

HOVNANIAN ENTERPRISES INC
Form 10-K/A
December 20, 2006

**United States
Securities And Exchange Commission**

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

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

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

For the fiscal year ended OCTOBER 31, 2005

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

Commission file number: 1-8551

Hovnanian Enterprises, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)
110 West Front Street, P.O. Box 500, Red Bank, N.J.
(Address of Principal Executive Offices)

22-1851059
(I.R.S. Employer Identification No.)
07701
(Zip Code)

732-747-7800

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

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Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$.01 par value per share	New York Stock Exchange
Depository 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2005 was \$1,821,859,091.

As of the close of business on January 4, 2006, there were outstanding 46,986,873 shares of the Registrant's Class A Common Stock and 14,673,399 shares of its Class B Common Stock.

EXPLANATORY PARAGRAPH

This Annual Report on Form 10-K/A is filed for the purpose of restating Note 10 in the Notes to Consolidated Financial Statements for the years ended October 31, 2005, 2004 and 2003, which includes expanded reportable segment footnote disclosure related to our homebuilding operations. We have restated the accompanying Consolidated Financial Statements to revise our segment disclosures for all periods presented to show six reportable homebuilding segments. The restatement has no impact on our consolidated balance sheets as of October 31, 2005 and 2004, or consolidated statements of income and related income per common share amounts, consolidated statements of cash flows or consolidated statements of stockholders' equity for the years ended October 31, 2005, 2004 and 2003. Conforming and other changes that are responsive to certain disclosure comments, primarily relating to segment reporting, received from the Division of Corporation Finance of the Securities and Exchange Commission, have been made to the Business section in Item 1, Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and our Controls and Procedures discussion in Item 9A of this Form 10-K/A. See Note 10 in the Notes to Consolidated Financial Statements for further information relating to the restatement. This Form 10-K/A has not been updated for events or information subsequent to the date of filing of the original Form 10-K, except in connection with the foregoing.

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Documents Incorporated by Reference:

Part III Those portions of registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of shareholders to be held on March 8, 2006 which are responsive to Items 10, 11, 12, 13 and 14.

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Form 10-K/A
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HOVNANIAN ENTERPRISES, INC.

Part I

Items 1 and 2 Business and Properties

BUSINESS OVERVIEW

We design, construct, market and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company, including unconsolidated joint ventures, we have delivered in excess of 233,000 homes, including 17,783 homes in fiscal 2005. The Company consists of two operating groups: homebuilding and financial services. Our financial services group provides mortgage loans and title services to our homebuilding customers.

We are currently offering homes for sale in 367 communities, excluding unconsolidated joint ventures, in 40 markets in 17 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 \$49,000 to \$1,988,000 with an average sales price, including options, of \$318,000 in fiscal 2005.

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 a new division in the Minneapolis/St. Paul, Minnesota market.

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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 Lauderdale market through the acquisition of First Home Builders of Florida, and the Cleveland, Ohio market through the acquisition of Oster Homes.

Hovnanian markets and builds homes that are constructed in 32 of the nation s top 75 housing markets. We segregate our homebuilding business geographically into six segments, which are the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West.

GEOGRAPHIC BREAKDOWN OF MARKETS BY HOMEBUILDING SEGMENT

Northeast: New Jersey, New York, Pennsylvania

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

Midwest: Illinois, Michigan, Minnesota, Ohio

Southeast: Florida, North Carolina, South Carolina

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Southwest: Arizona, Texas

West: California

We employed approximately 6,084 full-time associates as of October 31, 2005.

Our Corporate offices are located at 10 Highway 35, P. O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732)747-7800, and our Internet website address is www.khov.com. We make available through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Copies of the Company's Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request.

BUSINESS STRATEGIES

The following is a summary of our key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to improve our business, lead to higher profitability for our shareholders and give us a clear advantage over our competitors.

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

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

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

We focus on achieving high return on invested capital. Each new community, whether through organic growth or acquisition, is evaluated based on its ability to meet or exceed internal rate of return requirements. Incentives for both local and senior management are primarily based on the ability to generate returns on capital deployed. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital.

We adhere to a strategy of achieving growth through expansion of our organic operations and through the selected acquisition of other homebuilders with excellent management teams interested in continuing with our Company. In our existing markets, we continue to introduce a broader product array to gain market share and reach a more diverse group of customers. Selective acquisitions have expanded our geographic footprint, strengthened our market share in existing markets and further diversified our product offerings. Integration of acquired companies is a core strength and organic growth after an acquisition is boosted by deployment of our broad product array. To enhance our pattern of geographic diversification, we may also choose to start up new homebuilding operations in selected markets that allow our Company to employ our broad product array to achieve growth and market penetration. Through our presence in multiple geographic markets, our goal is to reduce the effects that housing industry cycles, seasonality and local conditions in any one area may have on our business.

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 accessing 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 third party homebuyers. Our land development joint ventures include those with developers and other homebuilders as well as financial investors to develop finished lots for sale to the joint venture's members or other third

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parties. We also have created the Hovnanian Land Investment Group (HLIG), a wholly owned subsidiary, to identify, acquire, and develop large land parcels for sale to our homebuilding operations or to other homebuilders. HLIG may acquire the property directly or via joint ventures.

In 2005, we entered into a joint venture with affiliates of Blackstone Real Estate Advisors that acquired the right to build and sell homes in the existing residential communities of Town & Country Homes, giving us operations in the greater Chicago, Illinois market and expanding our operations in Florida and Minnesota.

We are committed to becoming a better and more efficient homebuilding company. Over the past few years, our strategies have included testing several initiatives to fundamentally transform our traditional practices used to design, build and sell homes and focus on building better. These performance enhancing initiatives, processes and systems have been successfully used in other manufacturing industries and include implementation of standardized best practice processes, rapid cycle times, vendor consolidation, vendor partnering, co-operative purchasing, distribution, fabrication and installation, and just-in-time material procurement. Other initiatives include standardized home designs that can be deployed in multiple geographic markets with minimal architectural modification.

We seek to expand our financial services operations to better serve all of our homebuyers. Our current mortgage financing and title service operations enhance the profitability and growth of our company.

OPERATING POLICIES AND PROCEDURES

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

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

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

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

Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. As land becomes more scarce, the conditions required by sellers are becoming more stringent.

Design Our residential communities are generally located in suburban areas easily accessible through public and personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics. We strive to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures and colors. Recreational amenities such as swimming pools, tennis courts, club houses 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, in a few cases, we employ general contractors to manage the construction of mid-rise or high-rise buildings. Agreements with subcontractors are generally short term and provide for a fixed price for labor and materials. We rigorously control costs through the use of computerized monitoring systems. Because of the risks involved in speculative building, our general policy is to construct an attached condominium or townhouse building only after signing contracts for the sale of at least 50% of the homes in that building. For our mid-rise and high-rise buildings our general policy is to begin

building after signing contracts for the sale of at least

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40% of the homes in that building. A majority of our single family detached homes are constructed after the signing of a sales contract and mortgage approval has been obtained. This limits the build-up of inventory of unsold homes and the costs of maintaining and carrying that inventory.

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

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

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

Customer Financing We sell our homes to customers who generally finance their purchases through mortgages. During the year ended October 31, 2005, for the markets in which our mortgage subsidiaries originated loans, 10.2% of our homebuyers paid in cash and over 67.2% of our non-cash homebuyers obtained mortgages from one of our wholly-owned mortgage banking subsidiaries or our mortgage joint ventures. Mortgages originated by our wholly-owned mortgage banking subsidiaries are sold in the secondary market within a short period of time.

Code of Ethics For more than 40 years of doing business, we have been committed to sustaining our shareholders' investment through conduct that is in accordance with the highest levels of integrity. Our Code of Ethics is a collection of guidelines and policies that govern broad principles of ethical conduct and integrity embraced by our Company. Our Code of Ethics applies to our principal executive officer, principal financial officer, controller, and all other associates of our company, including our directors and other officers. The Company's Code of Ethics is available on the Company's website at www.khov.com under Investor Relations/Governance/Code of Ethics.

Corporate Governance We also remain committed to our shareholders in fostering sound corporate governance principles. The Company has adopted Corporate Governance Guidelines to 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 staff, together with independent architects, consultants and contractors. Our staff also carries out long-term planning of communities. A residential development generally includes single family detached homes and/or a number of residential buildings containing from two to twenty-four individual homes per building, together with amenities such as recreational buildings, swimming pools, tennis courts and open areas. More recently, we are developing mid-rise and high-rise buildings including some that contain over 300 homes per building.

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Current base prices for our homes in contract backlog at October 31, 2005 range from \$49,000 to \$1,800,000 in the Northeast, from \$125,000 to \$1,300,000 in the Mid-Atlantic, from \$68,000 to \$740,000 in the Midwest, from \$94,000 to \$772,000 in the Southeast, from \$91,000 to \$1,030,000 in the Southwest, and from \$146,000 to \$1,988,000 in the West. Closings generally occur and are typically reflected in revenues within eighteen months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2005 is set forth below:

<i>(Housing Revenue in Thousands)</i>	Housing Revenues	Homes Delivered	Average Price
Northeast	\$ 983,426	2,329	\$ 422,252
Mid-Atlantic	909,458	1,915	\$ 474,913
Midwest	90,131	599	\$ 150,469
Southeast	744,810	3,433	\$ 216,956
Southwest	738,417	3,883	\$ 190,167
West	1,711,413	4,115	\$ 415,896
Consolidated Total	\$ 5,177,655	16,274	\$ 318,155
Unconsolidated Joint Ventures	529,944	1,509	\$ 351,189
Total Including Unconsolidated Joint Ventures	\$ 5,707,599	17,783	\$ 320,958

The value of our net sales contracts, including unconsolidated joint ventures, increased 31% to \$6.4 billion for the year ended October 31, 2005 from \$4.9 billion for the year ended October 31, 2004. This increase was the net result of a 16% increase in the number of homes contracted to 18,738 in 2005 from 16,148 in 2004. By Segment, on a dollar basis, including unconsolidated joint ventures, the Northeast decreased 8%, the Mid-Atlantic increased 55%, the Midwest increased 626%, the Southeast increased 157%, the Southwest increased 25% and the West decreased 4%. Increases were due to increased sales and increased sales prices in all of our regions except in our West, where the number of homes contracted decreased slightly due to timing of opening new communities.

The following table summarizes our active selling communities under development as of October 31, 2005. The contracted not delivered and remaining home sites available in our active communities under development are included in the 121,006 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 Home Sites	Homes Delivered	Contracted Not Delivered(1)	Home Sites Available(2)
Northeast	40	12,173	4,994	1,583	5,596
Mid-Atlantic	70	10,405	3,268	1,381	5,756
Midwest	25	3,689	71	581	3,037
Southeast	78	23,437	8,861	5,997	8,579
Southwest	102	20,664	7,759	1,296	11,609
West	52	16,205	6,920	1,753	7,532
Total	367	86,573	31,873	12,591	42,109

(1) Includes 987 home sites under option.

(2) Of the total remaining home sites available, 2,380 were under construction or completed (including 318 models and sales offices), 24,059 were under option, and 426 were financed through purchase money mortgages.

BACKLOG

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At October 31, 2005 and October 31, 2004, including unconsolidated joint ventures, we had a backlog of signed contracts for 14,931 homes and 7,851 homes, respectively, with sales values aggregating \$5.1 billion and \$2.7 billion, respectively. The majority of our backlog at October 31, 2005 is expected to be completed and closed within the next twelve months. At November 30, 2005 and 2004, our backlog of signed contracts, including unconsolidated joint ventures, was 15,090 homes and 7,972 homes, respectively, with sales values aggregating \$5.2 billion and \$2.8 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 and in the Mid-Atlantic we typically obtain an additional 5% to 10% down payment due 30 to 60 days after signing. The contract may include a financing contingency, which permits the customers to cancel their obligation in the event mortgage financing at prevailing interest rates (including

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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. In markets with significant investor demand, our Company's policy states that sales contracts include an investor restriction on resale of homes for a stipulated time period, if the home is not occupied by the purchaser. 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 income statement, in accordance with our accounting policies, when title to the home is conveyed to the buyer, adequate cash payment has 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, 2005, exclusive of communities under development described above under Residential Development Activities and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities under development are included in the 121,006 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

<i>(Dollars in Thousands)</i>	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value(1)(2)
Northeast:				
Under Option	107	16,690	\$ 1,133,897	\$ 81,540
Owned	24	2,775		274,281
Total	131	19,465		355,821
Mid-Atlantic:				
Under Option	113	14,566	\$ 971,695	39,554
Owned	18	1,942		51,558
Total	131	16,508		91,112
Midwest:				
Under Option	21	3,460	\$ 175,224	9,649
Owned	1	3		699
Total	22	3,463		10,348
Southeast:				
Under Option	73	9,602	\$ 472,659	21,169
Owned	1	3		461
Total	74	9,605		21,630
Southwest:				
Under Option	54	7,067	\$ 217,718	20,635
Owned	3	480		8,197
Total	57	7,547		28,832
West:				
Under Option	48	9,264	\$ 816,834	160,333
Owned	5	454		14,036
Total	53	9,718		174,369
Totals:				
Under Option	416	60,649	\$ 3,788,027	332,880
Owned	52	5,657		349,232
Combined Total	468	66,306		\$ 682,112

(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, 2005, option fees and deposits aggregated approximately \$150.6 million. As of October 31, 2005, we spent an

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additional \$184.7 million in non-refundable predevelopment costs on such properties.

(2) The book value of \$682.1 million is identified on the balance sheet as Inventories land and land options held for future development or sale , and does not include inventory in Poland amounting to \$9.8 million. The book value does include option deposits of \$7.3 million for specific performance options, \$4.3 million for other option deposits, and \$84.5 million for variable interest entity property reported under Consolidated –Inventory Not Owned .

In the Northeast, our objective is to control a supply of land sufficient to meet anticipated building requirements for at least six years. We typically option parcels of unimproved land for development. In our other segments, we either acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a non-recourse purchase agreement. Due to the dwindling supply of improved lots in these segments, we have increasingly been optioning parcels of unimproved land for development.

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CUSTOMER FINANCING

At our communities, on-site personnel facilitate sales by offering to arrange financing for prospective customers through our mortgage subsidiaries. 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.

Our financial services business consists of providing our customers with competitive financing and coordinating and expediting the loan origination transaction through the steps of loan application, loan approval and closing. We originate loans in New Jersey, New York, Pennsylvania, Maryland, Washington D.C., Virginia, West Virginia, North Carolina, South Carolina, Texas, Ohio, Minnesota, Florida, and California. During the year ended October 31, 2005, for the markets in which our mortgage subsidiaries originate loans, approximately 10.2% of our homebuyers paid in cash and over 67.2% of our non-cash homebuyers obtained mortgages from one of our wholly-owned mortgage banking subsidiaries or our mortgage joint ventures.

We customarily sell virtually all of the loans and loan servicing rights that we originate. Loans are sold either individually or in pools to GNMA, FNMA, or FHLMC or against forward commitments to institutional investors, including banks, mortgage banking firms, and savings and loan associations.

COMPETITION

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

REGULATION AND ENVIRONMENTAL MATTERS

General. 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.

Environmental. We are also subject to a variety of local, state and federal statutes, ordinances, rules 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 in certain environmentally sensitive regions or areas.

Conclusion. 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 substantial expenditures for pollution and water quality control, which could have a material adverse effect on our profitability. 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.

COMPANY OFFICES

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 Northeast. We lease approximately 621,000 square feet of space for our other operating divisions located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West.

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Item 3 Legal Proceedings

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; and 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. In addition, in March 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (EPA) requesting information about storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. The amount requested by the EPA to settle the asserted violations at the one project was not material. We have provided the information requested. In November 2005, the EPA requested additional information on some of the same projects. We continue to provide such information. To the extent that the information provided were to lead the EPA to assert violations of state and/or federal regulatory requirements and request injunctive relief and/or civil penalties, we will defend and attempt to resolve such asserted violations.

Our sales and customer financing processes are subject to the jurisdiction of the U. S. Department of Housing and Urban Development (HUD). In connection with the Real Estate Settlement Procedures Act, HUD has recently inquired about our process of referring business to our affiliated mortgage company and has separately requested documents related to customer financing. We have responded to HUD 's inquiries.

At this time, we cannot predict the outcome of the EPA 's or HUD 's reviews or estimate the costs that may be involved in resolving such matters.

In November 2005, we received two notices from the California Regional Water Quality Control Board alleging violations of certain storm water discharge rules and assessing an administrative civil liability of \$0.2 million and \$0.3 million. We do not consider these assessments to be material and are considering our response to the notices.

Item 4 Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year ended October 31, 2005, no matters were submitted to a vote of security holders.

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 480 stockholders of record at January 4, 2006. There is no established public trading market for our Class B Common Stock, which was held by 300 stockholders of record at January 4, 2006. 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, after adjustment for a 2-for-1 stock dividend on March 5, 2004, were as follows for each fiscal quarter during the years ended October 31, 2005 and 2004:

Quarter	Oct. 31, 2005		Oct. 31, 2004	
	High	Low	High	Low
First	\$ 52.24	\$ 38.00	\$ 48.31	\$ 36.51
Second	\$ 59.10	\$ 47.76	\$ 45.17	\$ 35.97
Third	\$ 73.19	\$ 51.11	\$ 36.84	\$ 29.33
Fourth	\$ 71.28	\$ 42.58	\$ 41.60	\$ 31.20

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, approximately \$564.9 million of retained earnings was free of such restrictions at October 31, 2005. We have never paid a cash dividend to common stockholders nor do we currently intend to pay a cash dividend to common stockholders.

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This table provides information with respect to purchases of shares of our Class A Common Stock made by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2005.

Issuer Purchases of Equity Securities (1)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
August 1, 2005 Through August 31, 2005	100,000	\$ 61.45	100,000	1,587,668
September 1, 2005 Through September 30, 2005	100,000	\$ 57.75	100,000	1,487,668
October 1, 2005 Through October 31, 2005				1,487,668
Total	200,000	\$ 59.60	200,000	1,487,668

(1) In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. On March 5, 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. All share information reflects this stock dividend.

No shares of our Class B Common Stock or of our 7.625% Series A Preferred Stock were purchased by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2005.

Item 6 Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data and should be read in conjunction with the financial statements included elsewhere in this Form 10-K. Per common share data and weighted average number of common shares outstanding reflect all stock splits.

