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HOVNANIAN ENTERPRISES INC

Form 10-Q/A

June 17, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended APRIL 30, 2004 or

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

Commission file number 1-8551

Hovnanian Enterprises, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

10 Highway 35, P.O. Box 500, Red Bank, NJ 07701  
(Address of Principal Executive Offices) (Zip Code)

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

Same

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 46,438,670 Class A Common Shares and 14,691,794 Class B Common Shares were outstanding as of June 1, 2004.

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#### HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (In Thousands)

ASSETS	April 30, 2004 ----- (unaudited)	October 31, 2003 -----
Homebuilding:		
Cash and cash equivalents.....	\$ 122,856	\$ 121,913
Inventories - At the lower of cost or fair value:		
Sold and unsold homes and lots under development.....	1,537,880	1,184,907
Land and land options held for future development or sale.....	308,310	270,502

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Consolidated Inventory Not Owned:		
Specific performance options.....	33,978	56,082
Variable interest entities.....	260,329	100,327
Other options.....	36,368	48,226
	-----	-----
Total Consolidated Inventory Not Owned...	330,675	204,635
	-----	-----
Total Inventories.....	2,176,865	1,660,044
	-----	-----
Receivables, deposits, and notes .....	53,149	42,506
	-----	-----
Property, plant, and equipment - net.....	32,614	26,263
	-----	-----
Prepaid expenses and other assets.....	127,129	106,525
	-----	-----
Goodwill and indefinite life intangibles.....	82,658	82,658
	-----	-----
Definite life intangibles.....	81,269	56,978
	-----	-----
Total Homebuilding.....	2,676,540	2,096,887
	-----	-----
Financial Services:		
Cash and cash equivalents.....	9,459	6,308
Mortgage loans held for sale.....	115,231	224,052
Other assets.....	5,030	3,945
	-----	-----
Total Financial Services.....	129,720	234,305
	-----	-----
Income Taxes Receivable - Including deferred tax benefits.....	29,044	1,179
	-----	-----
Total Assets.....	\$2,835,304	\$2,332,371
	=====	=====

See notes to condensed consolidated financial statements (unaudited).

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

	April 30, 2004	October 31, 2003
	-----	-----
	(unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Homebuilding:		
Nonrecourse land mortgages.....	\$ 34,139	\$ 43,795
Accounts payable and other liabilities.....	251,549	230,696
Customers' deposits.....	85,042	58,376
Liabilities from inventory not owned.....	61,568	94,780
	-----	-----
Total Homebuilding.....	432,298	427,647
	-----	-----

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Financial Services:

Accounts payable and other liabilities.....	4,467	5,917
Mortgage warehouse line of credit.....	107,167	166,711
	-----	-----
Total Financial Services.....	111,634	172,628
	-----	-----

Notes Payable:

Term loan.....		115,000
Senior notes.....	752,444	387,166
Senior subordinated notes.....	300,000	300,000
Accrued interest.....	22,197	15,675
	-----	-----
Total Notes Payable.....	1,074,641	817,841
	-----	-----
Total Liabilities.....	1,618,573	1,418,116
	-----	-----

Minority interest from inventory not owned.....	238,827	90,252
	-----	-----

Minority interest from consolidated joint ventures.	7,719	4,291
	-----	-----

Stockholders' Equity:

Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued.....		
Common Stock, Class A, \$.01 par value-authorized 200,000,000 shares; issued 56,727,469 shares at April 30, 2004 and 56,036,116 shares at October 31, 2003 (including 10,293,302 shares at April 30, 2004 and 10,780,436 shares at October 31, 2003 held in Treasury).....	567	560
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale) authorized 30,000,000 shares; issued 15,386,367 shares at April 30, 2004 and 15,537,016 shares at October 31, 2003 (including 691,748 shares at April 30, 2004 and October 31, 2003 held in Treasury).....	154	155
Paid in Capital.....	183,220	163,355
Retained Earnings.....	833,365	705,182
Treasury Stock - at cost.....	(47,121)	(49,540)
	-----	-----
Total Stockholders' Equity.....	970,185	819,712
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$2,835,304	\$2,332,371
	=====	=====

See notes to condensed consolidated financial statements (unaudited).

