HOVNANIAN ENTERPRISES INC
Form 424B5
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell securities, and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 7, 2008

PROSPECTUS SUPPLEMENT
(To Prospectus Dated June 28, 2005)

14,000,000 Shares

Class A Common Stock
$ per share

We are offering 14,000,000 shares of our Class A Common Stock.

Our Class A Common Stock is traded on the New York Stock Exchange under the symbol "HOV." On May 6, 2008 the last reported sale price of our Class A Common Stock on the New York Stock Exchange was $11.87 per share. We have granted the underwriters an option to purchase up to 2,100,000 additional shares of Class A Common Stock to cover over-allotments, if any.

Investing in our Class A Common Stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our Class A Common Stock in "Risk factors" beginning on page S-7 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, Before Expenses, to Hovnanian Enterprises, Inc.	$	$

The underwriters expect to deliver the shares to purchasers on or about , 2008.

Joint Book-Running Managers

Citi **Wachovia Securities** **Credit Suisse**

Co-Managers

Banc of America Securities LLC **JPMorgan**

, 2008

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus, or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where it is unlawful to make such offer or solicitation. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus, or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, is accurate as of any date other than the date on the front cover of the applicable document. You should not assume that the information contained in this prospectus supplement and the accompanying prospectus is correct as of any date after the respective dates of this prospectus supplement and the accompanying prospectus even though this prospectus supplement and the accompanying prospectus are delivered or these shares of Class A Common Stock are offered or sold on a later date.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission ("SEC") utilizing a "shelf" registration process. Under this shelf process, we are offering to sell shares of Class A Common Stock, using this prospectus supplement and the accompanying prospectus. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus and the information incorporated by reference therein describes our business and gives more general information, some of which may not apply to this offering. You should read this prospectus supplement together with the accompanying prospectus, including the documents incorporated by reference therein and herein, before making a decision to invest in the Class A Common Stock. If the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus, the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

Except as the context otherwise requires, all references in this prospectus supplement to "Hovnanian," "us," "we," "our" or "Company" are to Hovnanian Enterprises, Inc., a Delaware corporation, together with its consolidated subsidiaries.

INDUSTRY AND MARKET DATA

We obtained the market and competitive position data used throughout the prospectus supplement and the documents incorporated by reference in this prospectus supplement from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications is reliable, neither we nor the underwriters have independently verified such data and neither we nor the underwriters make any representation as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources.

FORWARD LOOKING STATEMENTS

This prospectus and the documents incorporated by reference include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by such forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to:

- Changes in general and local economic and industry and business conditions;
- Adverse weather conditions and natural disasters;
- Changes in market conditions and seasonality of the Company's business;
- Changes in home prices and sales activity in the markets where the Company builds homes;
- Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, and the environment;
- Fluctuations in interest rates and the availability of mortgage financing;
- Shortages in, and price fluctuations of, raw materials and labor;
- The availability and cost of suitable land and improved lots;

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Levels of competition;

Availability of financing to the Company;

Utility shortages and outages or rate fluctuations;

Levels of indebtedness and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;

Operations through joint ventures with third parties;

Product liability litigation and warranty claims;

Successful identification and integration of acquisitions;

Significant influence of the Company's controlling stockholders;

Geopolitical risks, terrorist acts and other acts of war; and

other factors are described in detail in our Form 10-K for the year ended October 31, 2007 and in this prospectus supplement under "Risk Factors".

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains information about Hovnanian and the offering of the Class A Common Stock. It does not contain all of the information that may be important to you in making a decision to purchase the Class A Common Stock. For a more complete understanding of Hovnanian and the offering of the Class A Common Stock, we urge you to read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the "Risk Factors" sections and our financial statements and the notes to those statements incorporated by reference herein.

The Company

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 and including unconsolidated joint ventures, we have delivered in excess of 272,000 homes, including 3,759 homes in the three months ended January 31, 2008. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 404 communities in 47 markets in 19 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. We offer a variety of home styles at base prices ranging from $36,000 (low income housing) to $3,000,000 with an average sales price, including options, of $338,000 nationwide in fiscal 2007.

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

The following is a summary of our growth history:

1959 Founded by Kevork Hovnanian as a New Jersey homebuilder.

1983 Completed initial public offering.

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

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

1994 Entered the Coastal Southern California market.

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

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

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

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

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

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

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

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

Hovnanian markets and builds homes that are constructed in 32 of the nation's top 75 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, Pennsylvania

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

Midwest: Illinois, Kentucky, Michigan, Minnesota, Ohio

Southeast: Florida, Georgia, North Carolina, South Carolina

Southwest: Arizona, Texas

West: California

We employed approximately 4,318 full-time employees (which we refer to as associates) as of October 31, 2007.

Our corporate offices are located at 110 West Front Street, P. O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732) 747-7800, and our Internet website address is www.khov.com. Information on our website is not a part of, or incorporated by reference in, this prospectus.

Current Industry Conditions

The U.S. homebuilding industry continues to be challenged by the difficult homebuilding market downturn. Based on U. S. Census Bureau data, single family home starts in the United States dropped to their lowest level since 1991 with a seasonally adjusted annual rate of fewer than 700,000 units in March 2008, a 63% decrease from their annualized peak in January 2006. Although inventory of new homes available for sale at March 31, 2008 continued to be below 500,000 units, this balance still represented an 11 months' supply based on the last twelve months' sales. Demand for homes continues to be low due to the lack of consumer confidence and the reduced availability of mortgage financing as a result of more stringent underwriting standards and a weakening of credit markets. Based on research conducted by Inside Mortgage Finance Publications, total mortgages originated in 2007 decreased approximately 18% from 2006, with decreases ranging from 30-70% for Alt A, subprime and ARM originations for the same time period.

For us, as well as for the industry as a whole, excess new and existing home supply, including those homes available as a result of increased foreclosure activity, has led to increased competition and margin compression. We believe that many potential home buyers are and will continue to defer purchasing decisions until they believe home prices have reached a cyclical bottom. Competitive pricing and tight mortgage financing has made it difficult for buyers to sell their existing homes, resulting in high cancellation rates and lower net orders. These conditions have increased competitive pressures in the industry, leading homebuilders to offer additional incentives and discounts, which has harmed the industry's performance.

Preliminary Financial Results

On May 5, 2008, we announced preliminary results for the quarter ended April 30, 2008.

In the quarter, we delivered 2,494 homes, a decrease of 21% from the second quarter a year ago, excluding home deliveries from unconsolidated joint ventures in both periods. We had net contracts for 2,226 homes, a decrease of 29% from last year's second quarter, excluding net contracts from unconsolidated joint ventures in both periods. Including joint ventures, net contracts declined by 27% from last year's second quarter. Cancellation rates for the second quarter showed an improvement compared to last year's second quarter and also improved from the most recent quarter. For the fiscal 2008 second quarter, cancellations amounted to 29% of gross contracts, compared to a cancellation rate of 38% for the first quarter of 2008 and 32% for the second quarter of 2007. Contract backlog, as of April 30, 2008, excluding unconsolidated joint ventures, was 3,577 homes, a decrease of 54% from the same quarter a year ago. Excluding backlog from our Fort Myers-Cape Coral operations in both periods, backlog decreased by 41%.