Summary Consolidated Income Statement Data (In Thousands, Except Per Share Data)	Year Ended				
	October 31, 2005	October 31, 2004	October 31, 2003	October 31, 2002	October 31, 2001
Revenues	\$ 5,348,417	\$ 4,153,890	\$ 3,201,944	\$ 2,551,106	\$ 1,741,990
Expenses	4,602,871	3,608,909	2,790,339	2,325,376	1,635,636
Income (loss) from unconsolidated joint ventures	35,039	4,791	(87)		
Income before income taxes	780,585	549,772	411,518	225,730	106,354
State and Federal income taxes	308,738	201,091	154,138	88,034	42,668
Net income	471,847	348,681	257,380	137,696	63,686
Less: preferred stock dividends	2,758				
Net income available to common stockholders	\$ 469,089	\$ 348,681	\$ 257,380	\$ 137,696	\$ 63,686

Per Share Data:

Basic:					
Income per common share	\$ 7.51	\$ 5.63	\$ 4.16	\$ 2.26	\$ 1.19

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Weighted average number of common shares outstanding	62,490	61,892	61,920	60,810	53,620
Assuming Dilution:					
Income per common share	\$ 7.16	\$ 5.35	\$ 3.93	\$ 2.14	\$ 1.15
Weighted average number of common shares outstanding	65,549	65,133	65,538	64,310	55,584

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Summary Consolidated**Balance Sheet Data**

<i>(In Thousands)</i>	October 31, 2005	October 31, 2004	October 31, 2003	October 31, 2002	October 31, 2001
Total assets	\$ 4,719,955	\$ 3,156,267	\$ 2,332,371	\$ 1,678,128	\$ 1,064,258
Mortgages, term loans, revolving credit agreements, and notes payable	\$ 271,868	\$ 354,055	\$ 326,216	\$ 215,365	\$ 111,795
Senior notes, and senior subordinated notes	\$ 1,498,739	\$ 902,737	\$ 687,166	\$ 546,390	\$ 396,544
Stockholders' equity	\$ 1,791,357	\$ 1,192,394	\$ 819,712	\$ 562,549	\$ 375,646

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, plus fixed charges, less interest capitalized. Fixed charges consist of all interest incurred plus the amortization of debt issuance costs and bond discount. 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.

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

	Years Ended October 31,				
	2005	2004	2003	2002	2001
Ratio of earnings to fixed charges	7.9	6.3	6.7	4.7	3.1
Ratio of earnings to combined fixed charges and preferred stock dividends	7.6	6.3	6.7	4.7	3.1

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations**Restatement of Notes to Financial Statements**

The discussion in the Results of Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended October 31, 2005, 2004 and 2003 reflects a restatement to contain expanded disclosure of reportable segments in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131. We had historically aggregated our homebuilding operating segments into a single, national reportable segment, but have restated our segment disclosure to include six reportable homebuilding segments for the years ended October 31, 2005, 2004 and 2003 (see Note 10 of the notes to our consolidated financial statements). The restatement has no impact on our consolidated balance sheets as of October 31, 2005 and 2004, or consolidated statements of income and related income per common share amounts, consolidated statements of cash flows or consolidated statements of stockholders' equity for the years ended October 31, 2005, 2004 and 2003.

CRITICAL ACCOUNTING POLICIES

Management believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements:

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

Income Recognition from Home and Land Sales Income from home and land sales is recorded when title is conveyed to the home or land buyer, adequate cash payment has been received and there is no continued involvement.

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

Income Recognition from Mortgage Loans Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

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

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for individuals that are directly related to loan origination. Such deferred fees and costs relating to the closed loans are recognized over the life of the loans as an adjustment of yield or taken into operations upon sale of the loan to a permanent investor.

Inventories Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs 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. For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on discounted future cash flows generated from expected revenue, cost to complete including interest, and selling costs.

Insurance Deductible Reserves For fiscal 2005, our deductible was \$5 million per occurrence for general liability insurance and \$500,000 per occurrence for worker's compensation insurance. For fiscal 2004, our deductible was \$150,000 per occurrence for worker's compensation and general liability insurance. Reserves have been established based upon actuarial analysis of estimated future losses during 2005 and 2004. For fiscal 2006, our deductible increases to \$20 million per occurrence with an aggregate \$20 million for bodily injury and property damage claims, and an aggregate \$20 million for product defect claims under our general liability insurance. Our worker's compensation insurance deductible increases to \$1 million per occurrence for 2006.

Interest Costs related to properties under development are capitalized during the land development and home construction period and expensed as cost of sales interest as the related inventories are sold. Costs related to properties not under development are charged to interest expense separately in the Consolidated Statements of Income.

Land Options Costs are capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option. In accordance with Financial Accounting Standards Board (FASB) revision to Interpretation No. 46 (FIN 46-R) Consolidation of Variable Interest Entities an interpretation of Accounting Research Bulletin No. 51, SFAS No. 49 Accounting for Product Financing Arrangements (SFAS 49), SFAS No. 98 Accounting for Leases (SFAS 98), and Emerging Issues Task Force (EITF) No. 97-10 The Effects of Lessee Involvement in Asset Construction (EITF 97-10), we record on the Consolidated Balance Sheets specific performance options, options with variable interest entities, and other options under Consolidated Inventory Not Owned with the offset to Liabilities from inventory not owned, Minority interest from inventory not owned and Minority interest from consolidated joint ventures.

Intangible Assets The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements with both definite and indefinite lives resulting from company acquisitions. We no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2005 and 2004, and determined that no impairment of goodwill or indefinite life intangibles existed. We are amortizing the definite life intangibles over their expected useful life, ranging from three to eight years.

In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This resulted in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles on our Consolidated Balance Sheet at that time. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be

substantially written off by our fourth quarter of 2008.

Post Development Completion Costs In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work and is recorded in accounts payable and other liabilities in the Consolidated Balance Sheets.

Warranty Costs Based upon historical experience, we accrue warranty costs as part of cost of sales for essential repair costs over \$1,000 to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs under our \$5 million per occurrence general liability insurance deductible as part of selling, general and administrative costs. As previously stated, the deductible for our general liability insurance will increase for

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fiscal 2006 to \$20 million per occurrence with an aggregate \$20 million for bodily injury and property damage claims, and an aggregate \$20 million for product defect claims.

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, Michigan, Minnesota and Ohio), the Mid-Atlantic (Delaware, Maryland, Virginia, West Virginia and Washington D.C.), the Southeast (Florida, North Carolina and South Carolina), the Southwest (Arizona and Texas), and the West (California). In addition, we provide financial services to our homebuilding customers.

Our cash uses during the twelve months ended October 31, 2005 were for operating expenses, increases in housing inventories, construction, income taxes, interest, the pay down of our revolving credit facility, the repurchase of common stock, investment in joint ventures (including Town & Country Homes), and acquisitions of Cambridge Homes, Oster Homes, and First Home Builders of Florida. We provided for our cash requirements from housing and land sales, the revolving credit facility, non-recourse mortgage secured by operating property, the issuance of \$500 million Senior Notes, \$100 million Senior Subordinated Notes, \$135 million net proceeds from the issuance of Preferred Stock, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

Cash requirements for fiscal 2006 are projected to increase as we continue to open new communities fund organic growth and acquire other homebuilders. We anticipate issuing senior and/or senior subordinated notes and moderate usage under the existing revolving credit facility to replenish inventory associated with the construction of new homes.

Our net income historically does not approximate cash flow from operating activities. The difference between net income and cash flow from operating activities is primarily caused by changes in receivables, prepaid and other assets, interest and other accrued liabilities, accounts payable, inventory levels, mortgage loans and liabilities, and non-cash charges relating to depreciation, amortization of computer software costs, amortization of definite life intangibles and impairment losses. When we are expanding our operations, which was the case in fiscal 2005 and 2004, inventory levels, acquisition costs, receivables, prepaids and other assets increase causing cash flow from operating activities to decrease. Liabilities also increase as operations expand. The increase in liabilities partially offsets the negative effect on cash flow from operations caused by the increase in inventory levels, receivables, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increase, but for cash flow purposes are offset by the net change in mortgage assets and liabilities.

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, 2005, 2.5 million shares have been purchased under this program, of which 0.6 million and 0.1 million shares were repurchased during the twelve months ended October 31, 2005 and 2004, respectively. In addition, in 2003, we retired at no cost 1.5 million shares that were held by a seller of a previous acquisition. On March 5, 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. All share information reflects this stock dividend.

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000 per share. Dividends on the Series A Preferred Stock are not cumulative and will be 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 National Market under the symbol HOVNP. The net proceeds from the offering of \$135 million, reflected in Paid in Capital in the Consolidated Balance Sheet, were used for the partial repayment of the outstanding balance under our revolving credit facility as of July 12, 2005. On October 17, 2005, we paid \$2.8 million as dividends on the Series A Preferred Stock.

Our homebuilding bank borrowings are made pursuant to an amended and restated unsecured revolving credit agreement (the Agreement) that provides a revolving credit line and letter of credit line of \$1.2 billion through July 2009. The facility contains an accordion feature under which the aggregate commitment can be increased to \$1.3 billion subject to the availability of additional commitments. Interest is payable monthly at various rates based on a margin ranging from 1.00% to 1.95% per annum, depending on our Consolidated Leverage Ratio, as defined in the Agreement plus, at the Company's option, either (1) a base rate determined by reference to the higher of (a) PNC Bank, National Association's prime rate and (b) the federal funds rate plus 1/2% or (2) a LIBOR-based rate for a one, two, three or six month interest period

as selected by us. In addition, we pay a fee ranging from 0.20% to 0.30% per annum on the unused portion of

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the revolving credit line depending on our Consolidated Leverage Ratio and the average percentage unused portion of the revolving credit line. At October 31, 2005, there was zero drawn under this Agreement and we had approximately \$219 million of homebuilding cash. At October 31, 2005, we had issued \$330.8 million of letters of credit which reduces cash available under the Agreement. We believe that we will be able either to extend the Agreement beyond July 2009 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. We and each of our significant subsidiaries, except for various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a subsidiary formerly engaged in homebuilding activity in Poland, our financial services subsidiaries, joint ventures, and certain other subsidiaries, is a guarantor under the Agreement.

At October 31, 2005, we had \$1,105.3 million of outstanding senior debt (\$1,098.7 million, net of discount), comprised of \$140.3 million 10½% Senior Notes due 2007, \$100 million 8% Senior Notes due 2012, \$215 million 6½% Senior Notes due 2014, \$150 million 6¾% Senior Notes due 2014, \$200 million of 6¼% Senior Notes due 2015, and \$300 million of 6¼% Senior Notes due 2016. At October 31, 2005, we had outstanding \$400 million of senior subordinated debt comprised of \$150 million 8¾% Senior Subordinated Notes due 2012, \$150 million 7¾% Senior Subordinated Notes due 2013, and \$100 million of 6% Senior Subordinated Notes due 2010. We and each of our wholly owned subsidiaries, except for K. Hovnanian Enterprises, Inc., the issuer of the senior and senior subordinated notes, and various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a subsidiary formerly engaged in homebuilding activity in Poland, our financial services subsidiaries, and joint ventures, is a guarantor of the senior notes and senior subordinated notes.

On May 3, 2004, we redeemed our 9¼% Senior Notes due 2009, and we recorded \$8.7 million of expenses associated with the extinguishment of this debt. On March 18, 2004, we paid off our \$115 million Term Loan, and we recorded \$0.9 million of expenses associated with the extinguishment of the debt. In both cases, these expenses have been reported as Expenses Related to Extinguishment of Debt on the Consolidated Statements of Income.

Our mortgage banking subsidiary's warehousing agreement was amended on April 26, 2005. Pursuant to the agreement, we may borrow up to \$250 million. The agreement expires in April 2006 and interest is payable monthly at the Eurodollar rate plus 1.25%. We believe that we will be able either to extend this agreement beyond April 2006 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We also have a \$100 million commercial paper facility. The facility expires in September 2006 and interest of LIBOR plus .65% is payable monthly. As of October 31, 2005, the aggregate principal amount of all borrowings under both agreements was \$198.9 million.

Total inventory increased \$833.3 million during the twelve months ended October 31, 2005. This increase excluded the change in Consolidated Inventory Not Owned of \$136.0 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10, and Variable Interest Entities in accordance with FIN 46. See the Recent Accounting Pronouncements section of Management's Discussion and Analysis of Financial Condition and Results of Operations for additional explanation of FIN 46. Excluding the impact from acquisitions of \$336.9 million in the Northeast and Southeast, total inventory in the Northeast increased \$207.6 million, the Mid-Atlantic increased \$165.5 million, the Midwest increased \$31.2 million, the Southeast decreased \$2.6 million, the Southwest increased \$98.7 million, and the West decreased \$4.0 million. The increase in our existing homebuilding segments was primarily the result of planned future organic growth. Substantially all homes under construction or completed and included in inventory at October 31, 2005 are expected to be closed during the next eighteen months. Most inventory completed or under development is financed through our line of credit, and senior and senior subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we limit our financial exposure to the amounts invested in the option deposits and predevelopment costs. This significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

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The following table summarizes home sites included in our total residential real estate:

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2005:			
Northeast	26,644	1,583	25,061
Mid-Atlantic	23,582	1,381	22,201
Midwest	7,081	581	6,500
Southeast	24,244	5,997	18,247
Southwest	20,452	1,296	19,156
West	19,003	1,753	17,250
Consolidated Total	121,006	12,591	108,415
Unconsolidated Joint Ventures	10,051	2,340	7,711
Total Including Unconsolidated Joint Ventures	131,057	14,931	116,126
Owned	30,388	6,681	23,707
Optioned	85,695	987	84,708
Controlled lots	116,083	7,668	108,415
Construction to permanent financing lots	4,923	4,923	
Lots controlled by unconsolidated joint ventures	10,051	2,340	7,711
Total Including Unconsolidated Joint Ventures	131,057	14,931	116,126
October 31, 2004:			
Northeast	27,794	1,815	25,979
Mid-Atlantic	18,261	1,132	17,129
Midwest	1,042	497	545
Southeast	13,978	1,267	12,711
Southwest	20,064	924	19,140
West	19,732	1,917	17,815
Consolidated Total	100,871	7,552	93,319
Unconsolidated Joint Ventures	638	299	339
Total Including Unconsolidated Joint Ventures	101,509	7,851	93,658
Owned	26,737	5,734	21,003
Optioned	73,203	887	72,316
Controlled lots	99,940	6,621	93,319
Construction to permanent financing lots	931	931	
Lots controlled by unconsolidated joint ventures	638	299	339
Total Including Unconsolidated Joint Ventures	101,509	7,851	93,658

Housing under contract at October 31, 2005 and October 31, 2004 was 14,931 homes and 7,851 homes, respectively, including our construction to permanent financing lot contracts and contracts in unconsolidated joint ventures not included in the above home sites table.

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

	October 31, 2005			October 31, 2004		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	294	18	312	77	39	116
Mid-Atlantic	167	19	186	49	18	67
Midwest	175	17	192			
Southeast	250	37	287	173	17	190
Southwest	901	70	971	683	78	761
West	275	157	432	329	160	489
Total	2,062	318	2,380	1,311	312	1,623

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Started or completed
unsold homes per
active selling
communities

5.6	0.9	6.5	4.8	1.1	5.9
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Receivables, deposits and notes increased \$68.6 million to \$125.4 million at October 31, 2005. The increase was primarily due to the timing of cash received from homes that closed during the last days of October and a receivable for the land sales in the fourth quarter. Receivables from home revenues amounted to \$39.4 million and \$17.6 million at October 31, 2005 and 2004, respectively.

Prepaid expenses and other assets are as follows as of:

<i>(In Thousands)</i>	October 31, 2005	October 31, 2004	Dollar Change
Prepaid project costs	\$ 61,773	\$ 48,695	\$ 13,078
Senior residential rental properties	8,754	8,830	(76)
Other prepaids	24,547	16,632	7,915
Other assets	30,588	19,459	11,129
Total	\$ 125,662	\$ 93,616	\$ 32,046

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. The increase in prepaid

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project costs was primarily due to the opening of new communities in all our regions. Other prepaids and other assets are debt issuance fees, non-qualified associate benefit plan assets, and miscellaneous prepaids and assets, which have increased because of the issuance of our senior and senior subordinated debt, higher contributions to a deferred compensation plan, higher prepaid commissions as a result of business growth, and acquisitions of Cambridge Homes, Oster Homes, and First Home Builders of Florida.

Property, plant, and equipment increased \$52.8 million to \$96.9 million at October 31, 2005. The increase relates principally to the acquisition of First Home Builders of Florida, which has its own construction services business with equipment and plant space, as well as the new Corporate office building constructed in Red Bank, New Jersey.

Investments in and advances to unconsolidated joint ventures increased as we entered into five new homebuilding joint ventures during the twelve months ended October 31, 2005. As of October 31, 2005, we have investments in nine homebuilding joint ventures and nine land and land development joint ventures. Other than performance and completion guarantees and environmental indemnifications, no other guarantees associated with unconsolidated joint ventures have been given.

Definite life intangibles increased \$124.0 million to \$249.5 million at October 31, 2005. This increase was the result of our acquisitions of Cambridge Homes, Oster Homes, and First Home Builders of Florida offset by the intangible amortization for the year. To the extent the acquisition price was greater than the book value of tangible assets which were stepped up to fair values, purchase price premiums were classified as intangibles. Professionals are hired to appraise all acquired intangibles. The appraisals have not been completed yet for Oster Homes and First Home Builders of Florida acquisitions. The appraisals that have been completed for fiscal 2005 and 2004 acquisitions resulted in all premiums being categorized as definite life intangibles. See the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations for additional explanation of intangibles. For tax purposes all our intangibles, except those resulting from an acquisition classified as a tax free exchange, are being amortized over 15 years.

Mortgage loans held for sale consist of residential mortgages receivable of which \$211.2 million and \$209.2 million at October 31, 2005 and October 31, 2004, respectively, were being temporarily warehoused and awaiting sale in the secondary mortgage market. The slight increase in mortgage loans held for sale, while total volume increased significantly, was due to the shortening in the average amount of time between the loan closing and the sale of the mortgage. We may incur risk with respect to mortgages that become 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.

Accounts payable and other liabilities are as follows as of:

<i>(In Thousands)</i>	October 31, 2005	October 31, 2004	Dollar Change
Accounts payable	\$ 191,469	\$ 113,866	\$ 77,603
Reserves	95,310	72,289	23,021
Accrued expenses	48,647	28,016	20,631
Accrued compensation	75,655	78,283	(2,628)
Other liabilities	99,448	37,167	62,281
Total	\$ 510,529	\$ 329,621	\$ 180,908

The increase in accounts payable and accrued expenses was due to our acquisitions during 2005, as well as the opening of new communities in our existing markets. Our reserves increased in accordance with our general liability and workman's compensation policies. The increase in other liabilities was due to a cash advance we received related to a structured lot option.

