$1,817,560
Liabilities and equity:						
Homebuilding	$1,458	$	$401,567	$4,463	$	$407,488
Financial services			4,271	85,514		89,785
Notes payable		1,640,144	171			1,640,315
Income taxes payable	21,298		(3,388)			17,910
Stockholders' (deficit) equity	(338,568)	755,593	(1,434,877)	356,437	322,847	(338,568)
Non-controlling interest in consolidated joint ventures				630		630
Total liabilities and equity	$(315,812)	$2,395,737	$(1,032,256)	$447,044	$322,847	$1,817,560

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2009

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$14,752	$449,096	$1,285,699	$190,750	$	$1,940,297
Financial services			5,885	78,395		84,280
Investments in and amounts due to and from consolidated subsidiaries	(308,706)	2,067,571	(1,573,827)	(209,735)	24,697	-
Total assets	$(293,954)	$2,516,667	$(282,243)	$59,410	$24,697	$2,024,577
Liabilities and equity:						
Homebuilding	$	$469	$454,718	$7,761	$	$462,948
Financial services			5,651	64,713		70,364
Notes payable		1,777,658	121			1,777,779
Income taxes payable	55,644		6,710			62,354
Stockholders' (deficit) equity	(349,598)	738,540	(749,443)	(13,794)	24,697	(349,598)
				730		730

Non-controlling interest in consolidated joint ventures						
Total liabilities and equity	$(293,954)	$2,516,667	$(282,243)	$59,410	$24,697	$2,024,577

-Active.12254502.6

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED OCTOBER 31, 2010

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$20	$(350)	$1,340,887	$4,272	$(4,960)	$1,339,869
Financial services			6,353	25,620		31,973
Intercompany charges		128,383	(190,616)	(228)	62,461	-
Total revenues	20	128,033	1,156,624	29,664	57,501	1,371,842
Expenses:						
Homebuilding	8,638	173,709	1,473,481	(11,332)	25,557	1,670,053
Financial services	505		5,182	17,905	(518)	23,074
Total expenses	9,143	173,709	1,478,663	6,573	25,039	1,693,127
Gain on extinguishment of debt		25,047				25,047
(Loss) income from unconsolidated joint ventures			(1,023)	1,979		956
(Loss) income before income taxes	(9,123)	(20,629)	(323,062)	25,070	32,462	(295,282)
State and federal income taxes	(309,922)		12,052			(297,870)
Equity in (loss) income from subsidiaries	(298,211)				298,211	-
Net income (loss)	$2,588	$(20,629)	$(335,114)	$25,070	$330,673	$2,588

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED OCTOBER 31, 2009

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$19	$3,438	$1,560,198	$2,044	$(4,959)	$1,560,740
Financial services			7,743	27,807		35,550
Intercompany charges		209,599	(251,402)	(3,597)	45,400	-
Total revenues	19	213,037	1,316,539	26,254	40,441	1,596,290
Expenses:						
Homebuilding	26,309	632,640	1,954,821	1,231	(11,843)	2,603,158
Financial services	639		6,570	22,635	(549)	29,295
Total expenses	26,948	632,640	1,961,391	23,866	(12,392)	2,632,453
Gain on extinguishment of debt		409,929	256			410,185
Loss from unconsolidated joint ventures			(9,782)	(36,259)		(46,041)
(Loss) income before income taxes	(26,929)	(9,674)	(654,378)	(33,871)	52,833	(672,019)
State and federal income taxes	44,693	(3,386)	50,932	(11,919)	(35,627)	44,693
Equity in (loss) income from subsidiaries	(645,090)				645,090	-
Net (loss) income	$(716,712)	$(6,288)	$(705,310)	$(21,952)	$733,550	$(716,712)

-Active.12254502.6

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

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

-Active.12254502.6

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2010

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$2,588	$(20,629)	$(335,114)	$25,070	$330,673	$2,588
Adjustments to reconcile net income to net cash (used in) provided by operating activities	(24,192)	47,439	4,978	332,347	(330,673)	29,899
Net cash (used in) provided by operating activities	(21,604)	26,810	(330,136)	357,417	-	32,487
Net cash used in investing activities			(1,146)	1,130		(16)
Net cash (used in) provided by financing activities		(113,232)	3,463	17,786		(91,983)
Intercompany investing and financing activities - net	21,604	6,385	330,591	(358,580)		-
Net (decrease) increase in cash	-	(80,037)	2,772	17,753	-	(59,512)
Cash and cash equivalents balance, beginning of period	10	292,407	(15,584)	149,859		426,692
Cash and cash equivalents balance, end of period	$10	$212,370	$(12,812)	$167,612	$-	$367,180

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2009

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$(716,712)	$(6,288)	$(705,310)	$(21,952)	$733,550	$(716,712)
Adjustments to reconcile net income to net cash (used in) provided by operating activities	(197,982)	(542,328)	2,158,974	1,870	(733,550)	686,984
Net cash (used in) provided by operating activities	(914,694)	(548,616)	1,453,664	(20,082)	-	(29,728)
Net cash (used in) investing activities			(6,310)	(13,597)		(19,907)
Net cash (used in) financing activities		(340,427)	(2,368)	(28,934)		(371,729)
Intercompany investing and financing activities - net	914,687	334,955	(1,444,620)	194,978	-	-
Net (decrease) increase in cash	(7)	(554,088)	366	132,365	-	(421,364)