As a result of continued deterioration in sales pace, pricing and gross margin since the end of our first quarter, we expect to incur $225 million to $275 million of non-cash pretax charges related to land impairments and write-offs of predevelopment costs and land deposits in the second quarter.

These results are preliminary and we are still completing our review of financial results for the quarter ended April 30, 2008.

The Offering

The following summary is not intended to be complete. For a more detailed description of our Class A Common Stock, see "Description of Capital Stock" in the accompanying prospectus.

Class A Common Stock offered by us	14,000,000 shares[(1)]
Class A Common Stock outstanding after this offering	62,018,721 shares[(2)]
Class B Common Stock outstanding	14,645,602 shares[(3)]
Voting rights	Each share of Class A Common Stock entitles its holder to one vote per share. Holders of Class B Common Stock are entitled to ten votes per share.
Use of proceeds	We expect to use the net proceeds from the offering for general corporate purposes
Risk Factors	See "Risk Factors" beginning on page S-7 of this prospectus supplement for a discussion of risks you should carefully consider before deciding to invest in shares of our Class A Common Stock.
New York Stock Exchange Symbol	HOV

(1) Does not include the exercise of the underwriters' over-allotment option.

(2) The number of shares of Class A Common Stock outstanding after the offering is based upon 48,018,721 shares outstanding as of April 30, 2008 and excludes up to 5,935,455 shares of Class A Common Stock issuable upon the exercise of options outstanding of which 2,825,322 options are immediately exercisable at a weighted average price of $15.62 and up to 720,695 shares of Class A Common Stock that will become unrestricted shares upon vesting.

(3) Outstanding as of April 30, 2008. There is no established public trading market for our Class B Common Stock and in order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis.

Summary Financial Information

The following table presents summary historical consolidated financial and other data of Hovnanian Enterprises, Inc. and subsidiaries as of and for the years ended October 31, 2007, 2006 and 2005 and the three months ended January 31, 2008 and 2007. The consolidated financial and other data for the years ended October 31, 2007, 2006 and 2005 have been derived from Hovnanian Enterprises, Inc.'s audited consolidated financial statements and the consolidated financial and other data for the three months ended January 31, 2008 and 2007 have been derived from Hovnanian Enterprises, Inc.'s unaudited consolidated financial statements. Operating results for the three months ended January 31, 2008 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2008. You should read this data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained and incorporated by reference herein and our consolidated financial statements and related notes contained or incorporated by reference herein.

	Year Ended			Three Months Ended	
Summary Consolidated Income Statement and Other Data (In Thousands, Except Per Share Data)	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**January 31, 2008**	**January 31, 2007**
Revenues	$ 4,798,921	$ 6,148,235	$ 5,348,417	$ 1,093,701	$ 1,165,801
Inventory impairment loss and land option write-offs	$ 457,773	$ 336,204	$ 5,360	$ 90,168	$ 41,474
(Loss) income from unconsolidated joint ventures	$ (28,223)	$ 15,385	$ 35,039	$ (5,039)	$ 1,965
Pre-tax (loss) income excluding land related charges and intangible impairments(1)	$ (20,887)	$ 581,360	$ 785,945	$ (74,619)	$ 26,342
(Loss) income before income taxes	$ (646,966)	$ 233,106	$ 780,585	$ (168,794)	$ (66,629)
State and Federal income tax (benefit) provision	(19,847)	83,573	308,738	(37,851)	(12,021)
Net (loss) income	(627,119)	149,533	471,847	(130,943)	(54,608)
Less: preferred stock dividends	10,674	10,675	2,758		2,669
Net (loss) income available to common stockholders	$ (637,793)	$ 138,858	$ 469,089	$ (130,943)	$ (57,277)
Per share data:					
Basic:					
(Loss) income per common share	$ (10.11)	$ 2.21	$ 7.51	$ (2.07)	$ (0.91)
Weighted average number of common shares outstanding	63,079	62,822	62,490	63,358	62,904
Assuming dilution:					
(Loss) income per common share	$ (10.11)	$ 2.14	$ 7.16	$ (2.07)	$ (0.91)
Weighted average number of common shares outstanding	63,079	64,838	65,549	63,358	62,904

(1) Pre-tax (loss) income excluding land related charges and intangible impairments is not a financial measure calculated in accordance with generally accepted accounting principles (GAAP). The most directly comparable GAAP financial measure is (loss) income before income taxes. The reconciliation of pre-tax (loss) income excluding land related charges and intangible impairments to (loss) income before income taxes is presented below. Pre-tax (loss) income excluding land related charges and intangible impairments should be considered in addition to, but not as a substitute for, (loss) income before income taxes, net (loss) income and other measures of financial performance prepared in accordance with GAAP that are presented on the financial statements and notes incorporated by reference herein. Additionally, our calculation of pre-tax (loss) income excluding land related charges and intangible impairments may be different than the calculation used by other companies, and, therefore, comparability may be affected. Management believes pre-tax (loss) income excluding land related charges to be relevant and useful information because it provides a better metric for our operating performance.

Reconciliation of pre-tax (loss) income excluding land related charges and intangible impairments to (loss) income before income taxes (in thousands):

Year Ended	Three Months Ended

	Year Ended			Three Months Ended	
	October 31, 2007	October 31, 2006	October 31, 2005	January 31, 2008	January 31, 2007
(Loss) income before income taxes	$ (646,966)	$ 233,106	$ 780,585	$ (168,794)	$ (66,629)
Inventory impairment loss and land option write-offs	$ 457,773	$ 336,204	$ 5,360	$ 90,168	$ 41,474
Intangible impairments	$ 135,206	$ 4,241	$	$	$ 51,497
Unconsolidated joint venture intangible and land related charges	$ 33,100	$ 7,809	$	$ 4,007	$
Pre-tax (loss) income excluding land related charges and intangible impairments	$ (20,887)	$ 581,360	$ 785,945	$ (74,619)	$ 26,342

Summary Consolidated Balance Sheet Data (In Thousands)	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**January 31, 2008**	**January 31, 2007**
Total assets	$ 4,540,548	$ 5,480,035	$ 4,726,138	$ 4,325,066	$ 5,300,848
Mortgages, term loans, revolving credit agreements, and notes payable	$ 410,298	$ 319,943	$ 271,868	$ 454,764	$ 438,354
Senior notes and senior subordinated notes	$ 1,910,600	$ 2,049,778	$ 1,498,739	$ 1,910,714	$ 2,050,053
Stockholders' equity	$ 1,321,803	$ 1,942,163	$ 1,791,357	$ 1,184,746	$ 1,879,821

