

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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HOVNIANIAN 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.

HOVNANIAN ENTERPRISES, INC.

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.

HOVNANIAN ENTERPRISES, INC.

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.