RESULTS OF OPERATIONS

TOTAL REVENUES

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Homebuilding:			

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Sale of homes	\$	1,095,392	\$	952,433	\$	667,735
Land sales		85,595		(11,541)		(28,107)
Other revenues		1,457		2,051		695
Financial services		12,083		9,003		10,515
Total change	\$	1,194,527	\$	951,946	\$	650,838
Total revenues percent change		28.8	%	29.7	%	25.5

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HOMEBUILDING

Compared to the same prior period, housing revenues increased \$1,095.4 million, or 26.8%, for the year ended October 31, 2005, increased \$952.4 million, or 30.4%, for the year ended October 31, 2004, and increased \$667.7 million or 27.1%, for the year ended October 31, 2003 as a result of both organic growth and through the acquisition of other homebuilders. Housing revenues are recorded at the time when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement.

Information on homes delivered by Segment is set forth below:

<i>(Housing Revenue in Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Northeast:			
Housing Revenues	\$ 983,426	\$ 923,189	\$ 736,344
Homes Delivered	2,329	2,406	2,108
Average Price	\$ 422,252	\$ 383,703	\$ 349,309
Mid-Atlantic:			
Housing Revenues	\$ 909,458	\$ 637,607	\$ 427,184
Homes Delivered	1,915	1,672	1,310
Average Price	\$ 474,913	\$ 381,344	\$ 326,095
Midwest(1):			
Housing Revenues	\$ 90,131	\$ 104,167	\$ 37,865
Homes Delivered	599	782	279
Average Price	\$ 150,469	\$ 133,206	\$ 135,717
Southeast(2):			
Housing Revenues	\$ 744,810	\$ 428,867	\$ 256,287
Homes Delivered	3,433	2,304	1,419
Average Price	\$ 216,956	\$ 186,140	\$ 180,611
Southwest(3):			
Housing Revenues	\$ 738,417	\$ 681,083	\$ 481,634
Homes Delivered	3,883	3,875	2,431
Average Price	\$ 190,167	\$ 175,763	\$ 198,122
West:			
Housing Revenues	\$ 1,711,413	\$ 1,307,350	\$ 1,190,516
Homes Delivered	4,115	3,547	3,984
Average Price	\$ 415,896	\$ 368,579	\$ 298,824
Consolidated Total:			
Housing Revenues	\$ 5,177,655	\$ 4,082,263	\$ 3,129,830
Homes Delivered	16,274	14,586	11,531
Average Price	\$ 318,155	\$ 279,875	\$ 271,427
Unconsolidated Joint Ventures(4):			
Housing Revenues	\$ 529,944	\$ 36,555	\$ 11,034
Homes Delivered	1,509	84	54
Average Price	\$ 351,189	\$ 435,179	\$ 204,340
Total Including Unconsolidated Joint Ventures:			
Housing Revenues	\$ 5,707,599	\$ 4,118,818	\$ 3,140,864
Homes Delivered	17,783	14,670	11,585
Average Price	\$ 320,958	\$ 280,765	\$ 271,115

(1) Midwest includes deliveries from our Ohio acquisitions of Oster Homes on August 3, 2005 and Summit Homes on April 1, 2003.

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(2) *Southeast includes deliveries from our Florida acquisitions of Cambridge Homes, First Home Builders of Florida, and Windward Homes on March 1, 2005, August 8, 2005, and November 1, 2003, respectively.*

(3) *Southwest includes deliveries from our Texas and Arizona acquisitions on November 1, 2002, January 1, 2003, and August 13, 2003, respectively.*

(4) *October 31, 2005 includes deliveries from our joint venture with affiliates of Blackstone Real Estate Advisors that acquired Town & Country Homes existing residential communities on March 2, 2005.*

The increase in housing revenues during the year ended October 31, 2005 was primarily due to organic growth within our existing operations. Excluding acquisitions, housing revenues and average sales prices increased in all six of our homebuilding segments combined by 20.0% and 15.5%, respectively. Homes delivered, excluding acquisitions, decreased 3% and 31% in the Northeast and Midwest, respectively, and increased 15%, 3%, 0.2%, and 16.0% in the Mid-Atlantic, Southeast, Southwest and West, respectively.

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Unaudited quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2005, 2004, and 2003 are set forth below:

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 2005	July 31, 2005	April 30, 2005	January 31, 2005
Housing Revenues:				
Northeast	\$ 283,494	\$ 231,198	\$ 248,843	\$ 219,891
Mid-Atlantic	331,022	236,325	183,782	158,329
Midwest	39,384	13,775	18,402	18,570
Southeast	319,045	169,142	151,118	105,505
Southwest	248,607	189,766	164,133	135,911
West	461,089	449,167	423,394	377,763
Consolidated Total	\$ 1,682,641	\$ 1,289,373	\$ 1,189,672	\$ 1,015,969
Sales Contracts (Net of Cancellations):				
Northeast	\$ 257,950	\$ 272,100	\$ 235,509	\$ 181,373
Mid-Atlantic	284,692	282,673	333,467	178,516
Midwest	47,064	14,195	18,227	8,232
Southeast	450,257	203,113	204,818	106,366
Southwest	191,365	247,440	235,487	165,048
West	389,589	411,976	506,363	354,124
Consolidated Total	\$ 1,620,917	\$ 1,431,497	\$ 1,533,871	\$ 993,659

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 2004	July 31, 2004	April 30, 2004	January 31, 2004
Housing Revenues:				
Northeast	\$ 333,430	\$ 236,988	\$ 185,598	\$ 167,173
Mid-Atlantic	225,503	164,266	147,950	99,888
Midwest	31,928	24,482	23,022	24,735
Southeast	124,029	108,129	105,535	91,174
Southwest	217,214	181,491	154,564	127,814
West	447,333	329,254	284,274	246,489
Consolidated Total	\$ 1,379,437	\$ 1,044,610	\$ 900,943	\$ 757,273

Sales Contracts (Net of Cancellations):				
Northeast	\$ 317,355	\$ 249,410	\$ 291,860	\$ 189,675
Mid-Atlantic	159,373	165,731	213,741	153,328
Midwest	16,606	18,282	15,267	13,809
Southeast	115,445	127,976	138,181	87,739
Southwest	170,958	179,232	202,748	121,177
West	426,910	507,214	533,685	299,020
Consolidated Total	\$ 1,206,647	\$ 1,247,845	\$ 1,395,482	\$ 864,748

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 2003	July 31, 2003	April 30, 2003	January 31, 2003
Housing Revenues:				
Northeast	\$ 260,663	\$ 195,570	\$ 143,348	\$ 136,763
Mid-Atlantic	121,257	100,184	102,092	103,651
Midwest	18,589	14,469	4,807	N/A
Southeast	81,088	65,399	54,070	55,730
Southwest	172,298	129,907	106,767	72,662

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West	371,147	325,205	255,469	238,695
Consolidated Total	\$ 1,025,042	\$ 830,734	\$ 666,553	\$ 607,501
Sales Contracts (Net of Cancellations):				
Northeast	\$ 197,465	\$ 240,677	\$ 197,700	\$ 115,447
Mid-Atlantic	145,852	167,496	160,623	94,358
Midwest	21,637	20,948	7,244	N/A
Southeast	84,955	72,321	87,700	54,992
Southwest	142,412	125,292	143,979	68,927
West	261,606	336,889	312,469	233,616
Consolidated Total	\$ 853,927	\$ 963,623	\$ 909,715	\$ 567,340

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

<i>(Dollars In Thousands)</i>	October 31, 2005	October 31, 2004	October 31, 2003
Northeast:			
Total Contract Backlog	\$ 693,535	\$ 719,606	\$ 506,819
Number of Homes	1,583	1,815	1,512
Mid-Atlantic:			
Total Contract Backlog	\$ 713,021	\$ 519,999	\$ 393,501
Number of Homes	1,381	1,132	1,083
Midwest:			
Total Contract Backlog	\$ 90,348	\$ 54,410	\$ 75,046
Number of Homes	581	497	706
Southeast:			
Total Contract Backlog	\$ 1,493,084	\$ 250,805	\$ 132,847
Number of Homes	5,997	1,267	678
Southwest:			
Total Contract Backlog	\$ 283,739	\$ 164,655	\$ 157,655
Number of Homes	1,296	924	989
West:			
Total Contract Backlog	\$ 784,495	\$ 775,295	\$ 264,536
Number of Homes	1,753	1,917	793
Totals:			
Total Consolidated Contract Backlog	\$ 4,058,222	\$ 2,484,770	\$ 1,530,404
Number of Homes	12,591	7,552	5,761

In the month of November 2005, excluding unconsolidated joint ventures, we signed an additional 1,219 net contracts amounting to \$404.8 million. Between our October 31, 2005 contract backlog and November 2005 net contracts, we have sold approximately 67% of our projected deliveries for fiscal 2006 assuming all of this backlog and net contracts are delivered in fiscal 2006.

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

<i>(Dollars In Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Sale of homes	\$ 5,177,655	\$ 4,082,263	\$ 3,129,830
Cost of sales, excluding interest	3,812,922	3,042,057	2,331,393
Homebuilding gross margin, before interest expense	1,364,733	1,040,206	798,437
Cost of sales interest, excluding land sales interest	68,290	54,965	44,069
Homebuilding gross margin, after interest expense	\$ 1,296,443	\$ 985,241	\$ 754,368
Gross margin percentage, before interest expense	26.4	% 25.5	% 25.5
Gross margin percentage, after interest expense	25.0	% 24.1	% 24.1

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

	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Sale of homes	100.0	% 100.0	% 100.0
Cost of sales, excluding interest:			
Housing, land and development costs	65.6	66.5	67.1
Commissions	2.3	2.2	2.1
Financing concessions	1.0	1.0	0.9

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Overheads	4.7		4.8		4.4	
Total cost of sales, before interest expense	73.6		74.5		74.5	
Gross margin percentage, before interest expense	26.4		25.5		25.5	
Cost of sales interest	1.4		1.4		1.4	
Gross margin percentage, after interest expense	25.0	%	24.1	%	24.1	%

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We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. The consolidated gross margins, before interest expense increased to 26.4% during the year ended October 31, 2005 compared to 25.5% for the same period last year due primarily to the mix of homes delivered both in terms of geography as well as type of home. Generally speaking homes in highly regulated markets in the Northeast, Southeast and West have higher margins than homes in less regulated markets. During the year ended October 31, 2004, our consolidated gross margin, before interest expense, remained flat from the previous year despite the fact that we believe gross margins were adversely impacted in 2005 due to the effect of price increases in lumber, concrete, and certain other building materials. The dollar increases in homebuilding gross margin, before interest expense for each of the three years ended October 31, 2005, 2004, and 2003 were attributed to increased sales, resulting from both organic growth in deliveries and our acquisitions of other homebuilders. Also shown in the table are our results of gross margins, after interest expense. After deducting interest expense, which was previously capitalized and amortized through cost of sales, our homebuilding gross margin was 25.0% for 2005 compared to 24.1% for 2004 and 2003, but as a percentage of revenue cost of sales interest has remained flat at 1.4% for the years ended October 31, 2005, 2004, and 2003.

Homebuilding selling, general, and administrative expenses as a percentage of homebuilding revenues increased 30 basis points to 8.4% for the year ended October 31, 2005. Such expenses increased to \$441.9 million for the year ended October 31, 2005, and increased to \$330.6 million for the year ended October 31, 2004 from \$253.7 million for the previous year. The increased spending year over year was primarily due to our acquisitions and overhead costs for organically expanding operations ahead of our expected future growth in housing revenues.

We have written-off or written-down certain inventories totaling \$5.4, \$7.0, and \$5.2 million during the years ended October 31, 2005, 2004, and 2003, respectively, to their estimated fair value. See Notes to Consolidated Financial Statements Note 13 for additional explanation. These write-offs and write-downs were incurred primarily because of the decision not to exercise certain options to purchase land, redesign of communities in planning, a change in the marketing strategy to liquidate a particular property or lower property values.

During the years ended October 31, 2005, 2004, and 2003, we wrote-off residential land options and approval and engineering costs amounting to \$5.3, \$5.4, and \$4.5 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option and approval and engineering costs are written-off when a community's proforma profitability does not produce adequate returns on the investment commensurate with the risk and we cancel the option. Such write-offs were located in all our regions.

During the year ended October 31, 2004, we wrote-down a community \$1.2 million in the Northeast, \$0.1 million in the Mid-Atlantic, and \$0.3 million in the Southwest. The write-down in the Northeast was attributed to a section of a community that was built in accordance with a low income housing clause. In preparation for selling this property, an outside appraisal was prepared resulting in a reduction in inventory carrying amount to fair value. The write-downs in the Mid-Atlantic and Southwest were attributed to the properties that were acquired as part of our acquisitions in these segments. A decision was made to liquidate these properties resulting in lower sales prices.

We wrote-down one community \$0.7 million in the Southwest during the year ended October 31, 2003. This property was acquired as part of one of our acquisitions. A decision was made to liquidate this property resulting in lower sales prices.

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:

<i>(In Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Land and lot sales	\$ 88,259	\$ 2,664	\$ 14,205
Cost of sales, excluding interest	52,203	2,217	10,931
Land and lot sales gross margin, excluding interest	36,056	447	3,274
Land sales interest expense	1,715	20	550
Land and lot sales gross margin, including interest	\$ 34,341	\$ 427	\$ 2,724

Net pretax profits from land sales were \$34.3 million during fiscal 2005. Although the amount of land sale profits varies from year-to-year, some land sale profits are typically recognized by

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the Company each year in the normal course of homebuilding and land development operations, wherein certain parcels are sold to other builders, land developers, and commercial property developers. Land and lot sales are often the result of acquiring large parcels for which we do not want to do all the development. In addition, this may happen more often in the future as HLI continues to acquire large parcels, with the intent to sell portions to other builders.

FINANCIAL SERVICES

Financial services consists primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. During the years ended October 31, 2005, October 31, 2004, and October 31, 2003, financial services provided a \$24.0, \$25.5, and \$22.9 million pretax profit, respectively. In 2005, financial services revenue increased \$12.1 million to \$72.4 million, but this increase was more than offset by increased costs as the mortgage operations added overhead costs to prepare for future growth and the profit per loan declined as the mortgage market became more competitive with less mortgage refinancing occurring in 2005 versus 2004. The increase in 2004 was primarily due to increased activity in our mortgage operations, along with our homebuilding growth. In addition to our wholly-owned mortgage subsidiaries, customers obtained mortgages from our mortgage joint ventures in the Midwest (Ohio) and the West in 2004 and 2003, and also the Southeast in 2005. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 67%, 66%, and 74% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2005, 2004, and 2003, respectively. Servicing rights on new mortgages originated by us will be sold as the loans are closed.

CORPORATE GENERAL AND ADMINISTRATIVE

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses were 1.7% for the year ended October 31, 2005, 1.5% for the year ended October 31, 2004, and 2.0% for the year ended October 31, 2003. The increase in corporate general and administrative expenses during the year ended October 31, 2005 compared to the same period last year was due to increased depreciation expense for new software systems, increased consulting services related to the new software implementation and Sarbanes Oxley compliance costs, and increased compensation with more headcount and higher profit based bonuses.

OTHER INTEREST

Other interest declined \$0.3 million to \$19.7 million for the year ended October 31, 2005. In 2004 other interest increased \$0.5 million to \$20.1 million for the year ended October 31, 2004. The fluctuation in other interest from year to year is a result of the relationship of total inventory and interest incurred in each year, because we capitalize interest related to inventory and the remainder is expensed.

OTHER OPERATIONS

Other operations consist primarily of miscellaneous residential housing operations expenses, –senior residential property operations, earnout payments from homebuilding company acquisitions, amortization of the consultant's agreement and the right of first refusal agreement from our California acquisition in fiscal 2002, minority interest relating to consolidated joint ventures, corporate-owned life insurance, and certain contributions.

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, 2005, we had \$359.9 million in option deposits in cash and letters of credit to purchase land and lots with a total purchase price of \$5.0 billion. 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, \$8.7 million of the \$5.0 billion in land and lot option purchase contracts contained 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 \$8.7 million is recorded on the balance sheet in Liabilities from inventory not owned.

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Pursuant to FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities , we consolidated \$242.8 million of inventory not owned at October 31, 2005,

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representing the fair value of the optioned property. Additionally, to reflect the fair value of the inventory consolidated under FIN 46, we eliminated \$11.0 million of its related cash deposits for lot option contracts, which are included in Consolidated Inventory Not Owned. Since we do not own an equity interest in any of the unaffiliated variable interest entities that we must consolidate pursuant to FIN 46, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities have been based on the remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have no debt obligations and the only asset recorded is the land or lots we have the option to buy with a related offset to minority interest for the assumed third party investment in the variable interest entity. At October 31, 2005, the balance reported in Minority interest from inventory not owned was \$180.2 million. At October 31, 2005, we had cash deposits and letters of credit totaling \$23.1 million, representing our current maximum exposure associated with the consolidation of lot option contracts. Creditors of these VIE s, if any, have no recourse against us.

CONTRACTUAL OBLIGATIONS

The following summarizes our aggregate contractual commitments at October 31, 2005:

<i>(In Thousands)</i>	Payments Due by Period				
	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
Long Term Debt(1)	\$ 2,340,027	\$ 111,808	\$ 347,388	\$ 288,117	\$ 1,592,714
Capital Lease Obligations					
Operating Leases	50,403	14,038	22,511	9,988	3,866
Purchase Obligations(2)	8,656	7,225	1,431		
Other Long Term Liabilities					
Total	\$ 2,399,086	\$ 133,071	\$ 371,330	\$ 298,105	\$ 1,596,580

(1) Represents our Senior and Senior Subordinated Notes and Other Notes Payable, and related interest payments for the life of the debt. Interest on variable rate obligations is based on rates effective as of October 31, 2005.

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

We had outstanding letters of credit and performance bonds of approximately \$330.8 million and \$928.5 million, respectively, at October 31, 2005 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share Based Payment (SFAS 123R), which is a revision of SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in an entity s financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

SFAS 123R applies to all awards granted after the required effective date (the beginning of the first annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair value based method for either recognition or disclosure under Statement 123 will apply SFAS 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in our fiscal first quarter of 2006, we will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro forma

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disclosure in the notes to the financial statements. We expect the impact of the adoption of SFAS 123R to be a reduction of fiscal 2006 net income of approximately \$7.0 million assuming modified prospective application.

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In March 2005, the Securities and Exchange Commission released SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment . SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. We are currently evaluating SAB No. 107 and will be incorporating it as part of our adoption of SFAS No. 123R.