Important indicators of our future results are recently signed contracts and home contract backlog for future deliveries. Our sales contracts and homes in contract backlog, which primarily use base sales prices by segment, are set forth below:

	Net Contracts(1) for the Three Months Ended January 31,		Contract Backlog as of January 31,	
	2008	2007	2008	2007
	(Dollars in Thousands)			
Northeast:				
Dollars	$ 83,416	$ 175,048	$ 431,517	$ 564,067
Homes	198	386	859	1,144
Mid-Atlantic:				
Dollars	$ 73,424	$ 192,639	$ 308,344	$ 534,211
Home	201	431	657	1,095
Midwest:				
Dollars	$ 18,737	$ 55,945	$ 126,937	$ 137,355
Homes	102	254	650	726
Southeast:				
Dollars	$ 42,423	$ 40,021	$ 195,367	$ 895,371
Homes	155	144	677	3,143
Southwest:				
Dollars	$ 124,385	$ 166,202	$ 136,931	$ 219,183
Homes	545	731	605	943
West:				
Dollars	$ 115,405	$ 274,853	$ 149,539	$ 338,617
Homes	310	624	397	749
Consolidated total:				
Dollars	$ 457,790	$ 904,708	$ 1,348,635	$ 2,688,804
Homes	1,511	2,570	3,845	7,800
Unconsolidated joint ventures:				
Dollars	$ 52,747	$ (2,170)	$ 187,417	$ 410,104
Homes	108	43	380	884
Totals:				
Dollars	$ 510,537	$ 902,538	$ 1,536,052	$ 3,098,908
Homes	1,619	2,613	4,225	8,684

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

RISK FACTORS

An investment in our Class A Common Stock involves a high degree of risk. Before making a decision to invest in the Class A Common Stock, you should carefully consider the following:

- *the risk factors described below and those contained in the documents incorporated by reference in this prospectus supplement; and*

- *the other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement.*

Risks Related to the Class A Common Stock

We do not expect to pay dividends to holders of our Class A Common Stock.

We have not paid any dividends on our Class A Common Stock to date and do not anticipate declaring any dividends on our Class A Common Stock in the foreseeable future. Other than the payment of dividends on our Series A Preferred Stock, our board of directors presently intends to retain all earnings, if any, for use in our business operations.

Future sales of substantial amounts of our Class A Common Stock could affect the market price of our Class A Common Stock.

Future sales of substantial amounts of our Class A Common Stock, or securities convertible or exchangeable into shares of our Class A Common Stock, into the public market, including shares of Class A Common Stock issued upon exercise of options or warrants or conversion of the Series A Preferred Stock, or perceptions that those sales and/or conversions could occur, could adversely affect the prevailing market price of our Class A Common Stock and our ability to raise capital in the future.

Our issuance of additional Class A Common Stock or Preferred Stock may cause our Class A Common Stock price to decline, which may negatively impact your investment.

Issuances of substantial numbers of additional shares of our Class A Common Stock or Preferred Stock, including in connection with future acquisitions, if any, or the perception that such issuances could occur, may cause prevailing market prices for our Class A Common Stock to decline, which may negatively impact your investment. In addition, our board of directors is authorized to issue additional series of shares of Preferred Stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of shares of Preferred Stock that may be issued, including voting rights, conversion rights, dividend rights, preferences over our Class A Common Stock or our Series A Preferred Stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue cumulative Preferred Stock in the future that has preference over our Class A Common Stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue Preferred Stock with voting rights that dilute the voting power of our Class A Common Stock, the market price of our Class A Common Stock could decrease.

Our stock price has been and could remain volatile.

The market price for our Class A Common Stock has been and may continue to be volatile. As the price of our Class A Common Stock on the New York Stock Exchange constantly changes, it is impossible to predict whether the price of our Class A Common Stock will rise or fall. Trading prices of our Class A Common Stock will be influenced by our financial conditions, operating results and prospects and by economic, financial and other factors, such as prevailing interest rates, interest rate volatility and changes in our industry and competitors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, and sales of substantial amounts of Class A Common Stock by us in the market, or the perception that such sales could occur, could affect the price of shares of our Class A Common Stock.

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

Kevork S. Hovnanian, the Chairman of our Board of Directors, and Ara K. Hovnanian, our President and Chief Executive Officer, have voting control, through personal holdings and family-owned entities, of Class A and Class B common stock that enables them to cast approximately 76.8% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of our Board of Directors and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

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

Based on recent impairments and our current financial performance, we expect to generate net operating loss carryforwards for the year ending October 31, 2008, and possibly future years.

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

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

Risks Related to Our Business

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

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

- employment levels and job growth;
- availability of financing for home buyers;
- interest rates;
- foreclosure rates;
- inflation;
- adverse changes in tax laws;

- consumer confidence;
- housing demand; and
- population growth.

Weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the impact of Hurricane Wilma on materials and labor availability and pricing.

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

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

The homebuilding industry is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has resulted from a lack of consumer confidence, decreased housing affordability, decreased availability of mortgage financing, and large supplies of resale and new home inventories. In addition, an oversupply of alternatives to new homes, such as rental properties and resale homes, has depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations during fiscal year 2007 and are continuing to materially adversely affect our business and results of operations in fiscal 2008. For example, we are continuing to experience slower sales, reductions in our margins and higher cancellations which impact most of our markets. Further, we substantially increased our inventory in recent years, which required significant cash outlays and which has increased our price and margin exposure as we continue to work through this inventory. Continuation of this downturn would continue to have a material adverse effect on our business, liquidity and results of operations.

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

We have a significant amount of debt:

- our debt, as of January 31, 2008, including the debt of the subsidiaries that guarantee our debt, was $2,272.2 million ($2,267.9 million net of discount);
- as of January 31, 2008, under the terms of our amended and restated $1.2 billion revolving credit facility, we had approximately $605.9 million of borrowings available (net of approximately $269.1 million in letters of credit outstanding under the facility) under the facility, subject to borrowing conditions, including a borrowing base and covenants. On March 7, 2008, we entered into a new amended and restated secured revolving credit agreement, which reduced the revolving credit line from $1.2 billion to $900 million. As of April 30, 2008, we had approximately $355.5 million of borrowings available (net of approximately $219.5 million in letters of credit outstanding under the facility); and
- our debt service payments for the 12-month period ended January 31, 2008, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on non-recourse secured debt and debt of our financial subsidiaries), were $325.4 million ($140.3 million of which relates to principal payments on our $10^1/_2$% Senior Notes due 2007).

In addition, we have substantial contractual commitments and contingent obligations, including $269.1 million of performance letters of credit and $802.0 million of performance bonds as of January 31, 2008.