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

Three Months Ended April 30,		Six Months Ended April 30,	
2004	2003	2004	2003
-----	-----	-----	-----

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Revenues:

Homebuilding:

Sale of homes.....	\$ 900,943	\$666,553	\$1,658,216	\$1,274,054
Land sales and other revenues.....	4,395	2,365	7,564	12,004
	-----	-----	-----	-----
Total Homebuilding.....	905,338	668,918	1,665,780	1,286,058
Financial Services.....	13,470	10,899	28,243	21,394
	-----	-----	-----	-----
Total Revenues.....	918,808	679,817	1,694,023	1,307,452
	-----	-----	-----	-----

Expenses:

Homebuilding:

Cost of sales.....	674,106	497,219	1,238,041	960,397
Selling, general and administrative	80,512	59,598	152,305	113,899
Inventory impairment loss.....	734	1,326	792	1,484
	-----	-----	-----	-----
Total Homebuilding.....	755,352	558,143	1,391,138	1,075,780
Financial Services.....	8,670	6,173	16,697	11,994
Corporate General and Administrative.	14,694	13,464	29,218	28,048
Interest.....	19,096	13,425	36,039	27,104
Other Operations.....	4,248	2,378	6,680	6,656
Intangible Amortization.....	4,591	1,806	9,399	2,306
	-----	-----	-----	-----
Total Expenses.....	806,651	595,389	1,489,171	1,151,888
	-----	-----	-----	-----
Income Before Income Taxes.....	112,157	84,428	204,852	155,564
	-----	-----	-----	-----
State and Federal Income Taxes:				
State.....	6,416	3,335	12,656	6,435
Federal.....	35,269	28,525	64,013	51,800
	-----	-----	-----	-----
Total Taxes.....	41,685	31,860	76,669	58,235
	-----	-----	-----	-----
Net Income.....	\$ 70,472	\$ 52,568	\$ 128,183	\$ 97,329
	=====	=====	=====	=====

Per Share Data:

Basic:

Income per common share.....	\$ 1.13	\$ 0.85	\$ 2.05	\$ 1.56
Weighted average number of common shares outstanding.....	62,608	62,286	62,473	62,512
Assuming dilution:				
Income per common share.....	\$ 1.06	\$ 0.80	\$ 1.93	\$ 1.48
Weighted average number of common shares outstanding.....	66,408	65,522	66,393	65,888

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(Dollars In Thousands)

	A Common Stock	B Common Stock
	-----	-----
	Shares	Shares

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	Issued and Outstanding	Amount	Issued and Outstanding	Amount	Paid-In Capital	Retained Earnings	Treasury Stock
	-----	-----	-----	-----	-----	-----	-----
Balance, October 31, 2003.	45,255,680	\$560	14,845,268	\$155	\$163,355	\$705,182	\$(49,540)
Acquisitions.....	489,236				17,487		2,512
Sale of common stock under employee stock option plan.....	289,166	3			1,904		
Stock bonus plan.....	196,886	2	54,652	1	474		
Conversion of Class B to Class A Common Stock....	205,301	2	(205,301)	(2)			
Treasury stock purchase...	(2,102)						(93)
Net Income.....						128,183	
Balance, April 30, 2004 (unaudited).....	46,434,167	\$567	14,694,619	\$154	\$183,220	\$833,365	\$(47,121)
	=====	=====	=====	=====	=====	=====	=====

See notes to condensed consolidated financial statements (unaudited).

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

	Six Months Ended April 30,	
	2004	2003
	-----	-----
Cash Flows From Operating Activities:		
Net Income.....	\$ 128,183	\$ 97,329
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation.....	3,001	3,225
Intangible amortization.....	9,399	2,306
Loss (gain) on sale and retirement of property and assets.....	12	(28)
Deferred income taxes.....	(7,136)	(2,727)
Impairment losses.....	792	1,484
Decrease (increase) in assets:		
Mortgage notes receivable.....	108,968	9,516
Receivables, prepaids and other assets.....	(34,755)	(3,200)
Inventories.....	(366,625)	(214,148)
(Decrease) increase in liabilities:		
State and Federal income taxes.....	(20,137)	(30,020)
Tax effect from exercise of stock options.....	(592)	(2,830)
Customers' deposits.....	21,638	12,551
Interest and other accrued liabilities.....	(5,244)	(8,228)
Post development completion costs.....	(3,376)	2,676
Accounts payable.....	18,340	(19,547)
Net cash (used in) operating activities.....	(147,532)	(151,641)
	-----	-----
Cash Flows From Investing Activities:		