In December 2004, the FASB issued Staff Position 109-1 (FSP 109-1), Application of FASB Statement No. 109 (FASB No. 109), Accounting for Income Taxes , to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. FSP 109-1 clarifies guidance that applies to the new deduction for qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. FSP 109-1 clarifies that the deduction should be accounted for as a special deduction under FASB No. 109 and will reduce tax expense in the period or periods that the amounts are deductible on the tax return. Any tax benefits resulting from the new deduction will be effective for our fiscal year ending October 31, 2006. We are in the process of assessing the impact, if any, the new deduction will have on our financial statements.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections . This statement, which replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements , changes the requirements for the accounting for and reporting of a change in accounting principle. The statement requires retrospective application of changes in accounting principle to prior periods' financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2005, the Emerging Issues Task Force (EITF) released Issue No. 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). EITF 04-5 creates a framework for evaluating whether a general partner or a group of general partners controls a limited partnership and therefore should consolidate the partnership. EITF 04-5 states that the presumption of general partner control would be overcome only when the limited partners have certain specific rights as outlined in EITF 04-5. EITF 04-5 is effective immediately for all newly formed limited partnerships and for existing limited partnership agreements that are modified. For general partners in all other limited partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. Implementation of EITF 04-5 is not expected to have a material impact on the Company's results of operations or financial position.

TOTAL TAXES

Total taxes as a percentage of income before taxes amounted to approximately 39.6%, 36.6%, and 37.5% for the years ended October 31, 2005, 2004, and 2003, respectively. The increase in the effective rate for 2005 was due to refunds recorded in 2004 related to previous years' taxes, higher than estimated taxes upon filing our 2004 tax return in the third quarter of 2005, the elimination of certain state deductions, and the loss carryforward running out in one state. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If for some reason the combination of future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets reflected in the balance sheet are recoverable regardless of future income. See Notes to Consolidated Financial Statements Note 10 for an additional explanation of taxes.

INFLATION

Inflation has a long-term effect on us 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 costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers. In recent years, in the price ranges in which our homes sell, we have not found this risk to be a significant problem.

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

MERGERS AND ACQUISITIONS

On March 1, 2005, we acquired for cash the assets of Cambridge Homes, a privately held Orlando homebuilder and provider of related financial services, headquartered in Altamonte Springs, Florida. The acquisition provides us with a presence in the greater Orlando market. Cambridge Homes designs, markets and sells both single family homes and attached townhomes and focuses on first-time, move-up and luxury homebuyers. Cambridge Homes also provides mortgage financing, as well as title and settlement services to its homebuyers.

The Cambridge Homes acquisition was accounted for as a purchase, with the results of its operations included in our consolidated financial statements as of the date of the acquisition.

On March 2, 2005, we acquired the operations of Town & Country Homes, a privately held homebuilder and land developer headquartered in Lombard, Illinois, which occurred concurrently with our entering into a joint venture agreement with affiliates of Blackstone Real Estate Advisors in New York to own and develop Town & Country's existing residential communities. The joint venture is being accounted for under the equity method. Town & Country Homes' operations beyond the existing owned and optioned communities, as of the acquisition date, are wholly owned and included in our consolidated financial statements.

The Town & Country acquisition provides us with a strong initial position in the greater Chicago market, and expands our operations into the Florida markets of West Palm Beach, Boca Raton and Fort Lauderdale and bolsters our current presence in Minneapolis/St. Paul. Town & Country designs, markets and sells a diversified product portfolio in each of its markets, including single family homes and attached townhomes, as well as mid-rise condominiums in Florida. Town & Country serves a broad customer base including first-time, move-up and luxury homebuyers.

On August 8, 2005, we acquired substantially all of the assets of First Home Builders of Florida, a privately held homebuilder and provider of related financial services headquartered in Cape Coral, Florida. First Home Builders is a leading builder in Western Florida and ranked first in the greater Fort Myers-Cape Coral market. First Home Builders of Florida designs, markets and sells single family homes, with a focus on the first-time home buying segment. The company also provides mortgage financing, title and settlement services to its homebuyers.

On August 3, 2005, we acquired substantially all of the homebuilding assets of Oster Homes, a privately held Ohio homebuilder, headquartered in Lorain, Ohio. The acquisition provides Hovnanian with a complementary presence to its Ohio build-on-your-own-lot homebuilding operations. Oster Homes builds in Lorain County in Northeast Ohio, just west of Cleveland. Oster Homes designs, markets and sells single family homes, with a focus on first-time and move-up homebuyers. Additionally, Oster Homes utilizes a design center to market extensive pre-prices, options and upgrades.

Both the First Home Builders of Florida and the Oster Homes acquisitions were accounted for as purchases with the results of their operations included in our consolidated financial statements as of the dates of the acquisitions.

On November 6, 2003, we acquired a Tampa, Florida area homebuilder for cash and 489,236 shares of our Class A Common Stock. This acquisition was accounted for as a purchase, with the results of operations of this entity included in our consolidated financial statements as of the date of acquisition. On November 1, 2002 and December 31, 2002, we acquired two Texas homebuilding companies. On April 9, 2003, we acquired a build-on-your-own-lot homebuilder in Ohio, and on August 8, 2003, we acquired a homebuilder in Arizona.

All fiscal 2005, 2004, and 2003 acquisitions provide for other payments to be made, generally dependant upon achievement of certain future operating and return objectives.

SAFE HARBOR STATEMENT

All statements in this Form 10-K that are not historical facts should be considered as Forward-Looking Statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or

achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by such forward-looking statements are reasonable, we

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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 business conditions;
- Adverse weather conditions and natural disasters;
- Changes in market conditions;
- 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; and
- Geopolitical risks, terrorist acts and other acts of war.

Certain risks, uncertainties, and other factors are described in detail in Item 1 and 2 *Business and Properties* in this Form 10-K.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 2005 and 2004, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value (*FMV*). There have been no significant changes in our market risk from October 31, 2004 to October 31, 2005.

<i>(Dollars in Thousands)</i>	Long Term Debt as of October 31, 2005							FMV at 10/31/05
	by Year of Debt Maturity							
	2006	2007	2008	2009	2010	Thereafter	Total	
Long Term Debt(1):								
Fixed Rate	\$ 49,327	\$ 140,949	\$ 748	\$ 800	\$ 100,855	\$ 1,285,583	\$ 1,578,262	\$ 1,510,091
Average interest rate	6.76	% 10.48	% 6.71	% 6.73	% 6.01	% 6.94	% 7.19	%

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(1) Does not include bonds collateralized by mortgages receivable or the mortgage warehouse line of credit.

(Dollars in Thousands)	Long Term Debt as of October 31, 2004 by Year of Debt Maturity						Total	FMV at 10/31/04
	2005	2006	2007	2008	2009	Thereafter		
Long Term Debt(1):								
Fixed Rate	\$ 26,300	\$ 654	\$ 140,949	\$ 748	\$ 800	\$ 786,438	\$ 955,889	\$ 1,025,829
Average interest rate	7.10	% 6.66	% 10.48	% 6.71	% 6.73	% 7.37	% 7.82	%

(1) Does not include bonds collateralized by mortgages receivable or the mortgage warehouse line of credit.

In addition, we have reassessed the market risk for our variable rate debt, which is based upon a margin plus at our option either (1) a base rate determined by reference to the higher of (a) a PNC Bank, National Association's prime rate and (b) the federal funds rate plus 2% or (2) a LIBOR-based rate for a one, two, three, or six month interest period as selected by us, and we believe that a one percent increase in this rate would have an approximate \$1.0 million increase in interest expense for the twelve months ended October 31, 2005, assuming an average of \$96.8 million of variable rate debt outstanding from November 1, 2004 to October 31, 2005.

HOVNANIAN ENTERPRISES, INC.

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

Not applicable.

Item 9A Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 31, 2005. 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.

As described in Note 10 to our consolidated financial statements, we have restated Note 10 to the consolidated financial statements and all periods presented therein to revise our segment disclosures to show six reportable homebuilding segments, rather than treating our homebuilding business as a single national, reportable segment. The treatment of our homebuilding business as a single, national, reportable segment was in accordance with the practice followed by substantially all the large, geographically diverse homebuilders that file reports with the SEC. The restatement represents a change in judgment as to the application of Statement of Financial Accounting Standards No. 131 (SFAS 131). The restatement has no impact on our consolidated balance sheets as of October 31, 2005 and 2004, or consolidated statements of income and related income per common share amounts, consolidated statements of cash flows or consolidated statements of stockholder's equity for the years ended October 31, 2005, 2004 and 2003. Our Company management, with the participation of the Company's chief executive officer and chief financial officer, has re-evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 31, 2005, to determine whether the restatement changes their prior conclusion. Subject to the foregoing, and based upon that re-evaluation, the Company's chief executive officer and chief financial officer have determined that it does not change their conclusion that, as of October 31, 2005, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives.

We had previously included in the description of our business and in our Management's Discussion and Analysis of Financial Condition and Results of Operations some information, which is not subject to SFAS 131, on the basis of purely geographic regions, without taking account of other factors that affect what are appropriate reportable segments under SFAS 131. We are now presenting that information on the basis of the same regions we are using to report segment information, so that all regional information in our reports will be presented on the basis of the same regions. However, we are doing that for the purpose of consistency, not because our management has concluded that presenting information on the prior basis was not appropriate. Therefore, our management does not believe the fact that we have changed the basis on which we are presenting information that is not subject to SFAS 131 indicates that our disclosure controls and procedures were not effective to ensure that the 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.

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, 2005 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).

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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, 2005.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we re-evaluated our assessment regarding 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 as a result of the restatement described in Note 10 to the Consolidated Financial Statement and all periods presented therein to show six reportable homebuilding segments. Based on our re-evaluation under the framework in Internal Control Integrated Framework, our management has determined that it does not change their conclusion that our internal control over financial reporting was effective as of October 31, 2005. The restatement represents a change in judgment as to the application of Statement of Financial Accounting Standards No. 131. The restatement has no impact on our consolidated balance sheets as of October 31, 2005 and 2004, or consolidated statements of income and related income per common share amounts, consolidated statements of cash flows or consolidated statements of stockholder's equity for the years ended October 31, 2005, 2004 and 2003.

Our management's assessment of the effectiveness of internal control over financial reporting as of October 31, 2005 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report below.

HOVNANIAN ENTERPRISES, INC.

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Hovnanian Enterprises, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Hovnanian Enterprises, Inc. and subsidiaries maintained effective internal control over financial reporting as of October 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hovnanian Enterprises, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of Hovnanian Enterprises, Inc. and subsidiaries and our report dated January 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
January 10, 2006

HOVNANIAN ENTERPRISES, INC.

Item 9B Other Information

None.

PART III

Item 10 Directors and Executive Officers of the Registrant

The information called for by Item 10, except as set forth below in this Item 10, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with the Company's annual meeting of shareholders to be held on March 8, 2006, which will involve the election of directors.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Year Started With Company
Kevork S. Hovnanian	82	Chairman of the Board and Director of the Company.	1967
Ara K. Hovnanian	48	Chief Executive Officer, President and Director of the Company.	1979
Paul W. Buchanan	55	Senior Vice President – Corporate Controller.	1981
Kevin C. Hake	46	Senior Vice President, Finance and Treasurer.	2000
Robyn T. Mingle	40	Senior Vice President, Human Resources	2003
Peter S. Reinhart	55	Senior Vice President and General Counsel.	1978
J. Larry Sorsby	50	Executive Vice President, Chief Financial Officer and Director of the Company.	1988

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

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

Mr. Buchanan has been Senior Vice President – Corporate Controller since May 1990. Mr. Buchanan resigned as a Director of the Company on September 13, 2002, a position in which he served since March 1982, for the purpose of reducing the number of non-independent board members.

Mr. Hake was appointed Senior Vice President, Finance and Treasurer in October 2004 after serving as Vice President, Finance and Treasurer from July 2000. Mr. Hake was Director, Real Estate Finance at BankBoston Corporation from 1994 to June 2000.

Ms. Mingle joined the Company in October 2003 as Senior Vice President, Human Resources. Prior to joining the Company, Ms. Mingle was the Vice President, Human Resources at Black and Decker, U.S., Inc. since 1999.

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

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

CODE OF ETHICS AND CORPORATE GOVERNANCE GUIDELINES

We have adopted a Code of Ethics that applies to Hovnanian's principal executive officer, principal financial officer, controller, and all other associates of the Company, including its directors and other officers. We have posted the text of this Code of Ethics on our website at

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www.khov.com under Investor Relations/Corporate Governance . We have also adopted Corporate Governance Guidelines and posted them on our website at www.khov.com under Investor Relations/Corporate Governance . A printed copy of the Code of Ethics and Guidelines is also available to the public at no charge by writing to: Hovnianian Enterprises, Inc., Attn: Human Resources Department, 10 Highway 35, P.O. Box 500, Red Bank, N.J. 07701 or calling Corporate headquarters at 732-747-7800. We will post amendments to or waivers from our Code of Ethics that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange on our website at www.khov.com under Investor Relations/Corporate Governance .

AUDIT COMMITTEE AND COMPENSATION COMMITTEE CHARTERS

We have adopted charters that apply to Hovnianian s Audit Committee and Compensation Committee. We have posted the text of these charters on our website at www.khov.com under Investor Relations/Corporate Governance . A printed copy of each charter is available to any shareholder who requests it by writing to: Hovnianian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800.

Item 11 Executive Compensation

The information called for by Item 11 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 8, 2006.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12, except as set forth below in this Item 12, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 8, 2006.

The following table provides information as of October 31, 2005 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) (a)	Number of Class B Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands) (a)	Weighted average exercise price of outstanding Class A Common Stock options, warrants and rights(2) (b)	Weighted average exercise price of outstanding Class B Common Stock options, warrants and rights(3) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands)(1) (c)
Equity compensation plans approved by security holders:	6,084	1,438	\$ 15.10	\$ 44.88	23,037
Equity compensation plans not approved by security holders:					
Total	6,084	1,438	\$ 15.10	\$ 44.88	23,037

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

(2) *Does not include 1,701 shares to be issued upon vesting of restricted stock, because they have no exercise price.*

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

Item 13 Certain Relationships and Related Transactions

The information called for by Item 13 is incorporated herein by reference to our definitive proxy statement, with the exception of the information regarding certain relationships, as described below, to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 8, 2006.

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We provided property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited partners. We no longer provide such services. At October 31, 2005 and 2004, no amounts were due us by these partnerships. During the years ended October 31, 2005, 2004, and 2003, we received zero, \$37,000, and \$62,000, respectively, from these partnerships.

During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately \$33.4 million from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer. As of October 31, 2005, we have an option deposit of \$3.0 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated \$22.2 million in accordance with FIN 46 under Consolidated Inventory Not Owned in the Consolidated Balance Sheets. Neither the Company nor the Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer, totaling \$26.9 million. As of October 31, 2005 and 2004, land aggregating \$26.5 million and \$22.1 million, respectively, has been purchased. Neither the Company nor the Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land in Maryland for approximately \$3.0 million from a group that consists of relatives of Geaton Decesaris, Jr., a member of our Board of Directors. We had posted a deposit of \$100,000 and purchased the property when final approvals were in place. The property was purchased in November 2001 and there are 26 of an original 147 lots remaining in inventory as of October 31, 2005. Geaton Decesaris, Jr. has no financial interest in the relative's ownership and sale of land to the Company.

Item 14 Principal Accountant Fees and Services

The information called for by Item 14 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 8, 2006.

PART IV

Item 15 Exhibits and Financial Statement Schedules

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

Exhibits:

- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(5)

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- 3(c) Certificate of Amendment of Certificate of Incorporation of the Registrant.(14)
- 3(d) Restated Bylaws of the Registrant.(12)
- 4(a) Specimen Class A Common Stock Certificate.(13)
- 4(b) Specimen Class B Common Stock Certificate. (15)
- 4(c) Indenture dated as of October 2, 2000, relating to 10½% Senior Notes, between the Registrant and First Union National Bank, including form of 10½% Senior Notes due October 1, 2007.(9)
- 4(d) Indenture dated March 26, 2002, relating to 8% Senior Notes, between the Registrant and First Union National Bank, including form of 8% Senior Notes due April 1, 2012.(10)
- 4(e) Indenture dated March 26, 2002, relating to 8.875% Senior Subordinated Notes, between the Registrant and First Union National Bank, including form of 8.875% Senior Subordinated Notes due April 1, 2012.(10)
- 4(f) Indenture dated May 9, 2003, relating to 7¾% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 7¾% Senior Subordinated Notes due May 15, 2013.(4)
- 4(g) Indenture dated as of November 3, 2003, relating to 6½% Senior Notes, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Wachovia Bank, National Association, as Trustee, as supplemented by the First Supplemental Indenture dated as of November 3, 2003 among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6½% Senior Notes due January 15, 2014.(2)
- 4(h) Indenture dated as of March 18, 2004, relating to 6¾% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6¾% Senior Notes due 2014.(16)
- 4(i) Indenture dated as of November 30, 2004, relating to 6¼% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6¼% Senior Notes due 2015.(6)
- 4(j) Indenture dated as of November 30, 2004, relating to 6% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6% Senior Notes due 2010.(6)
- 4(k) Indenture dated as of August 8, 2005, relating to 6.25% Senior Notes due 2016, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee including form of 6.25% Senior Notes due 2016.(7)
- 4(l) Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated July 12, 2005.(11)

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- 10(a) Fifth Amended and Restated Credit Agreement dated as of June 14, 2005.(7)
- 10(b) Amended and Restated Guaranty and Suretyship Agreement dated June 14, 2005.(7)
- 10(c) Description of Management Bonus Arrangements.(15)
- 10(d) Description of Savings and Investment Retirement Plan.(1)
- 10(e) 1999 Stock Incentive Plan (as amended and restated).(17)
- 10(f) 1983 Stock Option Plan (as amended and restated March 8, 2002).(3)
- 10(g) Management Agreement dated August 12, 1983, for the management of properties by K. Hovnanian Investment Properties, Inc.(1)
- 10(h) Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(15)
- 10(i) Description of Deferred Compensation Plan.(15)
- 10(j) Senior Executive Short-Term Incentive Plan (as amended and restated).(8)
- 12 Statements re Computation of Ratios. (18)
- 21 Subsidiaries of the Registrant. (18)
- 23 Consent of Independent Registered Public Accounting Firm.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32(a) Section 1350 Certification of Chief Executive Officer.
- 32(b) Section 1350 Certification of Chief Financial Officer.

HOVNANIAN ENTERPRISES, INC.