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

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

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

Our business may not generate sufficient cash flow from operations, and borrowings may not be available to us under our revolving credit facility or otherwise in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

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

The indentures governing our outstanding debt securities and our secured revolving credit facility impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, sales of assets, cash distributions, including paying dividends on common and preferred stock, capital stock repurchases, and investments by us and certain of our subsidiaries and require compliance with certain financial covenants contained in those debt instruments.

The financial covenants in our secured revolving credit facility include a minimum net worth requirement, a maximum leverage ratio, a minimum fixed charge coverage ratio, limits on inventory and a borrowing base covenant. Our level of home deliveries, amount of impairments and other financial performance factors are negatively impacting the net worth, leverage, fixed charge coverage, limits on inventory and borrowing base covenants. As of October 31, 2007, we were not in compliance with the consolidated tangible net worth and leverage ratio covenants under our revolving credit facility and, as a result, on December 17, 2007, we obtained a waiver of compliance under these covenants and the revolving credit commitments were reduced to $1.2 billion. As of January 31, 2008, we were again not in compliance with these covenants and were also not in compliance with the fixed charge coverage ratio covenant and obtained another waiver in January 2008. To address these and other issues, we entered into a new amended and restated secured revolving credit facility on March 7, 2008. The amendment reduced the revolving credit line from $1.2 billion to $900 million and provided for a security interest in certain assets of the Company and its subsidiaries as collateral for obligations thereunder. The financial covenants in our secured revolving credit facility, which are discussed above, are less restrictive than those under the facility it replaced. However, there can be no assurance that the Company will not violate these or other covenants under our secured revolving credit facility in the future or that the amount available under our current revolving credit line would not be further reduced. Under certain circumstances, we could lose a portion of the availability under our secured revolving credit facility, for example, if our consolidated tangible net worth falls below a certain threshold, which could occur if current market conditions persist or deteriorate. In addition, as a result of the restrictions in our indentures, which would require our fixed charge coverage ratio to be at least 2.0 to 1.0, we will be restricted from paying dividends on our Series A Preferred Stock during fiscal 2008 and, if current market trends continue or worsen, we anticipate that we will continue to be restricted from paying dividends into fiscal 2009.

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

The terms of our indentures allow us to incur additional indebtedness.

Under the terms of our indebtedness under our existing indentures, we have the ability, subject to our debt covenants, to incur additional amounts of debt. The incurrence of additional indebtedness could magnify the risks described above.

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

Our ability to access capital on favorable terms is a key factor in continuing to grow our business and operations in a profitable manner. Recently, Moody's and S&P have lowered our credit ratings, which may make it more difficult and costly for us to access capital. A further downgrade by any of the principal credit agencies may exacerbate these difficulties.

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

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

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

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

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

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

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. For example, during 2007 and 2006 we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of $126.0 million and $159.1 million, respectively. Also, in 2007 and 2006, as a result of the slowing market, we recorded inventory impairment losses on owned property of $331.8 million and $177.1 million, respectively. For the quarter ended January 31, 2008, we recorded inventory impairment losses on owned property of $73.8 million and we also recorded $16.3 million of land option write-offs.

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

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

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

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

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

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

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

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At January 31, 2008, we had invested an aggregate of $162.1 million in these joint ventures, which had borrowings outstanding of approximately $342.3 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

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

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

For example, during 2005, we received requests for information from the Environmental Protection Agency (the "EPA") pursuant to provisions of the Clean Water Act. These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects in the states and district that comprise EPA Region 3. We provided the EPA with information in response to its requests. The Department of Justice ("DOJ") subsequently also has become involved in the review of our storm water discharge practices and enforcement with respect to them. In April 2008, we received a letter from Region 5 of the EPA after its inspection of a residential development site of ours in Illinois, alleging that we had violated our storm water discharge permit for the site and requesting information from us relating to the allegations. We cannot predict the outcome of the review of these practices or estimate the costs that may be involved in resolving the matter. To the extent that the EPA or the DOJ asserts violations of regulatory requirements and request injunctive relief or penalties, we will defend and attempt to resolve such asserted violations.

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

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

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

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

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

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

- difficulty in acquiring suitable land at acceptable prices;

- increased selling incentives;
- lower sales; or
- delays in construction.

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

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

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or borrowing additional money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indentures for our outstanding debt securities and our revolving credit facility contain provisions that restrict the debt we may incur and the equity we may issue in the future. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations.

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

Acquisitions of companies have contributed to our growth and are a component of our growth strategy. In March 2005, we acquired Cambridge Homes and Town & Country Homes; in August 2005, we acquired Oster Homes and First Home Builders of Florida and in April 2006, we acquired Craftbuilt Homes. In the future, we may acquire other businesses, some of which may be significant. As a result of acquisitions of companies, we may need to seek additional financing and integrate product lines, dispersed operations and distinct corporate cultures. These integration efforts may not succeed or may distract our management from operating our existing business. Additionally, we may not be able to enhance our earnings as a result of acquisitions. Our failure to successfully identify and manage future acquisitions could harm our operating results.

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

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

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

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $157.4 million, or approximately $181.0 million, if the underwriters exercise their over-allotment option in full, at an assumed public offering price of $11.87 per share (the last reported sale price for our Class A Common Stock on the New York Stock Exchange on May 6, 2008).

We expect to use the net proceeds from this offering for general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization as of January 31, 2008 and on an as adjusted basis to give effect to the sale of Class A Common Stock in this offering at an assumed public offering price of $11.87 per share (the last reported sale price for our Class A Common Stock on The New York Stock Exchange on May 6, 2008), after deducting the estimated underwriting discounts and commissions and the estimated offering expenses payable by us, and assuming no exercise of the underwriters' over-allotment option. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained and incorporated by reference herein and our financial statements and related notes incorporated by reference herein.

	As of January 31, 2008	
	Actual	As Adjusted
	(unaudited) (In thousands)	
Homebuilding Cash and Cash Equivalents, Excluding Restricted Cash	$ 73,048	230,411
Debt(1):		
Revolving Credit Facility(2)	$ 325,000	$ 325,000
Nonrecourse Land Mortgages	9,417	9,417
Nonrecourse Mortgages Secured by Operating Property	22,803	22,803
8% Senior Notes due 2012	99,559	99,559
$6^1/_2$% Senior Notes due 2014	215,000	215,000
$6^3/_8$% Senior Notes due 2014	150,000	150,000
$6^1/_4$% Senior Notes due 2015	200,000	200,000
$6^1/_4$% Senior Notes due 2016	296,155	296,155
$7^1/_2$% Senior Notes due 2016	300,000	300,000
$8^5/_8$% Senior Notes due 2017	250,000	250,000
6% Senior Subordinated Notes due 2010	100,000	100,000
$8^7/_8$% Senior Subordinated Notes due 2012	150,000	150,000
$7^3/_4$% Senior Subordinated Notes due 2013	150,000	150,000
Total Debt	$ 2,267,934	$ 2,267,934
Stockholders' Equity:		
Preferred Stock, $.01 par value; 100,000 Shares Authorized; 5,600 Shares Issued and Outstanding with a Liquidation Preference of $140,000	$ 135,299	$ 135,299
Common Stock, Class A, $.01 par value; 200,000,000 Shares Authorized; 59,550,269 Shares Issued, Actual (Including 11,694,720 Shares Held in Treasury) and 73,550,269 Shares Issued (Including 11,694,720 Shares Held in Treasury), as Adjusted	596	736
Common Stock, Class B, $.01 par value (Convertible to Class A at Time of Sale); 30,000,000 Shares Authorized; 15,338,810 Shares Issued (Including 691,748 Shares Held in Treasury)	153	153
Paid in Capital	279,603	436,826
Retained Earnings	884,352	884,352
Treasury Stock at Cost	(115,257)	(115,257)
Total Stockholders' Equity	$ 1,184,746	$ 1,342,109
Total Capitalization	$ 3,452,680	$ 3,610,043