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	$292,407	$(15,584)	$149,859	$ -	$426,692

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

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

22. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 2010 and 2009, is as follows:

	Three Months Ended			
(In Thousands Except Per Share Data)	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010
Revenues	$353,012	$380,600	$318,585	$319,645
Expenses	406,725	415,868	362,987	371,848
Inventory impairment loss and land option write-offs	80,588	48,959	1,186	4,966
Gain on extinguishment of debt		5,256	17,217	2,574
Income (loss) from unconsolidated joint ventures	1,809	(871)	391	(373)
Loss before income taxes	(132,492)	(79,842)	(27,980)	(54,968)
State and federal income tax (benefit) provision	(379)	(6,988)	654	(291,157)
Net (loss) income	$(132,113)	$(72,854)	$(28,634)	$236,189
Per share data:				
Basic:				
(Loss) income per common share	$(1.68)	$(0.92)	$(0.36)	$3.01
	78,779	78,763	78,668	78,553

Weighted-average number of common shares outstanding				
Assuming dilution:				
(Loss) income per common share	$(1.68)	$(0.92)	$(0.36)	$2.97
Weighted-average number of common shares outstanding	78,779	78,763	78,668	79,536

-Active.12254502.6

	Three Months Ended			
(In Thousands Except Per Share Data)	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009
Revenues	$437,393	$387,114	$397,999	$373,784
Expenses	522,788	465,492	486,338	498,360
Inventory impairment loss and land option write-offs	137,970	101,130	310,194	110,181
(Loss) gain on extinguishment of debt	(17,619)	37,016	311,268	79,520
Loss from unconsolidated joint ventures	(7,821)	(5,537)	(10,094)	(22,589)
Loss before income taxes	(248,805)	(148,029)	(97,359)	(177,826)
State and federal income tax provision	1,964	20,883	21,262	584
Net loss	$(250,769)	$(168,912)	$(118,621)	$(178,410)
Per share data:				
Basic and assuming dilution:				
Loss per common share	$(3.21)	$(2.16)	$(1.50)	$(2.29)
Weighted average number of common shares outstanding	78,067	78,065	79,146	78,043

23. Subsequent Events

On December 22, 2010, we entered into a joint venture agreement to acquire a portfolio of homebuilding projects. The venture intends to design, sell, and deliver homes on the properties, which are located on approximately 400 lots across two communities in California and one community in Virginia.

We will be contributing 26% of the approximately $75 million of capital that will be invested in the joint venture. We will manage the day-to-day operations of the venture. If certain financial targets are met, we will receive a promoted share of the cash returns from the venture.

-Active.12254502.6

Exhibit 23 (a)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated January 25, 2011, relating to the consolidated financial statements of Hovnanian Enterprises, Inc. and subsidiaries, and the effectiveness of Hovnanian Enterprises, Inc.'s internal control over financial reporting appearing in this Amendment No. 1 to the Annual Report on Form 10-K/A of Hovnanian Enterprises, Inc. for the year ended October 31, 2010.

1. Registration Statements Nos. 333-113758, 333-106756, and 333-92977 on Form S-8 pertaining to the Amended and Restated 2008 Stock Incentive Plan (which superseded and replaced the 1999 Stock Incentive Plan), and Senior Executive Short-Term Incentive Plan, as amended and restated, of Hovnanian Enterprises, Inc.,

2. Registration Statement Nos. 333-56972, 033-36098, and 002-92773 on Form S-8 pertaining to the 1983 Stock Option Plan as amended and restated of Hovnanian Enterprises, Inc.;

3. Registration Statement No. 333-56640 on Form S-8 pertaining to the Employee Stock Option Plan of Washington Homes; and

4. Registration Statement No. 333-171349 on Form S-3 of Hovnanian Enterprises, Inc.

/s/Deloitte & Touche LLP

Parsippany, New Jersey
January 25, 2011

-Active.12254502.6

Exhibit 23 (b)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statements (Form S-8 No. 333-113758, Form S-8 No. 333-106756 and Form S-8 No. 333-92977) pertaining to the Amended and Restated 2008 Stock Incentive Plan (which superseded and replaced the 1999 Stock Incentive Plan), and Senior Executive Short-Term Incentive Plan, as amended and restated, of Hovnanian Enterprises, Inc.,

2. Registration Statement (Form S-8 No. 333-56972, Form S-8 No. 033-36098 and Form S-8 No. 002-92773) pertaining to the 1983 Stock Option Plan as amended and restated of Hovnanian Enterprises Inc.,

3. Registration Statement (Form S-8 No. 333-56640) pertaining to the Employee Stock Option Plan of Washington Homes, and

4. Registration Statement No. 333-171349 on Form S-3 of Hovnanian Enterprises, Inc,

of our report dated December 23, 2008, with respect to the consolidated financial statements of Hovnanian Enterprises, Inc. included in this Amendment to the Annual Report (Form 10-K/A) for the year ended October 31, 2010.

/s/Ernst & Young, LLP

New York, New York
January 25, 2011