- (1) *Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.*
- (2) *Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K filed on November 7, 2003.*
- (3) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended –October 31, 2002 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 Registration Statement (No. 333-106761) on Form S-3 of the Registrant.*
- (6) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2004 of the Registrant.*
- (7) *Incorporated by reference to Exhibits to Registration Statement (No. 333-127806) on Form S-4 of the Registrant.*
- (8) *Incorporated by reference to Appendix A of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 10, 2004.*
- (9) *Incorporated by reference to Exhibits to Registration Statement (No. 333-52836) on Form S-4 of the Registrant.*
- (10) *Incorporated by reference to Exhibits to Registration Statement (No. 333-89976) on Form S-4 of the Registrant.*
- (11) *Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on July 13, 2005.*
- (12) *Incorporated by reference to Exhibits to Registration Statement (No. 1-08551) on Form 8-A of the Registrant.*
- (13) *Incorporated by reference to Exhibits to Registration Statement (No. 333-111231) on Form S-3 of the Registrant.*
- (14) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 of the Registrant.*
- (15) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2003 of the Registrant.*
- (16) *Incorporated by reference to Exhibits to Registration Statement (No. 333-115742) on Form S-4 of the Registrant.*
- (17) *Incorporated by reference to Appendix B of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 10, 2004.*
- (18) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2005, filed on January 11, 2006.*

HOVNANIAN ENTERPRISES, INC.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.

BY: /S/ J. LARRY SORSBY

J. Larry Sorsby
Executive Vice President, Chief Financial Officer and Director
December 20, 2006

HOVNANIAN ENTERPRISES, INC.

Hovnanian Enterprises, Inc. and Subsidiaries

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

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HOVNANIAN ENTERPRISES, INC.

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 as of October 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2005, in conformity with U.S. generally accepted –accounting principles.

As discussed in Note 10, the accompanying consolidated financial statements have been restated to revise the Company's segment disclosures.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hovnanian Enterprises, Inc.'s internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
January 10, 2006, except for Note 10
for which the date is December 18, 2006

HOVNIANIAN ENTERPRISES, INC.

Hovnianian Enterprises, Inc. and Subsidiaries

Consolidated Balance Sheets

<i>(In Thousands)</i>	October 31, 2005	October 31, 2004
ASSETS		
Homebuilding:		
Cash and cash equivalents (Note 6)	\$ 218,830	\$ 65,013
Inventories At the lower of cost or fair value (Notes 13 and 14):		
Sold and unsold homes and lots under development	2,459,431	1,785,706
Land and land options held for future development or sale	595,806	436,184
Consolidated Inventory Not Owned:		
Specific performance options	9,289	11,926
Variable interest entities (Note 19)	242,825	201,669
Other options	129,269	31,824
Total Consolidated Inventory Not Owned	381,383	245,419
Total Inventories	3,436,620	2,467,309
Investments in and advances to unconsolidated joint ventures (Note 20)	187,205	40,840
Receivables, deposits, and notes	125,388	56,753
Property, plant, and equipment net (Note 5)	96,891	44,137
Prepaid expenses and other assets	125,662	93,616
Goodwill and indefinite life intangibles (Note 21)	32,658	32,658
Definite life intangibles (Note 21)	249,506	125,492
Total Homebuilding	4,472,760	2,925,818
Financial Services:		
Cash and cash equivalents	10,669	13,011
Mortgage loans held for sale (Notes 7 and 8)	211,248	209,193
Other assets	15,375	8,245
Total Financial Services	237,292	230,449
Income Taxes Receivable Including deferred tax benefits (Note 12)	9,903	
Total Assets	\$ 4,719,955	\$ 3,156,267

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC.

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Balance Sheets

<i>(In Thousands, Except Share Amounts)</i>	October 31, 2005	October 31, 2004
LIABILITIES AND STOCKHOLDERS EQUITY		
Homebuilding:		
Nonrecourse land mortgages	\$ 48,673	\$ 25,687
Accounts payable and other liabilities	510,529	329,621
Customers deposits (Note 6)	259,930	80,131
Nonrecourse mortgages secured by operating properties (Note 8)	24,339	24,951
Liabilities from inventory not owned	177,014	68,160
Total Homebuilding	1,020,485	528,550
Financial Services:		
Accounts payable and other liabilities	8,461	6,080
Mortgage warehouse line of credit (Notes 7 and 8)	198,856	188,417
Total Financial Services	207,317	194,497
Notes Payable:		
Revolving and term credit agreements (Note 8)		115,000
Senior notes (Note 9)	1,098,739	602,737
Senior subordinated notes (Note 9)	400,000	300,000
Accrued interest (Notes 8 and 9)	20,808	15,522
Total Notes Payable	1,519,547	1,033,259
Income Taxes Payable (Note 12)		48,999
Total Liabilities	2,747,349	1,805,305
Minority interest from inventory not owned (Note 19)	180,170	155,096
Minority interest from consolidated joint ventures	1,079	3,472
Stockholders Equity (Notes 15 and 21):		
Preferred Stock, \$.01 par value authorized 100,000 shares; issued 5,600 shares with a liquidation preference of \$140,000, at October 31, 2005 and zero shares at October 31, 2004		
Common Stock, Class A, \$.01 par value authorized 200,000,000 shares; issued 57,976,455 shares at October 31, 2005; and 56,797,313 shares at October 31, 2004 (including 10,995,656 shares at October 31, 2005 and 10,395,656 shares at October 31, 2004 held in Treasury)	580	568
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale) authorized 30,000,000 shares; issued 15,370,250 shares at October 31, 2005; and issued 15,376,972 shares at October 31, 2004 (including 691,748 shares at October 31, 2005 and October 31, 2004 held in Treasury)	154	154
Paid in Capital	371,390	199,643
Retained Earnings (Note 9)	1,522,952	1,053,863
Deferred Compensation (Note 15)	(19,648	) (11,784
Treasury Stock at cost	(84,071	) (50,050
Total Stockholders Equity	1,791,357	1,192,394
Total Liabilities and Stockholders Equity	\$ 4,719,955	\$ 3,156,267

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC.

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Statements of Income

<i>(In Thousands Except Per Share Data)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Revenues:			
Homebuilding:			
Sale of homes	\$ 5,177,655	\$ 4,082,263	\$ 3,129,830
Land sales and other revenues	98,391	11,339	20,829
Total Homebuilding	5,276,046	4,093,602	3,150,659
Financial services	72,371	60,288	51,285
Total Revenues	5,348,417	4,153,890	3,201,944
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	3,865,125	3,044,274	2,342,324
Cost of sales interest	70,005	54,985	44,069
Total Cost of Sales	3,935,130	3,099,259	2,386,393
Selling, general and administrative	441,943	330,583	253,724
Inventory impairment loss (Note 13)	5,360	6,990	5,150
Total Homebuilding	4,382,433	3,436,832	2,645,267
Financial services	48,347	34,782	28,415
Corporate general and administrative	90,628	63,423	66,008
Other interest	19,716	20,057	19,589
Expenses related to extinguishment of debt (Note 9)		9,597	1,619
Other operations	15,663	15,295	21,061
Intangible amortization (Note 21)	46,084	28,923	8,380
Total Expenses	4,602,871	3,608,909	2,790,339
Income (loss) from unconsolidated joint ventures	35,039	4,791	(87)
Income Before Income Taxes	780,585	549,772	411,518
State and Federal Income Taxes:			
State (Note 12)	44,806	21,595	17,458
Federal (Note 12)	263,932	179,496	136,680
Total Taxes	308,738	201,091	154,138
Net Income	471,847	348,681	257,380
Less: Preferred Stock Dividends	2,758		
Net Income Available to Common Stockholders	\$ 469,089	\$ 348,681	\$ 257,380
Per Share Data:			
Basic:			
Income Per Common Share	\$ 7.51	\$ 5.63	\$ 4.16
Weighted Average Number of Common Shares Outstanding	62,490	61,892	61,920
Assuming Dilution:			
Income Per Common Share	\$ 7.16	\$ 5.35	\$ 3.93
Weighted Average Number of Common Shares Outstanding	65,549	65,133	65,538

See notes to consolidated financial statements.

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HOVNIANIAN ENTERPRISES, INC.

Hovnianian Enterprises, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(Dollars In Thousands)	A Common Stock Shares Issued and		B Common Stock Shares Issued and		Preferred Stock Shares Issued and		Paid-In Capital	Retained Earnings	Deferred Comp	Treasury Stock	Total
	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount					
Balance, October 31, 2002	46,221,508	\$ 550	14,884,374	\$ 155		\$	\$ 152,625	\$ 447,802	\$ (21)	\$ (38,562)	\$ 562,549
Acquisitions	101,644						3,713		21		3,734
Shares returned in connection with prior year acquisition	(1,498,718)										
Sale of common stock under employee stock option plan	810,220	8					7,039				7,047
Restricted Stock issuances	177,158	2					(22)				(20)
Conversion of Class B to Class A Common Stock	39,106		(39,106)								
Treasury Stock Purchases	(595,238)									(10,978)	(10,978)
Net Income								257,380			257,380
Balance, October 31, 2003	45,255,680	560	14,845,268	155			163,355	705,182		(49,540)	819,712
Acquisitions	489,236						16,311			2,512	18,823
Sale of common stock under employee stock option plan	334,166	4					1,742				1,746
Restricted Stock grants, issuances and forfeitures, net of tax	212,335	2	54,652	1			18,235		(11,867)		6,371
Amortization of Restricted Stock									83		83
Conversion of Class B to Class A Common Stock	214,696	2	(214,696)	(2)							
Treasury Stock Purchases	(104,456)									(3,022)	(3,022)
Net Income								348,681			348,681
Balance, October 31, 2004	46,401,657	568	14,685,224	154			199,643	1,053,863	(11,784)	(50,050)	1,192,394
Issuance of Preferred Stock					5,600		135,389				135,389
Preferred Dividend declared (\$492.45 per								(2,758)			(2,758)

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share)											
Sale of common stock under employee stock option plan, net of tax	927,938	9				15,046					15,055
Restricted Stock grants, issuances and forfeitures, net of tax	244,482	3				21,312		(11,218)			10,097
Amortization of Restricted Stock								3,354			3,354
Conversion of Class B to Class A Common Stock	6,722				(6,722)						
Treasury Stock Purchases	(600,000)									(34,021)	(34,021)
Net Income								471,847			471,847
Balance, October 31, 2005	46,980,799	\$ 580	14,678,502	\$ 154	5,600	\$	\$ 371,390	\$ 1,522,952	\$ (19,648)	\$ (84,071)	\$ 1,791,357

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC.

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

<i>(In Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Cash Flows From Operating Activities:			
Net Income	\$ 471,847	\$ 348,681	\$ 257,380
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	9,075	6,189	6,714
Intangible Amortization	46,084	28,923	8,380
Stock Compensation Expense	12,690	7,755	9,758
Amortization of bond discounts	715	571	526
(Gain) loss on sale and retirement of property and assets	(3,681)	(621)	2,872
Undistributed income from unconsolidated joint ventures	(7,435)		
Expenses related to extinguishment of debt		9,597	1,619
Deferred income taxes	(20,823)	(21,495)	4,223
Impairment losses	5,360	6,990	5,150
Decrease (increase) in assets:			
Mortgage notes receivable	(1,790)	15,049	(130,591)
Receivables, prepaids and other assets	(96,675)	(34,630)	(9,446)
Inventories	(645,280)	(709,577)	(367,773)
Increase (decrease) in liabilities:			
State and Federal income taxes	(22,556)	71,673	(6,179)
Customers deposits	168,682	15,285	18,948
Interest and other accrued liabilities	9,780	35,008	45,305
Accounts payable	50,065	40,289	(29,492)
Net cash used in operating activities	(23,942)	(180,313)	(182,606)
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets	8,495	1,881	3,123
Purchase of property, equipment, and other fixed assets and acquisitions of homebuilding companies			
	(317,777)	(104,796)	(198,095)
Net investment in unconsolidated affiliates	(138,864)	(17,859)	(2,783)
Net cash used in investing activities	(448,146)	(120,774)	(197,755)
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes	2,373,335	3,871,659	1,940,718
Proceeds from senior debt	495,287	365,000	
Proceeds from senior subordinated debt	100,000		150,000
Proceeds from preferred stock	135,389		
Principal payments on mortgages and notes	(2,443,963)	(3,826,348)	(1,830,756)
Principal payments on subordinated debt		(156,844)	(11,369)
Preferred dividends paid	(2,758)		
Purchase of treasury stock	(34,021)	(3,022)	(10,978)
Net proceeds from sale of stock and employee stock plan	294	445	977
Net cash provided by financing activities	623,563	250,890	238,592
Net Increase (Decrease) In Cash	151,475	(50,197)	(141,769)
Cash and Cash Equivalents Balance, Beginning Of Year	78,024	128,221	269,990
Cash and Cash Equivalents Balance, End Of Year	\$ 229,499	\$ 78,024	\$ 128,221
Supplemental Disclosures Of Cash Flows:			
Cash paid during the period for:			
Interest, net of capitalized interest	\$ 89,851	\$ 78,209	\$ 59,367

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Income Taxes	\$ 352,518	\$ 150,016	\$ 152,532
Supplemental disclosures of noncash operating activities:			
Consolidated Inventory Not Owned:			
Specific performance options	\$ 8,656	\$ 11,440	\$ 52,996
Variable interest entities	231,817	183,654	87,312
Other options	126,754	29,309	44,764
Total Inventory Not Owned	\$ 367,227	\$ 224,403	\$ 185,072

See notes to consolidated financial statements.

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HOVNANIAN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2005, 2004, and 2003

1. Basis of Presentation

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Basis of Presentation The accompanying Consolidated Financial Statements include our accounts and all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions.

2. Business

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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 most substantial part of our business, with 97% of consolidated revenues in the year ended October 31, 2005, and approximately 98% of consolidated revenue in 2004, and 2003 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in 367 consolidated new home communities in New Jersey, Pennsylvania, New York, Ohio, Virginia, West Virginia, Delaware, Illinois, Minnesota, Michigan, Maryland, North Carolina, South Carolina, Florida, Texas, Arizona, and California. We offer a wide variety of homes that are designed to appeal to first-time buyers, first and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. Our financial services operations, which are a reportable segment, provide mortgage banking and title services to the homebuilding operations' customers. We do not retain or service the mortgages that we originate but rather sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, accounting, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety.

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

3. Summary of Significant Accounting Policies

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

Business Combinations When we make an acquisition of another company, we use the purchase method of accounting in accordance with the Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations (SFAS 141). Under SFAS No. 141 (for acquisitions subsequent to June 30, 2001) and Accounting Principles Board (APB) Opinion 16 (for acquisitions prior to June 30, 2001), we record as our cost the estimated fair value of the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible and intangible assets less liabilities is recorded as goodwill. The operations of the acquired company from the date of acquisition are included in our financial statements.

Income Recognition from Home and Land Sales Income from home and land sales are recorded when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement.

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

Income Recognition from Mortgage Loans Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer and the sales price is collected.

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

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

HOVNANIAN ENTERPRISES, INC.

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market funds with original maturities of 90 days or less when purchased. The Company's cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. The Company believes it mitigates its risk by investing in or through a major financial institution.

Fair Value of Financial Instruments The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Our financial instruments consist of cash equivalents, receivables, customer deposits and notes, accounts payable and other liabilities, mortgages and notes receivable, mortgages and notes payable, our revolving credit agreement, and the senior and senior subordinated notes payable. The fair value of both the Senior Notes 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 Notes and Senior Subordinated Notes is estimated at \$1,039.3 million and \$397.8 million, respectively, as of October 31, 2005. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

Inventories Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs 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. For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on discounted future cash flows generated from expected revenue, cost to complete including interest, and selling costs.

Insurance Deductible Reserves For fiscal 2005, our deductible is \$5 million per occurrence for general liability insurance and \$500,000 per occurrence for worker's compensation insurance. For fiscal 2004, our deductible was \$150,000 per occurrence for worker's compensation and general liability insurance. Reserves have been established based upon actuarial analysis of estimated future losses during 2005 and 2004. For fiscal 2006, our deductible increases to \$20 million per occurrence with an aggregate \$20 million for bodily injury and property damage claims and an aggregate \$20 million for product defect claims under our general liability insurance. Our worker's compensation insurance deductible increases to \$1 million per occurrence for 2006.

Interest Costs related to properties under development are capitalized during the land development and home construction period and expensed as cost of sales interest as the related inventories are sold. Costs related to properties not under development are charged to interest expense separately in the Consolidated Statements of Income.

Interest costs incurred, expensed and capitalized were:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Interest capitalized at beginning of year	\$ 37,465	\$ 24,833	\$ 22,159
Plus interest incurred(1)	102,930	87,674	66,332
Less cost of sales interest expensed(2)	70,005	54,985	44,069
Less other interest expensed	19,716	20,057	19,589
Interest capitalized at end of year	\$ 50,674	\$ 37,465	\$ 24,833

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

(2) Represents interest on borrowings for construction, land and development costs which are charged to interest expense when homes are delivered.

Land Options Costs are capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option. In accordance with Financial Accounting Standards Board (FASB) revision to Interpretation No. 46 Consolidation of Variable Interest Entities an interpretation of Accounting Research Bulletin No. 51 (FIN 46-R), SFAS No. 49 Accounting for Product Financing Arrangements (SFAS 49), SFAS No. 98 Accounting for Leases (SFAS 98), and Emerging Issues Task Force (EITF) No. 97-10 The Effects of Lessee Involvement in Asset Construction (EITF 97-10), we record on the Consolidated Balance Sheets specific performance options, options with variable interest entities, and other options under Consolidated Inventory Not Owned with the offset to Liabilities from inventory not owned, Minority interest from inventory not owned and Minority interest from consolidated joint ventures.

Intangible Assets The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements with both definite and indefinite lives resulting from our acquisitions. We no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2005 and 2004, and determined

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Notes to Consolidated Financial Statements

For the Years Ended October 31, 2005, 2004, and 2003

that no impairment of goodwill or indefinite life intangibles existed. We are amortizing the definite life intangibles over their expected useful life, ranging from three to eight years. The weighted average amortization period remaining for definite life intangibles was 3.52 years as of October 31, 2005.

In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This resulted in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles on our Consolidated Balance Sheet at that time. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be substantially written off by our fourth quarter of 2008.

As of October 31, 2005, the gross amount of definite life intangibles and related accumulated amortization was \$332.9 million and \$83.4 million, respectively. The expected amortization expense for these definite life intangibles in future years follow:

Year Ending October 31,	(in Thousands)
2006	\$ 54,195
2007	44,297
2008	37,848
2009	34,645
2010	30,325
After 2010	48,196
	\$ 249,506

Finance Subsidiary Net Worth In accordance with Statement of Position 01-6 (SOP 01-6) of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, we are required to disclose the minimum net worth requirements by regulatory agencies, secondary market investors and states in which our mortgage subsidiary conducts business. At October 31, 2005 and 2004, our mortgage subsidiary's net worth was \$29.6 million and \$36.0 million, respectively, which exceeded all our regulatory agencies net worth requirements.

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

Debt Issued At a Discount Debt issued at a discount to the face amount is credited back 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 Income.