(1)

References to our consolidated debt in this prospectus supplement exclude debt of $97.5 million under our secured master repurchase agreement, a short-term borrowing facility used by our mortgage banking subsidiary.

(2) On March 7, 2008, we entered into an amended and restated secured revolving credit agreement, which reduced the revolving credit line from $1.2 billion to $900 million. As of April 30, 2008, we had $325.0 million of indebtedness outstanding under the revolving credit facility and $219.5 million of letters of credit.

PRICE RANGE OF COMMON STOCK; DIVIDEND POLICY

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol "HOV." The following table sets forth the high and low closing sales prices for transactions involving our Class A Common Stock during each fiscal quarter, as reported on the New York Stock Exchange Composite Tape.

	High	Low
2008:		
May 1, 2008 through May 6, 2008	11.87	11.67
Quarter ended April 30, 2008	12.41	8.09
Quarter ended January 31, 2008	10.45	4.80
2007:		
Quarter ended October 31, 2007	16.22	9.99
Quarter ended July 31, 2007	25.95	13.24
Quarter ended April 30, 2007	36.98	22.85
Quarter ended January 31, 2007	38.01	27.81
2006:		
Quarter ended October 31, 2006	32.56	25.04
Quarter ended July 31, 2006	38.78	25.44
Quarter ended April 30, 2006	48.83	39.71
Quarter ended January 31, 2006	54.29	44.23

On May 6, 2008 the last reported sale price of our Class A Common Stock in the New York Exchange was $11.87 per share. As of April 30, 2008, our Class A Common Stock was held of record by approximately 558 holders and our Class B Common Stock was held of record by approximately 286 holders. There is no established public trading market for our Class B Common Stock and in order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis.

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

SELECTED HISTORICAL FINANCIAL DATA

The following table presents selected historical consolidated financial and other data of Hovnanian Enterprises, Inc. and subsidiaries as of and for the years ended October 31, 2007, 2006, 2005, 2004 and 2003 and for the three months ended January 31, 2008 and 2007. The consolidated financial and other data for the years ended October 31, 2007, 2006, 2005, 2004 and 2003 have been derived from Hovnanian Enterprises, Inc.'s audited consolidated financial statements and the consolidated financial and other data for the three months ended January 31, 2008 and 2007 have been derived from Hovnanian Enterprises, Inc.'s unaudited financial statements. Operating results for the three months ended January 31, 2008 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2008. You should read this data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained and incorporated by reference herein and our consolidated financial statements and related notes contained or incorporated by reference herein.

	Year Ended					Three Months Ended	
Summary Consolidated Income Statement and Other Data (In Thousands, Except Per Share Data)	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**October 31, 2004**	**October 31, 2003**	**January 31, 2008**	**January 31, 2007**
Revenues	$ 4,798,921	$ 6,148,235	$ 5,348,417	$ 4,153,890	$ 3,201,944	$ 1,093,701	$ 1,165,801
Inventory impairment loss and land option write-offs	$ 457,773	$ 336,204	$ 5,360	$ 6,990	$ 5,150	$ 90,168	$ 41,474
(Loss) income from unconsolidated joint ventures	$ (28,223)	$ 15,385	$ 35,039	$ 4,791	$ (87)	$ (5,039)	$ 1,965
Pre-tax (loss) income excluding land related charges and intangible impairments(1)	$ (20,887)	$ 581,360	$ 785,945	$ 556,762	$ 416,668	$ (74,619)	$ 26,342
(Loss) income before income taxes	$ (646,966)	$ 233,106	$ 780,585	$ 549,772	$ 411,518	$ (168,794)	$ (66,629)
State and Federal income tax (benefit) provision	(19,847)	83,573	308,738	201,091	154,138	(37,851)	(12,021)
Net (loss) income	(627,119)	149,533	471,847	348,681	257,380	(130,943)	(54,608)
Less: preferred stock dividends	10,674	10,675	2,758				2,669
Net (loss) income available to common stockholders	$ (637,793)	$ 138,858	$ 469,089	$ 348,681	$ 257,380	$ (130,943)	$ (57,277)
Per share data:							
Basic:							
(Loss) income per common share	$ (10.11)	$ 2.21	$ 7.51	$ 5.63	$ 4.16	$ (2.07)	$ (0.91)
Weighted average number of common shares outstanding	63,079	62,822	62,490	61,892	61,920	63,358	62,904
Assuming dilution:							
(Loss) income per common share	$ (10.11)	$ 2.14	$ 7.16	$ 5.35	$ 3.93	$ (2.07)	$ (0.91)
Weighted average number of common shares outstanding	63,079	64,838	65,549	65,133	65,538	63,358	62,904

(1) Pre-tax (loss) income excluding land related charges and intangible impairments is not a financial measure calculated in accordance with generally accepted accounting principles (GAAP). The most directly comparable GAAP financial measure is (Loss) income before income taxes. The reconciliation of Pre-tax (loss) income excluding land related charges and intangible impairments to (Loss) income before income taxes is presented below. Pre-tax (loss) income excluding land related charges and intangible impairments should be considered in addition to, but not as a substitute for, (loss) income before income taxes, net (loss) income and other measures of financial performance prepared in accordance with GAAP that are presented on the financial statements and notes incorporated by reference herein. Additionally, our calculation of Pre-tax (loss) income excluding land related charges and intangible impairments may be different than the calculation used by other companies, and, therefore, comparability may be affected. Management believes pre-tax (loss) income excluding land related charges to be relevant and useful information because it provides a better metric for our operating performance.