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Net proceeds from sale of property and assets.....	312	180
Purchase of property, equipment and other fixed assets and acquisitions of homebuilding companies.....	(49,955)	(138,836)
Net returns of capital from unconsolidated affiliates.....	746	7,431
	-----	-----
Net cash (used in) investing activities.....	(48,897)	(131,225)
	-----	-----
Cash Flows From Financing Activities:		
Proceeds from mortgages and notes.....	1,321,739	583,578
Proceeds from senior debt.....	365,000	
Principal payments on mortgages and notes.....	(1,488,507)	(543,062)
Purchase of treasury stock.....	(93)	(7,261)
Proceeds from sale of stock and employee stock plan.....	2,384	3,147
	-----	-----
Net cash provided by financing activities....	200,523	36,402
	-----	-----
Net Increase (Decrease) In Cash.....	4,094	(246,464)
Cash and Cash Equivalents Balance, Beginning Of Period.....	128,221	269,990
	-----	-----
Cash and Cash Equivalents Balance, End Of Period.....	\$ 132,315	\$ 23,526
	=====	=====
Supplemental Disclosures of Cash Flow		
Cash paid during the year for:		
Interest.....	\$ 38,692	\$ 30,504
	=====	=====
Income taxes.....	\$ 103,769	\$ 90,981
	=====	=====
Supplemental disclosures of noncash operating activities:		
Consolidated Inventory Not Owned:		
Specific performance options.....	\$ 31,918	\$ 51,155
Variable interest entities.....	238,060	35,811
Other options.....	30,602	57,316
	-----	-----
Total Inventory Not Owned.....	\$ 300,580	\$ 144,282
	=====	=====

See notes to condensed consolidated financial statements (unaudited).

### HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments for interim periods presented have been made, which include only normal recurring accruals and deferrals necessary for a fair presentation of consolidated financial position, results of operations, and changes in cash flows. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the

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financial statements. Results for the interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

Certain prior year amounts have been reclassified to conform to the current year presentation.

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

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information follows (dollars in thousands except for earnings per share information):

	Three Months Ended		Six Months Ended	
	April	April	April	April
	30, 2004	30, 2003	30, 2004	30, 2003
	-----	-----	-----	-----
Net income to common shareholders; as reported.....	\$ 70,472	\$ 52,568	\$ 128,183	\$ 97,329
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards.....	1,110	528	1,931	988
Pro forma net income.....	\$ 69,362	\$ 52,040	\$ 126,252	\$ 96,341
	=====	=====	=====	=====
Pro forma basic earnings per share	\$ 1.11	\$ 0.84	\$ 2.02	\$ 1.54
	=====	=====	=====	=====



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Basic earnings per share as reported.....	\$	1.13	\$	0.85	\$	2.05	\$	1.56
		=====		=====		=====		=====
Pro forma diluted earnings per share.....	\$	1.04	\$	0.79	\$	1.90	\$	1.46
		=====		=====		=====		=====
Diluted earnings per share as Reported.....	\$	1.06	\$	0.80	\$	1.93	\$	1.48
		=====		=====		=====		=====

Pro forma information regarding net income and earnings per share is to be calculated as if we had accounted for our stock options under the fair value method of SFAS 123. The fair value for those options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2004 and 2003: risk-free interest rate of 4.2% and 4.3%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.43 for both periods; and a weighted-average expected life of the option of 3.6 and 5.1 years, respectively.

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

### 3. Interest costs incurred, expensed and capitalized were:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
(Dollars in Thousands)				
Interest Capitalized at				
Beginning of Period.....	\$ 29,477	\$23,600	\$24,833	\$22,159
Plus Interest Incurred(1) (2).	22,204	15,305	43,791	30,425
Less Interest Expensed(2)....	19,096	13,425	36,039	27,104
	-----	-----	-----	-----
Interest Capitalized at				
End of Period (2).....	\$ 32,585	\$25,480	\$32,585	\$25,480
	=====	=====	=====	=====

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

(2) Represents interest on borrowings for construction, land and land development costs which are charged to interest expense when homes are delivered or when land is not under active development.

4. Accumulated depreciation at April 30, 2004 and October 31, 2003 amounted to \$29.4 million and \$27.5 million, respectively, for our homebuilding and senior rental residential assets.