Post Development Completion Costs In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work and is recorded in Accounts payable and other liabilities in the accompanying Consolidated Balance Sheets.

Warranty Costs Based upon historical experience, we accrue warranty costs as part of cost of sales for estimated repair costs over \$1,000 to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs under our \$5 million per occurrence general liability insurance deductible as part of Selling, general and administrative costs. As previously stated, the deductible for our general liability insurance will increase for fiscal 2006 to \$20 million per occurrence with an aggregate \$20 million for bodily injury and property damage claims, and an aggregate \$20 million for product defect claims. See Note 14 for further detail on warranty costs.

Advertising Costs Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2005, 2004, and 2003, advertising costs expensed amounted to \$57.5 million, \$40.5 million, and \$30.8 million, respectively.

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

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

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In March 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend of Class A and Class B Common Stock payable to stockholders of record on March 19, 2004. The additional shares were distributed on March 26, 2004. All share and per share amounts (except par value) have been retroactively adjusted to reflect the stock split. There was no net affect on total stockholders equity as a result of the stock split.

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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, 2005, 2.5 million shares have been purchased under this program, of which 0.6 million and 0.1 million were repurchased during the twelve months ended October 31, 2005 and 2004, respectively. In addition, during the twelve months ended October 31, 2003, we retired at no cost 1.5 million shares that were held by a seller of a previous acquisition.

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 will be 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 National Market under the symbol HOVNP. The net proceeds from the offering of \$135 million, reflected in Paid in Capital in the Condensed Consolidated Balance Sheet were used for the partial repayment of the outstanding balance under our revolving credit facility as of July 12, 2005. On October 17, 2005, we paid \$2.8 million as dividends on the Series A Preferred Stock.

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

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

Stock Options SFAS No. 123 Accounting for Stock-Based Compensation (SFAS 123), establishes a fair value based method of accounting for stock-based compensation plans, including stock options and non-vesting stock. Registrants may elect to continue accounting for stock option plans under APB Opinion No. 25 Accounting for Stock Issued to Employees (APB 25), but are required to provide pro forma net income and earnings per share information as if the new fair value approach had been adopted. Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant (see Note 15). However, for non-vested stock, compensation expense equal to the market price of the stock on the grant date is recognized ratably over the vesting period.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily adopts the fair value recognition method of recording stock option expense. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements.

For purposes of pro forma disclosures, the estimated fair value of the options using Black-Scholes is amortized to expense over the options vesting period. Our pro forma information follows:

<i>(In Thousands Except Per Share Data)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Net income available to common stockholders; as reported	\$ 469,089	\$ 348,681	\$ 257,380
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	6,267	4,477	2,075
Pro forma net income	\$ 462,822	\$ 344,204	\$ 255,305
Pro forma basic earnings per share	\$ 7.41	\$ 5.56	\$ 4.12
Basic earnings per share as reported	\$ 7.51	\$ 5.63	\$ 4.16
Pro forma diluted earnings per share	\$ 7.06	\$ 5.28	\$ 3.90
Diluted earnings per share as reported	\$ 7.16	\$ 5.35	\$ 3.93

Pro forma information regarding net income and earnings per share is calculated as if we had accounted for our stock-based compensation under the fair value method of SFAS No. 123. The fair value for those options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005, 2004, and 2003: risk-free interest rate of 4.2%, 4.2%, and 4.3%, respectively; dividend yield of zero; volatility

HOVNANIAN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

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factor of the expected market price of our common stock of 0.44, 0.48, and 0.43, respectively; and a weighted-average expected life of the option of 5.0, 5.0, and 5.1 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of our traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share Based Payment (SFAS 123R), which is a revision of SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

SFAS 123R applies to all awards granted after the required effective date (the beginning of the first annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair value based method for either recognition or disclosure under Statement 123 will apply SFAS 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in our fiscal first quarter of 2006, we will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro forma disclosure in the notes to the financial statements. We expect the impact of the adoption of SFAS 123R to be a reduction of fiscal 2006 net income of approximately \$7.0 million assuming modified prospective application.

Per Share Calculations Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock shares and non-vested common stock of approximately 3.1 million, 3.2 million, and 3.6 million for the years ended October 31, 2005, 2004, and 2003, respectively.

Computer Software Development 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.

Accounting for Derivative Instruments and Hedging Activities In April 2003, the Financial Accounting Standards Board issued (SFAS) No. 149, Amendment of Derivative Instruments and Hedging Activities . SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities that fall within the scope of SFAS 133, Accounting for Derivative Instruments and Hedging Activities . SFAS 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective the beginning of the first interim period beginning after June 15, 2003. The Company currently controls several finite life partnerships which are included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely and therefore the Company has not applied SFAS 150 to the minority interest of these partnerships. Based on the estimated value of the assets owned by the partnerships at October 31, 2005, the Company estimates that the minority interest in these partnerships would be entitled to receive approximately its current

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carrying value upon the dissolution of the partnership. The adoption of SFAS 150 did not have a material effect on our financial position or results of operations.

In March 2004, the Securities and Exchange Commission staff issued Staff Accounting Bulletin 105 (SAB 105). Existing accounting guidance requires an entity to record on its balance sheet the fair value of any issued and outstanding mortgage loan commitments. SAB 105 requires that the fair value measurement include only differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any future cash flows related to (i) expected fees to be received when the loan commitment becomes a loan, (ii) gains from selling the loan, or (iii) the servicing value created from the loan. The guidance in SAB 105 must be applied to mortgage loan commitments that are accounted for as derivatives and are entered into after March 31, 2004. The adoption of the guidance in SAB 105 did not have a material adverse effect on our financial position or results of operations.

We manage our interest rate risk on mortgage loans held for sale and our estimated future commitments to originate and close mortgage loans at fixed prices through the use of best-efforts whole loan delivery commitments. These instruments are classified as derivatives and generally have maturities of three months or less. Accordingly, gains and losses are recognized in current earnings during the period of change.

Recent Accounting Pronouncements In March 2005, the Securities and Exchange Commission released SEC Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* . SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. We are currently evaluating SAB No. 107 and will be incorporating it as part of our adoption of SFAS No. 123R.

In December 2004, the FASB issued Staff Position 109-1 (FSP 109-1), *Application of FASB Statement No. 109 (FASB No. 109), Accounting for Income Taxes* , to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004. FSP 109-1 clarifies guidance that applies to the new deduction for qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. FSP 109-1 clarifies that the deduction should be accounted for as a special deduction under FASB No. 109 and will reduce tax expense in the period or periods that the amounts are deductible on the tax return. Any tax benefits resulting from the new deduction will be effective for our fiscal year ending October 31, 2006. We are in the process of assessing the impact, if any, the new deduction will have on our financial statements.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections* . This statement, which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* , changes the requirements for the accounting for and reporting of a change in accounting principle. The statement requires retrospective application of changes in accounting principle to prior periods' financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2005, the Emerging Issues Task Force (EITF) released Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). EITF 04-5 creates a framework for evaluating whether a general partner or a group of general partners controls a limited partnership and therefore should consolidate the partnership. EITF 04-5 states that the presumption of general partner control would be overcome only when the limited partners have certain specific rights as outlined in EITF 04-5. EITF 04-5 is effective immediately for all newly formed limited partnerships and for existing limited partnership agreements that are modified. For general partners in all other limited partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. Implementation of EITF 04-5 is not expected to have a material impact on the Company's results of operations or financial position.

Reclassifications Certain amounts in the 2004 and 2003 Consolidated Financial Statements have been reclassified to conform to the 2005 presentation.

HOVNANIAN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2005, 2004, and 2003

4. Leases

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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 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,	<i>(In Thousands)</i>
2006	\$ 14,038
2007	12,955
2008	9,556
2009	6,827
2010	3,161
After 2010	3,866
	\$ 50,403

5. Property

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Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business and are recorded at cost less accumulated depreciation. Homebuilding accumulated depreciation related to these assets at October 31, 2005 and October 31, 2004 amounted to \$30.5 million and \$27.8 million, respectively.

6. Deposits

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We hold escrow cash, included in cash and cash equivalents on the Consolidated Balance Sheets, amounting to \$18.2 million and \$17.1 million at October 31, 2005 and October 31, 2004, respectively, which primarily represents customers' deposits which are restricted from use by us. We are able to release the majority of this escrow cash by pledging letters of credit and surety bonds. Escrow cash accounts are substantially invested in short-term certificates of deposit, time deposits, or money market accounts.

7. Mortgage Loans Held for Sale

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Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market with servicing released within a short period of time. At October 31, 2005 and 2004, respectively, \$211.2 million and \$209.2 million of such mortgages were pledged against our mortgage warehouse line (see Note 8). We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 2005 or 2004.

8. Mortgages and Notes Payable

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The construction loans for our new Corporate Headquarters are secured by the real property and any improvements. The carrying value of these assets are \$43.1 million at October 31, 2005. These loans have installment obligations with annual principal maturities in the following years ending October 31, of approximately \$0.7 million in 2006, 2007, and 2008, \$0.8 million in 2009, \$0.9 million in 2010, and \$20.5 million after 2010. The interest rate on these obligations are 5.67% and 8.82% at October 31, 2005.

Our amended and restated unsecured Revolving Credit Agreement (Agreement) with a group of banks provides a revolving credit line and letter of credit line of \$1.2 billion through July 2009. The facility contains an accordion feature under which the aggregate commitment can be increased to \$1.3 billion subject to the availability of additional commitments. Interest is payable monthly at various rates based on a margin ranging from 1.00% to 1.95% per annum, depending on our Consolidated Leverage Ratio, as defined in the Agreement, plus, at the Company's option, either (1) a base rate determined by reference to the higher of (a) PNC Bank, National Association's prime rate and (b) the federal funds rate plus 1/2% or (2) a LIBOR-based rate for a one, two, three, or

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six month interest period as selected by us. In addition, we pay a fee ranging from 0.20% to 0.30% per annum on the unused portion of the revolving credit line, depending on our Consolidated Leverage Ratio and the average percentage unused portion of the revolving credit line. We and each of our significant subsidiaries, except for various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a subsidiary formerly engaged in homebuilding activity in Poland, our financial services subsidiaries, joint ventures, and certain other subsidiaries, is a guarantor under the Agreement. As of October 31, 2005 and October 31, 2004, the outstanding balances under the Agreement were zero and \$115.0 million, respectively. At October 31, 2005, we had issued \$330.8 million letters of credit which reduces cash available under the Agreement.

Average interest rates and average balances outstanding under the Agreement are as follows:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Average monthly outstanding borrowings	\$ 96,796	\$ 114,846	\$ 2,485
Average interest rate during period	5.8	4.3	4.5
Average interest rate at end of period(1)	5.5	3.6	2.8
Maximum outstanding at any month end	\$ 143,500	\$ 335,650	\$ 29,800

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

Our amended secured mortgage loan warehouse agreement with a group of banks, which is a short-term borrowing, provides up to \$250 million through April 2006. Interest is payable monthly at the Eurodollar Rate plus 1.25%. The loan is repaid when the underlying mortgage loans are sold to permanent investors by us. We also have a \$100 million commercial paper facility. The facility expires in September 2006 and interest of LIBOR plus .65% is payable monthly. As of October 31, 2005 and October 31, 2004, borrowings under both agreements were \$198.9 million and \$188.4 million, respectively.

9. Senior and Senior Subordinated Notes

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Senior Notes and Senior Subordinated Notes balances as of October 31, 2005 and 2004 were as follows:

<i>(In Thousands)</i>	Year Ended October 31, 2005	October 31, 2004
Senior Notes:		
10½% Senior Notes due October 1, 2007 (net of discount)	\$ 138,992	\$ 138,428
8% Senior Notes due April 1, 2012 (net of discount)	99,379	99,309
6½% Senior Notes due January 15, 2014	215,000	215,000
6¾% Senior Notes due December 15, 2014	150,000	150,000
6¼% Senior Notes due January 15, 2015	200,000	
6¼% Senior Notes due January 15, 2016 (net of discount)	295,368	
Total Senior Notes	\$ 1,098,739	\$ 602,737
Senior Subordinated Notes:		
8¾% Senior Subordinated Notes due April 1, 2012	150,000	150,000
7¾% Senior Subordinated Notes due May 15, 2013	\$ 150,000	\$ 150,000
6% Senior Subordinated Notes due January 15, 2010	100,000	
Total Senior Subordinated Notes	\$ 400,000	\$ 300,000

On May 4, 1999, we issued \$150 million principal amount of 9¼% Senior Notes due May 1, 2009. Interest was payable semi-annually. The notes were redeemed on May 3, 2004 as discussed further below.

On October 2, 2000, we issued \$150 million principal amount of 10½% Senior Notes due October 1, 2007. During the year ended October 31, 2003, we paid down \$9.8 million of these notes. We recorded \$1.6 million of expenses associated with the early extinguishment of the debt in *Expenses Related to Extinguishment of Debt* on the Consolidated Statement of Income in 2003. The 10½% Senior Notes were issued at a discount to yield 11% and have been reflected net of the unamortized discount in the accompanying Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements

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Interest is payable semi-annually. The notes are redeemable in whole or in part, at any time, at our option at 100% of their principal amount upon payment of a make-whole price.

On March 26, 2002, we issued \$100 million 8% Senior Notes due 2012 and \$150 million 8⁷/₈% 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 9³/₄% Subordinated Notes due June 1, 2005, repay a portion of our Term Loan Facility, repay the current outstanding indebtedness under our Revolving Credit Agreement, and the remainder for general corporate purposes.

On May 9, 2003, we issued \$150 million 7³/₄% Senior Subordinated Notes due 2013. The notes are redeemable in whole or in part, at any time on or after May 15, 2008, at redemption prices expressed as percentages of principal amount that decline to 100% on May 15, 2011. The net proceeds of the note offering were used to repay the indebtedness then outstanding under the Revolving Credit Agreement and the remainder for general corporate purposes.

On November 3, 2003, we issued \$215 million 6¹/₂% 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 6³/₈% 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 9¹/₈% 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. The redemption of the Senior Notes and the payoff of the Term Loan resulted in expenses due to the early extinguishment of debt of \$8.7 million and \$0.9 million in 2004, respectively, before taxes, which have been reported as Expenses Related to Extinguishment of Debt on our Consolidated Statements of Income.

On November 30, 2004, we issued \$200 million 6¹/₄% 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 6¹/₄% Senior Notes due 2016. The 6¹/₄% 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.

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain a Company guarantee (see Note 23) and restrictions on the payment of cash dividends. Under the most restrictive of these provisions, at October 31, 2005, \$564.9 million of retained earnings were free of such restrictions.

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At October 31, 2005, we had total issued and outstanding \$1,505.2 million (\$1,498.7 million, net of discount) Senior and Senior Subordinated Notes. These notes have annual principal maturities in the following years ending October 31, of \$140.2 million in 2007, \$100.0 million in 2010, and \$1,265.0 million after 2011.

10. Operating and Reporting Segments (as Restated)

Subsequent to the issuance of the Company's consolidated financial statements for the year ended October 31, 2005, management determined that the notes to the consolidated financial statements for the years ended October 31, 2005, 2004 and 2003 should be restated to contain expanded disclosure of reportable segments in accordance with the provisions of SFAS 131, *Disclosures About Segments of an Enterprise and Related Information* (SFAS 131). SFAS 131 defines operating segments as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. The Company has identified its chief operating decision-maker as the Chief Executive Officer. The Company had historically aggregated its homebuilding operating segments into a single, national reportable segment, but has restated its segment disclosure to include six homebuilding reportable segments for the years ended October 31, 2005, 2004 and 2003. The restatement has no impact on the Company's consolidated balance sheets as of October 31, 2005 and 2004, or consolidated statements of income and related income per common share amounts, consolidated statements of cash flows or consolidated statements of stockholders' equity for the years ended October 31, 2005, 2004 and 2003.

The Company's operating segments are aggregated into reportable segments in accordance with SFAS No. 131, based primarily upon geographic proximity, similar regulatory environments, land acquisition characteristics, and similar methods used to construct and sell homes.

The Company's reportable segments consist of:

Homebuilding:

Northeast (New Jersey, New York, Pennsylvania)

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

Midwest (Illinois, Michigan, Minnesota, Ohio)

Southeast (Florida, North Carolina, South Carolina)

Southwest (Arizona, Texas)

West (California)

Financial Services

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Operations of the Company's homebuilding segments primarily include the sale and construction of single-family attached and detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments. Operations of the Company's Financial Services segment include 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.

Evaluation of segment performance is based primarily on operating earnings from continuing operations before provision for income taxes. Operating earnings for the homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings from unconsolidated entities and management fees and other income, net, less the cost of homes and land sold, selling, general and administrative expenses and minority interest expense, net. Operating earnings for the Financial Services segment consist of revenues generated from mortgage banking and title services less the cost of such services and certain selling, general and administrative expenses incurred by the Financial Services segment.