Reconciliation of pre-tax (loss) income excluding land related charges and intangible impairments to (loss) income before income taxes (in thousands):

	Year Ended					Three Months Ended	
	October 31, 2007	**October 31, 2006**	**October 31, 2005**	**October 31, 2004**	**October 31, 2003**	**January 31, 2008**	**January 31, 2007**
(Loss) income before income taxes	$ (646,966)	$ 233,106	$ 780,585	$ 549,772	$ 411,518	$ (168,794)	$ (66,629)
Inventory impairment loss and land option write-offs	$ 457,773	$ 336,204	$ 5,360	$ 6,990	$ 5,150	$ 90,168	$ 41,474
Intangible impairments	$ 135,206	$ 4,241	$	$	$	$	$ 51,497
Unconsolidated joint venture intangible and land related charges	$ 33,100	$ 7,809	$	$	$	$ 4,007	$
Pre-tax (loss) income excluding land related charges and intangible impairments	$ (20,887)	$ 581,360	$ 785,945	$ 556,762	$ 416,668	$ (74,619)	$ 26,342

Summary Consolidated Balance Sheet Data (In Thousands)	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**	**October 31, 2004**	**October 31, 2003**	**January 31, 2008**	**January 31, 2007**
Total assets	$ 4,540,548	$ 5,480,035	$ 4,726,138	$ 3,156,267	$ 2,332,371	$ 4,325,066	$ 5,300,848
Mortgages, term loans, revolving credit agreements, and notes payable	$ 410,298	$ 319,943	$ 271,868	$ 354,055	$ 326,216	$ 454,764	$ 438,354
Senior notes and senior subordinated notes	$ 1,910,600	$ 2,049,778	$ 1,498,739	$ 902,737	$ 687,166	$ 1,910,714	$ 2,050,053
Stockholders' equity	$ 1,321,803	$ 1,942,163	$ 1,791,357	$ 1,192,394	$ 819,712	$ 1,184,746	$ 1,879,821

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

You should read the following management's discussion and analysis of our financial condition and results of operations for the quarter ended January 31, 2008 in conjunction with "Selected Historical Financial Data" as well as our management's discussion and analysis of financial condition and results of operations for the year ended October 31, 2007 and our consolidated financial statements and related notes incorporated by reference herein. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this prospectus supplement. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

During the second half of our fiscal year ended October 31, 2006 and continuing through the first quarter of 2008, the U.S. housing market was impacted by a lack of consumer confidence, reduced housing affordability and large supplies of resale and new home inventories and related pricing pressures. The result has been weakened demand for new homes, slower sales, higher cancellation rates, and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products became more constrained starting in February 2007 when the mortgage industry began to more closely scrutinize sub-prime, Alt-A, and other non-prime mortgage products. The combination of these homebuilding industry and related mortgage financing developments resulted in significant decreases in our gross margins during fiscal 2007 and the first quarter of fiscal 2008 compared with the same periods in the prior years. Additionally, we incurred total land-related charges of $457.8 million and $90.2 million for the year ended October 31, 2007 and the three months ended January 31, 2008, respectively. These charges resulted from the write-off of deposit and pre-acquisition costs of $126.0 million and $16.3 million, respectively, related to land we no longer plan to pursue and impairments on owned inventory of $331.8 million and $73.8 million, respectively, for the fiscal year ended October 31, 2007 and the three months ended January 31, 2008. In addition to land related charges, the continued weakening of the market resulted in impairments of our intangible assets of $135.2 million during fiscal 2007, the majority of which related to intangibles in our Southeast segment.

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We have adjusted our approach to land acquisition and construction practices and continue to shorten our land pipeline, reduce production volumes, and balance home price and profitability with sales pace. We are delaying planned land purchases and renegotiating land prices and have significantly reduced our total number of controlled lots owned and under option. Additionally, we are significantly reducing the number of speculative homes put into production. While we will continue to purchase select land positions where it makes strategic and economic sense to do so, we currently anticipate minimal investment in new land parcels in fiscal 2008. We have also closely evaluated and made reductions in selling, general and administrative expenses, including corporate general and administrative expenses, due in large part to a 46% reduction in head count from our peak in June 2006. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. We believe that these measures will help to strengthen our market position and allow us to take advantage of opportunities that will develop in the future.

Critical Accounting Policies

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

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

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

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

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

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. 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 direct costs to sell. 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 the difference between the book value of the individual community and the discounted future cash flows generated from expected revenue of the community, less the associated costs to complete and direct costs to sell, which approximates fair value. For land held for sale, a loss is recorded if the fair value less cost to sell is below the carrying amount. The loss is the difference between the carrying amount and the fair value less the cost to sell. The estimates used in the determination of the estimated cash flows and fair value of a community are based on factors known to us at the time such estimates are made and our expectations of future operations. These estimates of cash flows are significantly impacted by estimates of the amounts and timing of revenues and costs and other factors which, in turn, are impacted by local market economic conditions and the actions of competitors. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities.

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

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

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

Unconsolidated Homebuilding and Land Development Joint Ventures Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but is generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we consider the guidance in EITF 04-5 in assessing whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.

Intangible Assets The intangible assets recorded on our balance sheet are goodwill, which has an indefinite life, and definite life intangibles, including trade names, architectural designs, distribution processes, and contractual agreements resulting from our acquisitions. We no longer amortize goodwill, but instead assess it periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2007. We also assess definite life intangibles for impairment whenever events or changes indicate that their carrying amount may not be recoverable. An intangible impairment is recorded when events and circumstances indicate the undiscounted future cash flows generated from the business unit with the intangible asset are less than the net assets of the business unit. The impairment loss is the lesser of the difference between the net assets of the business unit and the discounted future cash flows generated from the applicable business unit, which approximates fair value and the intangible asset balance. The estimates used in the determination of the estimated cash flows and fair value of a business unit are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. However, we only have $3.3 million remaining in intangible assets and $32.7 million remaining in goodwill so any future impairments are limited to these balances. Any intangible impairment charge is included in Intangible amortization on the Condensed Consolidated Statements of Operations. We are amortizing the remaining definite life intangibles over their expected useful lives, ranging from one to four years.

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

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

Recent Accounting Pronouncements

See Note 16 to our condensed consolidated financial statements incorporated by reference herein.

Capital Resources and Liquidity

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

Our cash uses during the three months ended January 31, 2008 were for operating expenses, construction, income taxes, and interest. We provided for our cash requirements from housing and land sales, the revolving credit facility, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

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

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000. Dividends on the Series A Preferred Stock are not cumulative and are paid at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the Nasdaq Global Market under the symbol "HOVNP". In January 2007, we paid $2.7 million of dividends on the Series A Preferred Stock. In January 2008, we did not make any dividend payments as a result of restrictions in indentures governing our Senior and Senior Subordinated Notes.

On March 7, 2008, we entered into an amended and restated secured revolving credit agreement ("Credit Agreement"), pursuant to which we make our homebuilding bank borrowings. The Credit Agreement amended our prior revolving credit agreement and reduced the revolving credit line from $1.2 billion to $900 million. The maturity of the Credit Agreement remains May 2011. We and each of our significant subsidiaries are guarantors under the Credit Agreement, except for K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), the borrower, various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a subsidiary formerly engaged in homebuilding activity in Poland, certain financial services subsidiaries, joint ventures, and certain other subsidiaries, is a. In connection with the recent amendments to the Credit Agreement, K. Hovnanian and each of the guarantors has provided a security interest in their accounts receivables, contracts and ownership interests in K. Hovnanian and the guarantors as collateral for obligations under the Credit Agreement. In addition, under the terms of the Credit Agreement, the guarantors are required to provide mortgages on certain real property of K. Hovnanian and its subsidiaries. Loans under the Credit Agreement bear interest at various rates based on (1) a margin ranging from 0.25% to 1.50% per annum depending on our Adjusted Leverage Ratio (as defined in the Credit Agreement) plus 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% , (2) a margin ranging from 2.00% to 3.50% per annum, depending on our Adjusted Leverage Ratio, plus a LIBOR-based rate for a one, two, three, or six month interest period as selected by us or (3) a margin ranging from 2.125% to 3.625% per annum, based on our Adjusted Leverage Ratio, plus an index rate determined by reference to a LIBOR-based rate for one month. In addition, we pay a fee ranging from 0.25% to 0.55% per annum on the unused portion of the revolving credit line depending on our Adjusted Leverage Ratio and the average percentage unused portion of the revolving credit line. Borrowings under the agreement may be used for general corporate purposes. As of January 31, 2008 and October 31, 2007, there was $325.0 million and $206.8 million drawn under our prior revolving credit agreement excluding letters of credit totaling $269.1 million and $306.4 million, respectively. Under the borrowing base limits, as of January 31, 2008, we had an excess of $252.4 million available.

The Credit Agreement has covenants that restrict, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness, pay dividends on common and preferred stock and repurchase capital stock, make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates. The Credit Agreement also contains covenants that require us to stay within specified financial ratios, including a net worth requirement, maximum leverage ratio, minimum fixed charge ratio and a borrowing base covenant. The Credit Agreement contains events of default which would permit the lenders to accelerate the loans if not cured within applicable grace periods, including the failure to make timely payments under the Credit Agreement or other material indebtedness, the failure to satisfy covenants and specified events of bankruptcy and insolvency. As of January 31, 2008, we were not in compliance with the Consolidated Tangible Net Worth, Fixed Charge Coverage Ratio and Adjusted Leverage Ratio covenants under the prior revolving credit agreement; however, we obtained waivers of compliance effective January 31, 2008, under these covenants. We are currently in compliance with the covenants and financial ratios under the Credit Agreement. We may also explore alternative or supplementary financing arrangements to the Credit Agreement.

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. Our secured master repurchase agreement (which replaced our amended secured mortgage loan warehouse agreement) with a group of banks, which is a short-term borrowing facility, provides up to $161 million through December 26, 2008. Interest is payable monthly at LIBOR plus 1.10%. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. We also had a commercial paper facility which provided for up to $200 million through April 25, 2008 with interest payable monthly at LIBOR plus 0.40%. On November 28, 2007 we paid the outstanding balance in full and terminated the commercial paper facility. We believe that we will be able to extend the master repurchase agreement beyond its expiration date or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of January 31, 2008, the aggregate principal amount of all borrowings under the agreement was $97.5 million. The master repurchase agreement requires K. Hovnanian American Mortgage, LLC to satisfy and maintain specified financial ratios and other financial condition tests. As of January 31, 2008, we were in compliance with the covenants of the master repurchase agreement.

At January 31, 2008, we had $1,515.0 million of outstanding senior notes ($1,510.7 million, net of discount), comprised of $100 million 8% Senior Notes due 2012, $215 million 6 1/2% Senior Notes due 2014, $150 million 6 3/8% Senior Notes due 2014, $200 million 6 1/4% Senior Notes due 2015, $300 million 6 1/4% Senior Notes due 2016, $300 million 7 1/2% Senior Notes due 2016, and $250 million 8 5/8% Senior Notes due 2017. At January 31, 2008, we had $400.0 million of outstanding senior subordinated notes, comprised of $150 million 8 7/8% Senior Subordinated Notes due 2012, $150 million 7 3/4% Senior Subordinated Notes due 2013, and $100 million 6% Senior Subordinated

Notes due 2010. 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, certain financial services subsidiaries, joint ventures, and certain other subsidiaries, is a guarantor of the senior notes and senior subordinated notes. Under the terms of the indentures governing our debt securities, we have the right to make certain redemptions and depending on market conditions and covenant restrictions, may do so from time to time. We may also make open market purchases from time to time depending on market conditions and covenant restrictions. The indentures governing the senior notes and senior subordinated notes contain restrictive covenants that limit, among other things, the ability of Hovnanian and certain of its subsidiaries, including K. Hovnanian, the issuer of the senior notes and senior subordinated notes, to incur additional indebtedness, pay dividends on common and preferred stock and repurchase capital stock, make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates. If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior notes and senior subordinated notes is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends on the Series A Preferred Stock and will continue to be restricted during the remainder of fiscal 2008. If current market trends continue or worsen, we anticipate that we will continue to be restricted from paying dividends into fiscal 2009. The restriction on making preferred dividend payments under our bond indentures will not affect our compliance with any of the covenants contained in our Credit Agreement. The indentures also contain events of default which would permit the holders of the senior notes and senior subordinated notes to declare those notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to satisfy covenants and specified events of bankruptcy and insolvency. As of January 31, 2008, we were in compliance with the covenants of these indentures.

Total inventory decreased $132.2 million during the three months ended January 31, 2008 of which $73.8 million was attributed to impairments. This decrease excluded the decrease in consolidated inventory not owned of $29.4 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10, and variable interest entities in accordance with FIN 46R. See "Notes to Condensed Consolidated Financial Statements" Note 14 for additional information on FIN 46R. Specific performance decreased $2.2 million for the quarter. This was due to the fact that some of the lots previously recorded as a future obligation were taken down during the first three months of 2008. Other options inventory decreased $6.0 million for this period. Other options consist of our GMAC model program and structured lot option agreements. GMAC model inventory decreased $5.4 million as a result of our decision to remove homes from the program, primarily in the Mid-Atlantic. Structured lot option inventory decreased $0.6 million during the three months ended January 31, 2008. This decrease was primarily due to the decision to walk away from a deal in the Northeast and the purchase of some lots under a structured option in the Southeast. This decrease was offset by additional inventory recorded for a deal in the Northeast during the period. Total inventory decreased in the Mid-Atlantic $17.7 million, the Southeast $24.3 million, the Midwest $5.1 million, the Southwest $7.5 million, and the West $81.7 million. These decreases were offset by an increase of $4.1 million in the Northeast. The decreases were primarily the result of deliveries in existing communities and inventory impairments incurred in the quarter. Substantially all homes under construction or completed and included in inventory at January 31, 2008 are expected to be closed during the next twelve months. Most inventory completed or under development is partially financed through our line of credit, preferred stock and senior and senior subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. Inventory impairment losses, which include inventory that has been written-off or written-down, increased $48.7 million for the three months ended January 31, 2008, compared to the same period in the prior year. During the first quarter of fiscal 2008, we incurred $73.8 million in write-downs primarily attributable to significant impairments taken as a result of continued deterioration in our California operations in the West, as well as smaller impairments in our other segments. In addition, we recorded land option write-offs in the amount of $16.3 million.