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

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

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<i>(In thousands)</i>	Years Ended October 31,		2003
	2005	2004	
Revenues:			
Northeast	\$ 1,047,777	\$ 927,621	\$ 750,173
Mid-Atlantic	910,421	637,996	429,257
Midwest	87,001	105,199	38,033
Southeast	746,326	429,236	257,611
Southwest	742,804	684,266	483,116
West	1,730,373	1,307,849	1,191,763
Total homebuilding revenues	5,264,702	4,092,167	3,149,953
Financial Services	72,371	60,288	51,285
Corporate and unallocated	11,344	1,435	706
Total revenues	\$ 5,348,417	\$ 4,153,890	\$ 3,201,944
Income before income taxes:			
Northeast	\$ 233,811	\$ 158,649	\$ 123,598
Mid-Atlantic	177,864	123,198	83,828
Midwest	(14,814)	5,424	(1,069)
Southeast	47,913	15,625	7,120
Southwest	56,416	44,935	29,094
West	329,009	242,733	218,950
Homebuilding income before income taxes	830,199	590,564	461,521
Financial Services	24,025	25,506	22,870
Corporate and unallocated	(73,639)	(66,298)	(72,873)
Income before income taxes	\$ 780,585	\$ 549,772	\$ 411,518

<i>(In thousands)</i>	October 31,	
	2005	2004
Assets:		
Northeast	\$ 1,058,155	\$ 739,162
Mid-Atlantic	621,836	527,806
Midwest	156,464	48,305
Southeast	688,880	96,381
Southwest	377,866	367,649
West	1,143,747	1,054,101
Total homebuilding assets	4,046,948	2,833,404
Financial Services	237,292	230,449
Corporate and unallocated	435,715	92,414
Total assets	\$ 4,719,955	\$ 3,156,267
Investments in unconsolidated entities:		
Northeast	\$ 31,916	\$ 7,540
Mid-Atlantic	19,569	6,910
Midwest	25,140	
Southeast	28,428	6,182
Southwest	12,042	9,081
West	70,110	11,127
Total investments in unconsolidated entities	\$ 187,205	\$ 40,840

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

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<i>(In thousands)</i>	Years Ended October 31,		
	2005	2004	2003
Homebuilding interest expense:			
Northeast	\$ 20,196	\$ 23,180	\$ 22,604
Mid-Atlantic	12,918	11,497	8,169
Midwest	1,465	1,745	1,061
Southeast	7,802	7,052	5,304
Southwest	11,210	10,051	8,408
West	28,331	19,332	17,295
Total homebuilding interest expense	81,922	72,857	62,841
Corporate and unallocated	7,799	2,185	817
Financial services interest income, net	(1,575)	(2,313)	(2,330)
Total interest expense, net	\$ 88,146	\$ 72,729	\$ 61,328
Depreciation and amortization:			
Northeast	\$ 1,171	\$ 1,019	\$ 781
Mid-Atlantic	1,153	440	72
Midwest	7,662	6,799	3,694
Southeast	12,680	5,290	77
Southwest	7,459	7,189	5,375
West	20,666	11,358	474
Total homebuilding depreciation and amortization	50,791	32,095	10,473
Financial Services	360	347	260
Corporate and unallocated	4,008	2,670	4,361
Total depreciation and amortization	\$ 55,159	\$ 35,112	\$ 15,094
Net additions to operating properties and equipment:			
Northeast	\$ 1,455	\$ 4,716	\$ 1,446
Mid-Atlantic	849	1,500	88
Midwest	6,727	1,274	237
Southeast	1,489	186	3
Southwest	1,276	704	2,473
West	3,912	921	930
Total homebuilding net additions to operating properties and equipment	15,708	9,301	5,177
Financial Services	396	320	336
Corporate and unallocated	43,724	14,966	4,307
Total net additions to operating properties and equipment	\$ 59,828	\$ 24,587	\$ 9,820
Equity in earnings from unconsolidated entities:			
Northeast	\$ 29,882	\$ 4,166	\$ (87)
Mid-Atlantic	(604)		
Midwest	3,596		
Southeast	1,226	117	
Southwest	(98)	508	
West	1,037		
Total equity in earnings from unconsolidated entities	\$ 35,039	\$ 4,791	\$ (87)

11. Retirement Plan

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In December 1982, we established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$11.3 million, \$9.2 million, and \$7.5 million for the years ended October 31, 2005, 2004, and 2003, respectively. The year over year increases are the result of an increased number of participants from Company growth and increased profit sharing contributions resulting from higher Company returns on equity.

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12. Income Taxes

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

<i>(In Thousands)</i>	Year Ended	
	October 31, 2005	October 31, 2004
State income taxes:		
Current	\$ 25,291	\$ 13,420
Deferred	(10,600)	(11,077)
Federal income taxes:		
Current	38,347	88,775
Deferred	(62,941)	(42,119)
Total	\$ (9,903)	\$ 48,999

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

<i>(In Thousands)</i>	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Current income tax expense:			
Federal	\$ 284,754	\$ 200,857	\$ 130,536
State(1)	44,329	23,625	19,379
	329,083	224,482	149,915
Deferred income tax (benefit) expense:			
Federal	(20,822)	(21,361)	6,144
State	477	(2,030)	(1,921)
	(20,345)	(23,391)	4,223
Total	\$ 308,738	\$ 201,091	\$ 154,138

(1) The current state income tax expense is net of the use of state loss carryforwards amounting to \$64.8 million, \$32.0 million, and \$13.5 million for the years ended October 31, 2005, 2004, and 2003, respectively.

The deferred tax liabilities or assets have been recognized in the Consolidated Balance Sheets due to temporary differences as follows:

<i>(In Thousands)</i>	Year Ended	
	October 31, 2005	October 31, 2004
Deferred tax assets:		
Association subsidy reserves	\$ 898	\$ 570
Inventory impairment loss	592	1,236
Uniform capitalization of overhead	21,584	14,683
Warranty, general liability and worker's compensation reserves	8,406	8,874
Deferred income	6,422	6,615
Acquisition intangibles	27,919	17,008
Restricted stock bonus	8,737	7,122
Provision for losses and reserves	29,823	22,829
State net operating loss carryforwards	23,154	37,438
Other	11,041	10,131
Total	138,576	126,506
Valuation allowance	(23,154)	(37,438)
Total deferred tax assets	115,422	89,068
Deferred tax liabilities:		
Research and experimentation costs	22,004	23,745
Rebates and discounts	11,496	1,897
Accelerated depreciation	3,823	3,620
Acquisition intangibles	3,640	5,550
Other	918	1,060
Total deferred tax liabilities	41,881	35,872
Net deferred tax assets	\$ 73,541	\$ 53,196

HOVNANIAN ENTERPRISES, INC.**Notes to Consolidated Financial Statements**

For the Years Ended October 31, 2005, 2004 and 2003

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

	Year Ended		
	October 31, 2005	October 31, 2004	October 31, 2003
Computed expected tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of Federal income tax benefit	3.9	2.4	2.7
Permanent differences	0.2	(0.4)	
Low income housing tax credit	(0.1)	(0.2)	(0.3)
Other	0.6	(0.2)	0.1
Effective tax rate	39.6 %	36.6 %	37.5 %

We have state net operating loss carryforwards of \$272.1 million due to expire between the years October 31, 2006 and October 31, 2025.

The company is currently under audit by the Internal Revenue Service for the year ended –October 31, 2002.

13. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under 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. During the year ended October 31, 2005, we recorded less than \$0.1 million of impairment losses –related to communities under development.

As of October 31, 2004, inventory with a carrying amount of \$3.5 million was written down \$1.2 million in the Northeast, inventory with a carrying amount of \$0.2 million was written down \$0.1 million in the Mid-Atlantic, and inventory with a carrying amount of \$1.2 million was written down \$0.3 million in the Southwest. The write-down in the Northeast was attributed to a section of a community that was built in accordance with a low income housing clause. In preparation for selling this property, an outside appraisal was prepared resulting in a reduction in inventory carrying amount to fair value. The write-down in the Mid-Atlantic and the Southwest was attributed to two properties that were acquired as part of our acquisition in these segments. A decision was made to liquidate these properties resulting in lower sales prices.

As of October 31, 2003, inventory with a carrying amount of \$3.1 million was written down by \$0.7 million in the Southwest. This property was acquired as part of one of our acquisitions. In 2003, a decision was made to liquidate this property resulting in lower sales prices.

The total aggregate impairment losses, which are presented in the Consolidated Statements of –Income and deducted from inventory held for future development or sale were less than \$0.1 million, \$1.6 million, and \$0.7 million for the years ended October 31, 2005, 2004, and 2003, respectively.

The Consolidated Statements of Income line entitled Homebuilding Inventory impairment loss also includes write-offs of options, and approval, engineering, and capitalized interest costs that we record when we redesign communities, abandon certain engineering costs, and we do not exercise options in various locations because the communities pro forma profitability does not produce adequate returns on investment commensurate with the risk. During the years ended October 31, 2005, 2004, and 2003 write-offs amounted to \$5.3 million, \$5.4 million, and \$4.5 million, respectively. Those communities were located in all of our segments.

14. Transactions with Related Parties

We provided property management services to various limited partnerships including one –partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited partners. We no longer provide such services. At October 31, 2005 and 2004, no amounts were due us by these partnerships. During the years ended October 31, 2005, 2004, and 2003 we –received zero, \$37,000, and \$62,000, respectively, from these partnerships.

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During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately \$33.4 million from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer. As of October 31, 2005, we have an option deposit of \$3.0 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated \$22.2 million in accordance with FIN 46 under

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HOVNANIAN ENTERPRISES, INC.

Consolidated Inventory Not Owned in the Consolidated Balance Sheets (see Note 19). –Neither the Company nor the Chairman of the Board or Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer, totaling \$26.9 million. As of October 31, 2005 and 2004, land aggregating \$26.5 million and \$22.1 million, respectively, has been purchased. –Neither the Company nor the Chairman of the Board or Chief Executive Officer has a –financial interest in the relative's company from whom the land was purchased.

During the year ended October 31, 2001, we entered into an agreement to purchase land in Maryland for approximately \$3.0 million from a group that consists of relatives of Geaton Decesaris, Jr., a member of our Board of Directors. We had posted a deposit of \$100,000 and purchased the property when final approvals were in place. The property was purchased in –November 2001 and there are 26 of an original 147 lots remaining in inventory as of October 31, 2005. Geaton Decesaris, Jr. has no financial interest in the relative's ownership and sale of land to the Company.

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 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 generally vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. Certain Mid-Atlantic and Southeast associates were granted and held options to purchase the stock from the acquired company prior to the January 23, 2001 acquisition. These options vest in three installments: 25% on the first and second anniversary, and 50% on the third anniversary of the date of the grant. In connection with the acquisition the options were exchanged for options to purchase the Company's Class A Common Stock. All options expire ten years after the date of the grant. During the year ended October 31, 2005, each of the five outside directors of the Company was granted options to purchase between 7,500 and 13,500 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 evenly over three years. Stock option transactions are summarized as follows:

	October 31, 2005	Weighted Average Fair Value(1) And Exercise Price	October 31, 2004	Weighted Average Fair Value(1) And Exercise Price	October 31, 2003	Weighted Average Fair Value(1) And Exercise Price
Options outstanding at beginning of period	5,774,541	\$ 13.98	4,913,582	\$ 7.33	4,954,324	\$ 4.84
Granted	759,251	\$ 53.76	1,215,625	\$ 39.73	991,000	\$ 16.53
Exercised	927,938	\$ 3.20	334,166	\$ 4.26	1,027,992	\$ 4.76
Forfeited	127,000	\$ 11.07	20,500	\$ 9.47	3,750	\$ 3.75
Options outstanding at end of period	5,478,854	\$ 21.74	5,774,541	\$ 13.98	4,913,582	\$ 7.33
Options exercisable at end of period	1,501,477		1,758,165		1,645,998	
Price range of options outstanding	\$ 1.33-\$71.16		\$ 1.33-\$44.13		\$ 1.33-\$31.50	
Weighted-average remaining contractual life	6.6 years		6.5 years		6.4 years	

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

HOVNANIAN ENTERPRISES, INC.**Notes to Consolidated Financial Statements**

For the Years Ended October 31, 2005, 2004 and 2003

The following table summarizes the exercise price range and related number of options –outstanding at October 31, 2005:

Range of Exercise Prices	Number Outstanding	Weighted Average Price
\$1.33-\$10.00	2,340,478	\$ 4.61
\$10.01-\$20.00	1,115,000	\$ 15.84
\$20.01-\$30.00	6,000	\$ 25.31
\$30.01-\$40.00	598,125	\$ 34.47
\$40.01-\$50.00	1,035,000	\$ 43.04
\$50.01-\$60.00	374,251	\$ 56.01
\$60.01-\$70.00	5,000	\$ 60.36
\$70.01-\$71.16	5,000	\$ 71.16
	5,478,854	\$ 21.06

The following table summarizes the exercise price range and related number of exercisable –options at October 31, 2005:

Range of Exercise Prices	Number Outstanding	Weighted Average Price
\$1.33-\$10.00	1,346,977	\$ 4.08
\$10.01-\$20.00	104,500	\$ 15.57
\$20.01-\$30.00		
\$30.01-\$40.00	50,000	\$ 38.13
	1,501,477	\$ 6.02

For certain associates, a portion of their bonus is paid by issuing a deferred right to receive our common stock. The number of shares is calculated for each bonus year by dividing the portion of the bonus subject to the deferred right award by our average stock price for the year or the stock price at year end, whichever is lower. Twenty-five percent of the deferred right award will vest and shares will be issued one year after the year end and then 25% a year for the next three years. Participants with 20 years of service or over 58 years of age vest immediately. During the years ended October 31, 2005 and 2004, we issued 240,940 and 209,975 shares under the plan. During the years ended October 31, 2005 and 2004, 36,046 and 23,122 shares were forfeited under this plan, respectively. For the years ended October 31, 2005, 2004, and 2003, –approximately 481,734, 436,435, and 411,273 rights were awarded in lieu of \$22.3 million, \$15.8 million, and \$9.8 million of bonus payments, respectively. The deferred portion of these rights are recorded as deferred –compensation in stockholders' equity. For the years ended –October 31, 2005, 2004 and 2003, total compensation cost recognized in the income statement for stock based compensation awards was \$12.7 million, \$7.8 million and \$9.8 million, respectively.

16. Warranty Costs

Over the past several years, general liability insurance for homebuilding companies and their –suppliers and subcontractors has become very difficult to obtain. The availability of general –liability insurance has been limited due to a decreased number of insurance companies willing to write for the industry. In addition, those few insurers willing to write liability insurance have significantly increased the premium costs. We have been able to obtain general liability insurance but at higher premium costs with higher deductibles. We have been advised that a significant number of our subcontractors and suppliers have also had difficulty obtaining insurance that also provides us coverage. As a result, we have 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.

We provide a warranty accrual for repair costs over \$1,000 to homes, community amenities, and land development infrastructure. We accrue for warranty costs at the time each home is closed and title and possession have been transferred to the homebuyer as part of cost of sales. In addition, we accrue for warranty costs under our \$5 million per occurrence general liability insurance deductible and for our recently introduced owner controlled insurance program that we offer to certain subcontractors as part of selling, general and administrative costs and cost of sales, –respectively. Warranty accruals are based upon historical experience. Charges in the warranty accrual and general liability accrual for the years ended October 31, 2005 and 2004 are as follows:

Year Ended

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<i>(In Thousands)</i>	October 31, 2005	October 31, 2004
Balance, beginning of year	\$ 64,922	\$ 39,532
Company acquisitions during year	1,406	
Additions during year	47,170	43,835
Charges incurred during year	(26,792)	(18,445)
Balance, end of year	\$ 86,706	\$ 64,922

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HOVNANIAN ENTERPRISES, INC.

17. Commitments and Contingent Liabilities

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; and 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. In addition, in March 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (EPA) requesting information about storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. The amount requested by the EPA to settle the asserted violations at the one project was not material. We have provided the information requested. In November 2005, the EPA requested additional information on some of the same projects. We continue to provide such information. To the extent that the information provided were to lead the EPA to assert violations of state and/or federal regulatory requirements and request injunctive relief and/or civil penalties, we will defend and attempt to resolve such asserted violations.

Our sales and customer financing processes are subject to the jurisdiction of the U.S. Department of Housing and Urban Development (HUD). In connection with the Real Estate Settlement Procedures Act, HUD has recently inquired about our process of referring business to our affiliated mortgage company and has separately requested documents related to customer financing. We have responded to HUD 's inquiries.

At this time, we cannot predict the outcome of the EPA 's or HUD 's reviews or estimate the costs that may be involved in resolving such matters.

In November 2005, we received two notices from the California Regional Water Quality Control Board alleging violations of certain storm water discharge rules and assessing an administrative civil liability of \$0.2 million and \$0.3 million. We do not consider these assessments to be material and are considering our response to the notices.

18. Performance Letters of Credit

As of October 31, 2005 and 2004, we are obligated under various performance letters of credit amounting to \$330.8 million and \$180.6 million, respectively. (See Note 6)

19. Variable Interest Entities

In January 2003, the FASB issued FIN 46. A Variable Interest Entity (VIE) is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 was effective immediately for VIE 's created after January 31, 2003. Pursuant to FASB revision to FIN 46 (FIN 46-R), issued in December 2003, our Company was not required to apply the provisions of FIN 46 to an interest held in a variable interest entity or potential variable interest entity until the end of our quarter ended April 30, 2004 for VIE 's created before February 1, 2003. In accordance with FIN 46R, we have fully implemented FIN 46 as of April 30, 2004.

Based on the provisions of FIN 46, we have concluded that whenever we option land or lots from an entity and pay a non-refundable deposit, a VIE is created under condition (ii)(b) and (c) of the previous paragraph. We have been deemed to have provided subordinated financial support, which refers to variable interests that will absorb some or all of an entity 's expected theoretical losses if they occur. For each VIE created with a significant nonrefundable option fee, we will compute expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46. If we are deemed to be the primary beneficiary of the VIE we will consolidate it on our balance sheet. The fair value of the VIE 's inventory will be reported as Consolidated Inventory Not Owned Variable Interest Entities .

Management believes FIN 46 was not clearly thought out for application in the homebuilding industry for land and lot options. Under FIN 46, 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

HOVNANIAN ENTERPRISES, INC.**Notes to Consolidated Financial Statements**

For the Years Ended October 31, 2005, 2004 and 2003

exposure to loss as a result of our involvement with the VIE is only the deposit, not its total assets consolidated on the balance sheet. In certain cases we will have to place inventory on our balance sheet the VIE has optioned to other developers. In addition, if the VIE has creditors, its debt will be placed on our balance sheet even though the creditors have no recourse against our Company. Based on these observations we believe consolidating VIEs based on land and lot option deposits does not reflect the economic realities or risks of owning and developing land.

At October 31, 2005, all VIEs we were required to consolidate were as a result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these 27 VIEs totaling \$21.3 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIEs was \$242.8 million. Since we do not own an equity interest in any of the unaffiliated variable interest entities that we must consolidate pursuant to FIN 46, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities have been based on the remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have no debt obligations and the only asset recorded is the land or lots we have the option to buy with a related offset to minority interest for the assumed third party investment in the variable interest equity. At October 31, 2005, the balance reported in minority interest from inventory not owned was \$180.2 million. Creditors of these VIEs have no recourse against our Company.

We will continue to secure land and lots using options. Including the deposits with the 27 VIEs above, at October 31, 2005, we have total cash and letters of credit deposits amounting to approximately \$359.9 million to purchase land and lots with a total purchase price of \$5.0 billion. 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.

20. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

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

(Dollars In Thousands)	October 31, 2005			
	Homebuilding	Land Development	Total	
Assets:				
Cash and cash equivalents	\$ 46,200	\$ 5,012	\$ 51,212	
Inventories	694,408	197,909	892,317	
Other assets	166,974	295	167,269	
Total assets	\$ 907,582	\$ 203,216	\$ 1,110,798	
Liabilities and Equity:				
Accounts payable and accrued liabilities	\$ 228,264	\$ 21,523	\$ 249,787	
Notes payable	316,532	59,131	375,663	
Equity of:				
Hovnanian Enterprises, Inc.	75,470	85,840	161,310	
Others	287,316	36,722	324,038	
Total Equity	362,786	122,562	485,348	
Total liabilities and equity	\$ 907,582	\$ 203,216	\$ 1,110,798	
Debt to Capitalization Ratio	47	% 33	% 44	%

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HOVNANIAN ENTERPRISES, INC.