The following table summarizes the number of buildable homes included in our total residential real estate.

	Active Communities	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
January 31, 2008:				
Northeast	35	5,239	6,809	12,048
Mid-Atlantic	70	6,720	4,782	11,502
Midwest	24	2,851	996	3,847
Southeast	83	6,819	4,262	11,081
Southwest	125	9,548	2,490	12,038
West	67	7,754	1,547	9,301
Consolidated total	404	38,931	20,886	59,817
Unconsolidated joint ventures		3,579	592	4,171
Total including unconsolidated joint ventures		42,510	21,478	63,988
Owned		21,627	5,745	27,372
Optioned		16,588	15,141	31,729
Controlled lots		38,215	20,886	59,101
Construction to permanent financing lots		716		716
Consolidated total		38,931	20,886	59,817
Lots controlled by unconsolidated joint ventures		3,579	592	4,171
Total including unconsolidated joint ventures		42,510	21,478	63,988

	Active Communities	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
October 31, 2007:				
Northeast	37	5,497	7,426	12,923
Mid-Atlantic	74	7,169	5,458	12,627
Midwest	31	3,066	996	4,062
Southeast	88	9,087	4,491	13,578
Southwest	129	10,689	3,247	13,936
West	72	8,250	1,547	9,797
Consolidated total	431	43,758	23,165	66,923
Unconsolidated joint ventures		3,734	592	4,326
Total including unconsolidated joint ventures		47,492	23,757	71,249
Owned		22,559	6,121	28,680
Optioned		19,060	17,044	36,104
Controlled lots		41,619	23,165	64,784
Construction to permanent financing lots		2,139		2,139
Consolidated total		43,758	23,165	66,923
Lots controlled by unconsolidated joint ventures		3,734	592	4,326
Total including unconsolidated joint ventures		47,492	23,757	71,249

The following table summarizes our started unsold homes and models. The decrease in total started unsold homes compared to the prior year end is primarily due to a focused effort to sell inventoried homes during the first quarter. In some instances, this required additional incentives to be given to homebuyers on completed unsold homes.

	January 31, 2008			October 31, 2007		
	Started Unsold Homes	Models	Total	Started Unsold Homes	Models	Total
Northeast	252	53	305	301	49	350
Mid-Atlantic	264	5	269	318	3	321
Midwest	103	25	128	125	28	153
Southeast	316	24	340	386	24	410
Southwest	582	93	675	787	91	878
West	381	223	604	473	237	710
Total	1,898	423	2,321	2,390	432	2,822

Investments in and advances to unconsolidated joint ventures decreased $14.2 million during the three months ended January 31, 2008. This decrease is due to distributions received from the joint ventures and losses incurred by the joint ventures during the three months ended January 31, 2008, offset by increases resulting from income from joint ventures not distributed and additional investment in joint ventures. As of January 31, 2008, we have investments in ten homebuilding joint ventures and nine land development joint ventures. Other than guarantees limited only to completion of development, environmental indemnification and standard indemnification for fraud and misrepresentation including voluntary bankruptcy, we have no other guarantees associated with unconsolidated joint ventures.

Receivables, deposits, and notes decreased $21.0 million to $88.9 million at January 31, 2008. The decrease was primarily due to the receipts of cash from insurance carriers related to outstanding warranty claims, as well as the return of deposits on land option deals we terminated in fiscal 2007.

Prepaid expenses and other assets were as follows:

	January 31, 2008	October 31, 2007	Dollar Change
Prepaid insurance	$ 10,181	$ 6,769	$ 3,412
Prepaid project costs	106,768	110,439	(3,671)
Senior residential rental properties	7,584	7,694	(110)
Other prepaids	22,237	20,995	1,242
Other assets	14,052	28,135	(14,083)
Total	$ 160,822	$ 174,032	$ (13,210)

Prepaid insurance increased due to a payment of a full year of certain liability insurance premium costs during the first quarter of fiscal 2008. These costs are amortized over the life of the associated insurance policy. Prepaid project costs decreased due to the reduction in the number of active selling communities. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Other assets decreased because there were significant distributions in the first quarter from our executive deferred compensation plan.

At January 31, 2008 and October 31, 2007, we had $32.7 million of goodwill. This amount resulted from Company acquisitions prior to fiscal 2002.

Definite life intangibles decreased $0.9 million to $3.3 million at January 31, 2008, as a result of amortization during the three months.

Income taxes receivable increased $22.2 million in the three months ended January 31, 2008 as a result of temporary differences between book and tax related to the inventory and intangible impairment charges taken, partially offset by an increase in the deferred tax asset valuation allowance of $21.2 million.

Accounts payable and other liabilities are as follows:

	January 31, 2008	October 31, 2007	Dollar Change
Accounts payable	$ 214,871	$ 170,091	$ 44,780
Reserves	129,681	131,790	(2,109)
Accrued expenses	58,479	97,753	(39,274)
Accrued compensation	22,453	53,767	(31,314)
Other liabilities	30,632	62,021	(31,389)
Total	$ 456,116	$ 515,422	$ (59,306)

The increase in accounts payable was primarily due to an increase in our accrual for inventory received but not yet invoiced. The decrease in accrued expenses is due to payments made for land options that were terminated and accrued in the fourth quarter of fiscal 2007. The decrease in accrued compensation was primarily due to the significant distributions in the first quarter from our executive deferred compensation plan as well as payment of our fiscal year 2007 bonuses during the first quarter of 2008. The decrease in other liabilities is primarily related to accrued costs paid when the significant number of homes closed in our Fort Myers operation during the quarter. Also contributing to the decrease was a decrease in deferred revenue for homes financed through our wholly-owned mortgage subsidiary, whereby a less than 5% deposit was obtained on the home sale.

Financial Services Mortgage loans held for sale consist of residential mortgages receivable of which $104.7 million and $182.6 million at January 31, 2008 and October 31, 2007, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses. The decrease in the receivable from October 31, 2007 is directly related to a decrease in the volume of loans financed at January 31, 2008.

Customer deposits decreased $7.6 million to $57.7 million at January 31, 2008. The decrease is primarily due to the reduction in the number of homes in backlog from 5,938 at October 31, 2007 to 3,845 at January 31, 2008. Also contributing to the decrease was the timing of cash received in exces