<i>(Dollars In Thousands)</i>	October 31, 2004			
	Homebuilding	Land Development	Total	
Assets:				
Cash and cash equivalents	\$ 27,944	\$ 2,575	\$ 30,519	
Inventories	79,561	96,748	176,309	
Other assets	5,199	278	5,477	
Total assets	\$ 112,704	\$ 99,601	\$ 212,305	
Liabilities and Equity:				
Accounts payable and accrued liabilities	\$ 22,340	\$ 5,599	\$ 27,939	
Notes payable	41,063	41,679	82,742	
Equity of:				
Hovnanian Enterprises, Inc.	9,501	31,686	41,187	
Others	39,800	20,637	60,437	
Total Equity	49,301	52,323	101,624	
Total liabilities and equity	\$ 112,704	\$ 99,601	\$ 212,305	
Debt to Capitalization Ratio	45	% 44	% 45	%

As of –October 31, 2005 and 2004, we had advances outstanding of approximately \$23.7 and \$1.6 million to these unconsolidated joint ventures, which were included in the accounts payable and accrued liabilities balances in the table above. On our Hovnanian Enterprises, Inc. Consolidated Balance Sheet our Investments in and advances to unconsolidated joint ventures amounted to \$187.2 million and \$40.8 million at October 31, 2005 and 2004, respectively. The minor difference between the Hovnanian equity balance plus Advances to unconsolidated joint ventures balance disclosed here compared to the Hovnanian Enterprises, Inc. Consolidated Balance Sheet is due to a different inside basis versus outside basis in certain joint ventures.

<i>(In Thousands)</i>	Year Ended October 31, 2005		
	Homebuilding	Land Development	Total
Revenues	\$ 533,104	\$ 34,527	\$ 567,631
Cost of sales and expenses	(464,223)	(33,950)	(498,173)
Joint venture net income	\$ 68,881	\$ 577	\$ 69,458
Our share of net earnings/(losses)	\$ 35,739	\$ (700)	\$ 35,039

<i>(In Thousands)</i>	Year Ended October 31, 2004		
	Homebuilding	Land Development	Total
Revenues	\$ 37,573	\$ 12,872	\$ 50,445
Cost of sales and expenses	(30,834)	(10,525)	(41,359)
Joint venture net income	\$ 6,739	\$ 2,347	\$ 9,086
Our share of net earnings	\$ 4,283	\$ 508	\$ 4,791

<i>(In Thousands)</i>	Year Ended October 31, 2003		
	Homebuilding	Land Development	Total
Revenues	\$ 9,608	\$ 4,038	\$ 13,646
Cost of sales and expenses	(10,010)	(4,063)	(14,073)
Joint venture net loss	\$ (402)	\$ (25)	\$ (427)
Our share of net losses	\$ (87)	\$ (87)	\$ (87)

Income (loss) from unconsolidated joint ventures is reflected as a separate line in the accompanying Consolidated Financial Statements and reflects our proportionate share of the income of these –unconsolidated homebuilding and land development joint ventures. Our ownership interests in the joint ventures vary but are generally less than or equal to 50 percent. In determining whether or not we must consolidate joint ventures, where we are the manager of the joint venture, we consider the guidance in EITF 04-5 in assessing whether the other partners have specific rights to overcome the presumption of control by us or the manager of the joint venture.

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Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing for each venture. Generally, the amount of such financing is limited to no more than 50% of the joint venture's total assets, and such financing is obtained on a non-recourse basis, with

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HOVNANIAN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2005, 2004 and 2003

guarantees from us limited only to performance and completion of development and environmental indemnification. In some instances, the joint venture entity is considered a variable interest entity (VIE) under FIN 46 due to the returns being capped to the equity holders; however, in these –instances, we are not the primary beneficiary, therefore we do not consolidate these entities. (See Note 19)

21. Acquisitions

On March 1, 2005, we acquired for cash the assets of Cambridge Homes, a privately held Orlando homebuilder and provider of related financial services, headquartered in Altamonte Springs, Florida. Cambridge Homes also provides mortgage financing, as well as title and settlement services to its homebuyers. It is our policy to obtain appraisals of acquisition intangibles (See Note 3). In connection with the acquisition, based on an appraisal of acquisition intangibles, we have definite life intangible assets equal to the excess of purchase price over the fair value of the net assets of \$22 million. We are amortizing the various definite life intangibles over their estimated lives.

On March 2, 2005, we acquired the operations of Town & Country Homes, a privately held homebuilder and land developer headquartered in Lombard, Illinois, which occurred concurrently with our entering into a joint venture agreement with affiliates of Blackstone Real Estate Advisors in New York to own and develop Town & Country's existing residential communities. The joint venture is being accounted for under the equity method. Town & Country Homes operations beyond the existing owned and optioned communities, as of the acquisition date, are wholly-owned and included in our consolidated financial statements.

On August 8, 2005, we acquired substantially all of the assets of First Home Builders of Florida, a privately held homebuilder and provider of related financial services headquartered in Cape Coral, Florida.

On August 3, 2005, we acquired substantially all of the homebuilding assets of Oster Homes, a privately held Ohio homebuilder, headquartered in Lorain, Ohio.

In connection with the First Home Builders of Florida and Oster Homes acquisitions, we have definite life intangible assets equal to the excess purchase price over the fair value of \$148 million in the aggregate. We are awaiting the appraisal from these acquisitions. Until the appraisals are received, we estimated the intangible value for amortization calculations. We expect to have final appraisals by the third quarter ended July 31, 2006. We expect to amortize the definite life intangibles over their estimated lives.

On November 6, 2003, we acquired a Tampa, Florida homebuilder for cash and 489,236 shares of our Class A Common Stock. In connection with the acquisition, based on an appraisal of acquisition intangibles we have definite life intangible assets equal to the excess purchase price over the fair value of the net assets of \$33 million. We are amortizing the various definite life intangibles over their estimated lives. This acquisition provides for other payments to be made, generally dependent upon achievement of certain future operating and return objectives.

On November 1, 2002, and December 31, 2002, we acquired two Houston homebuilding companies. On April 9, 2003, we acquired a build-on-your-own-lot homebuilder in Ohio, and on August 8, 2003, we acquired a homebuilder in Phoenix, Arizona. In connection with the December 31, 2002 and April 9, 2003 acquisitions, we have definite life intangible assets equal to the excess purchase price over the fair value of the net assets of \$65.4 million. We have received the appraisals for each of these acquisitions and we are amortizing our definite life intangibles over a period of three to seven years.

All above acquisitions were accounted for as a purchase with results of operations of these entities included in our Consolidated Financial Statements as of the date of acquisition. Also, all the above noted acquisitions provide for other payments to be made, generally dependent upon achievement of certain future operating and return objectives. These additional payments, if any, will be recorded as either additional purchase price and allocated to the required definite life intangible assets or compensation expense.

HOVNANIAN ENTERPRISES, INC.**22. Unaudited Summarized Consolidated Quarterly Information**

Summarized quarterly financial information for the years ended October 31, 2005 and 2004 is as follows:

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2005	July 31, 2005	April 30, 2005	January 31, 2005
Revenues	\$ 1,771,661	\$ 1,312,726	\$ 1,209,469	\$ 1,054,561
Expenses	1,504,957	1,131,742	1,042,082	924,090
Income from unconsolidated joint ventures	12,557	13,907	7,140	1,435
Income before income taxes	279,261	194,891	174,527	131,906
State and Federal income tax	111,126	78,797	68,391	50,424
Net Income	168,135	116,094	106,136	81,482
Less: Preferred Stock Dividends	2,758			
Net income available to common stockholders	\$ 165,377	\$ 116,094	\$ 106,136	\$ 81,482
Per Share Data:				
Basic:				
Income per common share	\$ 2.64	\$ 1.85	\$ 1.71	\$ 1.31
Weighted average number of common shares outstanding	62,721	62,754	62,233	62,240
Assuming Dilution:				
Income per common share	\$ 2.53	\$ 1.76	\$ 1.62	\$ 1.25
Weighted average number of common shares outstanding	65,474	65,796	65,498	65,419

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2004	July 31, 2004	April 30, 2004	January 31, 2004
Revenues	\$ 1,400,589	\$ 1,061,049	\$ 917,108	\$ 775,144
Expenses	1,196,423	923,315	806,651	682,520
Income from unconsolidated joint ventures	738	2,282	1,700	71
Income before income taxes	204,904	140,016	112,157	92,695
State and Federal income tax	71,144	53,278	41,685	34,984
Net Income	\$ 133,760	\$ 86,738	\$ 70,472	\$ 57,711
Per Share Data:				
Basic:				
Income per common share	\$ 2.16	\$ 1.40	\$ 1.13	\$ 0.92
Weighted average number of common shares outstanding	61,950	62,001	62,608	62,430
Assuming Dilution:				
Income per common share	\$ 2.06	\$ 1.33	\$ 1.06	\$ 0.87
Weighted average number of common shares outstanding	65,072	65,115	66,408	66,470

23. Financial Information of Subsidiary Issuer and Subsidiary Guarantors

Hovnanian Enterprises, Inc., the parent company (the Parent) is the issuer of publicly traded common stock. One of its wholly-owned subsidiaries, K. Hovnanian Enterprises, Inc., (the Subsidiary Issuer), acts as a finance entity that as of October 31, 2005 had issued and – outstanding approximately \$400 million Senior Subordinated Notes, \$1,105 million Senior Notes (\$1,099 million, net of discount), and zero drawn on a Revolving Credit Agreement. The Senior Subordinated Notes, Senior Notes, and the Revolving Credit Agreement are fully and unconditionally guaranteed by the Parent.

HOVNANIAN ENTERPRISES, INC.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2005, 2004, and 2003

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 various –subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary engaged in homebuilding activity in Poland, our Title Insurance subsidiaries, and joint ventures (collectively, the Non-guarantor Subsidiaries), have guaranteed fully and unconditionally, on a joint and several basis, the obligation of the Subsidiary Issuer to pay principal and interest under the Senior Notes, Senior Subordinated Notes, and the –Revolving Credit Agreement.

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

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

HOVNANIAN ENTERPRISES, INC.

Consolidating Condensed Balance Sheet

October 31, 2005

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	\$ 1,192	\$ 325,997	\$ 3,931,333	\$ 214,238	\$	\$ 4,472,760
Financial Services			200	237,092		237,292
Income Taxes						
(Payable) Receivable	(22,704)		32,970	(363)		9,903
Investments in and amounts due to and from consolidated subsidiaries	1,812,869	1,413,666	(1,617,271)	(189,626)	(1,419,638)	
Total Assets	\$ 1,791,357	\$ 1,739,663	\$ 2,347,232	\$ 261,341	\$ (1,419,638)	\$ 4,719,955
Liabilities and Stockholders' Equity:						
Homebuilding	\$	\$ 20,431	\$ 996,428	\$ 3,626	\$	\$ 1,020,485
Financial Services			81	207,236		207,317
Notes Payable		1,498,739	(3,531)	24,339		1,519,547
Minority Interest			180,170	1,079		181,249
Stockholders' Equity	1,791,357	220,493	1,174,084	25,061	(1,419,638)	1,791,357
Total Liabilities and Stockholders' Equity	\$ 1,791,357	\$ 1,739,663	\$ 2,347,232	\$ 261,341	\$ (1,419,638)	\$ 4,719,955

Consolidating Condensed Balance Sheet

October 31, 2004

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	\$ (99)	\$ 51,441	\$ 2,804,800	\$ 69,676	\$	\$ 2,925,818
Financial Services			149	230,300		230,449
Investments in and amounts due to and from consolidated subsidiaries	1,262,169	1,037,671	(1,319,839)	(41,423)	(938,578)	
Total Assets	\$ 1,262,070	\$ 1,089,112	\$ 1,485,110	\$ 258,553	\$ (938,578)	\$ 3,156,267
Liabilities and Stockholders' Equity:						
Homebuilding	\$	\$ 149	\$ 526,278	\$ 2,123	\$	\$ 528,550
Financial Services			(1)	194,498		194,497
Notes Payable		1,032,259	(28,324)	29,324		1,033,259
Income Taxes						
Payable (Receivable)	69,676	1,961	(23,579)	941		48,999
Minority Interest			155,096	3,472		158,568
Stockholders' Equity	1,192,394	54,743	855,640	28,195	(938,578)	1,192,394
Total Liabilities and Stockholders' Equity	\$ 1,262,070	\$ 1,089,112	\$ 1,485,110	\$ 258,553	\$ (938,578)	\$ 3,156,267

HOVNANIAN ENTERPRISES, INC.

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2005

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 237	\$ 5,274,683	\$ 1,126	\$	\$ 5,276,046
Financial Services			7,113	65,258		72,371
Intercompany Charges		219,759	218,461		(438,220))
Equity In Pretax Income of Consolidated Subsidiaries	780,585				(780,585))
Total Revenues	780,585	219,996	5,500,257	66,384	(1,218,805)	) 5,348,417
Expenses:						
Homebuilding		1,535	4,651,008	2,369	(100,388)	) 4,554,524
Financial Services			3,966	44,530	(149)	) 48,347
Total Expenses		1,535	4,654,974	46,899	(100,537)	) 4,602,871
Income from unconsolidated joint ventures			35,039			35,039
Income (Loss) Before Income Taxes	780,585	218,461	880,322	19,485	(1,118,268)	) 780,585
State and Federal Income Taxes	308,738	76,461	341,039	9,426	(426,926)	) 308,738
Net Income (Loss)	\$ 471,847	\$ 142,000	\$ 539,283	\$ 10,059	\$ (691,342)	) \$ 471,847

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2004

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 4,860	\$ 4,061,682	\$ 27,143	\$ (83)	) \$ 4,093,602
Financial Services			5,582	54,706		60,288
Intercompany Charges		106,181	145,052		(251,233))
Equity In Pretax Income of Consolidated Subsidiaries	549,772				(549,772))
Total Revenues	549,772	111,041	4,212,316	81,849	(801,088)	) 4,153,890
Expenses:						
Homebuilding		10,999	3,681,371	24,268	(142,511)	) 3,574,127
Financial Services			2,734	32,684	(636)	) 34,782
Total Expenses		10,999	3,684,105	56,952	(143,147)) 3,608,909
Income from unconsolidated joint ventures			4,791			4,791

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Income (Loss) Before						
Income Taxes	549,772	100,042	533,002	24,897	(657,941) 549,772
State and Federal Income						
Taxes	201,091	34,971	193,672	10,308	(238,951) 201,091
Net Income (Loss)	\$ 348,681	\$ 65,071	\$ 339,330	\$ 14,589	\$ (418,990) \$ 348,681

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HOVNANIAN ENTERPRISES, INC.

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2003

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 620	\$ 3,129,177	\$ 20,843	\$ 19	\$ 3,150,659
Financial Services			6,707	44,578		51,285
Intercompany Charges		38,610	90,674		(129,284))
Equity In Pretax Income of Consolidated Subsidiaries	411,518				(411,518))
Total Revenues	411,518	39,230	3,226,558	65,421	(540,783)	) 3,201,944
Expenses:						
Homebuilding		2,978	2,869,413	14,998	(125,465)	) 2,761,924
Financial Services			2,555	26,344	(484)	) 28,415
Total Expenses		2,978	2,871,968	41,342	(125,949)	) 2,790,339
Loss from unconsolidated joint ventures			(87)	)		(87)
Income (Loss) Before Income Taxes	411,518	36,252	354,503	24,079	(414,834)	) 411,518
State and Federal Income Taxes	154,138	12,688	133,929	8,682	(155,299)	) 154,138
Net Income (Loss)	\$ 257,380	\$ 23,564	\$ 220,574	\$ 15,397	\$ (259,535)	) \$ 257,380

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2005

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$ 471,847	\$ 142,000	\$ 539,283	\$ 10,059	\$ (691,342)	) \$ 471,847
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(38,330)	) 22,935	(1,019,406)	) (152,330)	) 691,342	(495,789)
Net Cash Provided By (Used In) Operating Activities	433,517	164,935	(480,123)	) (142,271)	)	(23,942)
Net Cash (Used In) Investing Activities			(405,208)	) (42,938)	)	(448,146)
Net Cash Provided By (Used In) Financing Activities	117,184	480,287	(8,437)	) 34,529		623,563
Intercompany Investing and Financing Activities Net	(550,700)) (375,995)) 778,492	148,203		
Net Increase (Decrease) In Cash	1	269,227	(115,276)) (2,477))	151,475

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Cash and Cash Equivalents						
Balance, Beginning of Period	15	29,369	35,441	13,199		78,024
Cash and Cash Equivalents						
Balance, End of Period	\$ 16	\$ 298,596	\$ (79,835)	\$ 10,722	\$	\$ 229,499

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HOVNANIAN ENTERPRISES, INC.

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2004

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$ 348,681	\$ 65,071	\$ 339,330	\$ 14,589	\$ (418,990)	\$ 348,681
Adjustments to reconcile net income to net cash provided by (used in) operating activities	156,763	(39,848)	(1,050,986)	(13,913)	418,990	(528,994)
Net Cash Provided By (Used In) Operating Activities	504,444	25,223	(711,656)	676		(180,313)
Net Cash (Used In) Investing Activities	(36,288)		(84,167)	(319)		(120,774)
Net Cash Provided By (Used In) Financing Activities	(8,265)	215,000	22,631	21,524		250,890
Intercompany Investing and Financing Activities Net	(460,891)	(346,700)	823,005	(15,414)		
Net Increase (Decrease) In Cash		(106,477)	49,813	6,467		(50,197)
Cash and Cash Equivalents Balance, Beginning of Period	15	135,846	(14,372)	6,732		128,221
Cash and Cash Equivalents Balance, End of Period	\$ 15	\$ 29,369	\$ 35,441	\$ 13,199	\$	\$ 78,024

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2003

(In Thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$ 257,380	\$ 23,564	\$ 220,574	\$ 15,397	\$ (259,535)	\$ 257,380
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(15,414)	12,029	(577,511)	(118,625)	259,535	(439,986)
Net Cash Provided By (Used In) Operating Activities	241,966	35,593	(356,937)	(103,228)		(182,606)
Net Cash (Used In) Investing Activities	(10,821)		(186,603)	(331)		(197,755)
Net Cash Provided By (Used In) Financing Activities	(22,355)	140,250	40,374	80,323		238,592
Intercompany Investing and Financing Activities Net	(208,785)	(258,841)	445,105	22,521		
Net Increase (Decrease) In Cash	5	(82,998)	(58,061)	(715)		(141,769)
Cash and Cash Equivalents Balance, Beginning of Period	10	218,844	43,689	7,447		269,990

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Cash and Cash Equivalents										
Balance, End of Period	\$	15	\$	135,846	\$	(14,372))\$	6,732	\$	128,221

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