5. In accordance with Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment of or Disposal of Long Lived Assets", we record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be

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impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. In addition, from time to time, we will write off certain residential land options including approval, engineering and capitalized interest costs for land management decided not to purchase. We wrote off such costs in the amount of \$0.7 million and \$1.3 million during the three months ended April 30, 2004 and 2003, respectively, and \$0.8 million and \$1.5 million during the six months ended April 30, 2004 and 2003, respectively. Residential inventory impairment losses and option write-offs are reported in the Condensed Consolidated Statements of Income as "Homebuilding-Inventory Impairment Loss."

6. We provide a warranty accrual for repair costs over \$1,000 to homes, community amenities, and land development infrastructure. We accrue for warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. In addition we accrue warranty costs under our \$150,000 per occurrence general liability insurance deductible as part of selling, general and administrative costs. Warranty accruals are based upon historical experience. Additions and charges incurred in the warranty accrual and general liability accrual for the three and six months ended April 30, 2004 and 2003 are as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
	(Dollars in Thousands)			
Balance, beginning of period.....	\$43,495	\$25,992	\$39,532	\$22,392
Company acquisitions.....				2,170
Additions.....	8,427	4,468	16,607	10,230
Charges incurred.....	(4,736)	(1,570)	(8,953)	(5,902)
	-----			
Balance, end of period.....	\$47,186	\$28,890	\$47,186	\$28,890
	=====			

7. We are involved in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on our financial position or results of our operations.

8. As of April 30, 2004 and October 31, 2003, respectively, we are obligated under various performance letters of credit amounting to \$127.1 million and \$130.3 million.

9. We have an unsecured Revolving Credit Agreement ("Agreement") with a group of banks that provides a revolving credit line of \$590 million through July 2006. Interest is payable monthly and at various rates of either the prime rate plus 0.275% or LIBOR plus 1.75%. In addition, we pay a fee equal to 0.350% per annum on the weighted average unused portion of the line. Each of our significant subsidiaries, except for our financial services subsidiaries and joint ventures, are a guarantor under the revolving credit agreement. As of April 30, 2004 and October 31, 2003, there was no outstanding balance under the Agreement.

We have a secured mortgage loan warehouse agreement with a group of banks, which is a short-term borrowing, that provides up to \$200 million through July 2004. Interest is payable monthly at the Federal Funds Rate plus 1.375%. The loan is repaid when the underlying mortgage loans are sold to permanent investors by us. As of April 30, 2004 and October 31, 2003 borrowings under the agreement were \$107.2 million and \$166.7 million,

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respectively.

10. On March 18, 2004, we issued \$150 million 6 3/8% Senior Notes due 2014. The net proceeds of the issuance were used to redeem our 9 1/8% Senior Notes which occurred on May 3, 2004 and for general corporate purchases. (See Note 17).

On November 3, 2003, we issued \$215 million 6 1/2% Senior Notes due 2014. The net proceeds of the issuance were used for general corporate purposes.

At April 30, 2004, our long term debt consisted of: \$140.3 million 10 1/2% Senior Notes due 2007, \$150 million 9 1/8% Senior Notes due 2009, \$100 million 8% Senior Notes due 2012, \$215 million 6 1/2% Senior Notes due 2014, and \$150 million 6 3/8% Senior Notes due 2014, (Senior Notes aggregate \$752.4 million, net of discount) \$150 million 8 7/8% Senior Subordinated Notes due 2012, and \$150 million 7 3/4% Senior Subordinated Notes due 2013. On March 18, 2004, we paid off our \$115 million Term Loan with available cash.

11. Per Share Calculations - Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock, of approximately 3.8 million and 3.2 million for the three months ended April 30, 2004 and 2003, respectively, and approximately 3.9 million and 3.4 million for the six months ended April 30, 2004 and 2003, respectively.

12. Variable Interest Entities - In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 was effective immediately for VIE's created after January 31, 2003. Pursuant to FASB revision to FIN 46, ("FIN 46R") (See Note 13), our company was not required to apply the provisions of FIN 46 to an interest held in a variable interest entity or potential variable interest entity until our quarter ended April 30, 2004 for VIE's created before February 1, 2003.

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

Management believes FIN 46 was not clearly thought out for

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application in the homebuilding industry for land and lot options. Under FIN 46, we can have an option and put down a small deposit as a percentage of the purchase price and still have to consolidate the entity. Our exposure to loss as a result of our involvement with the VIE is only the deposit, not it's total assets consolidated on the balance sheet. In certain cases we will have to place inventory on our balance sheet the VIE has optioned to other developers. In addition, if the VIE has creditors, it's debt will be placed on our balance sheet even though the creditors have no recourse against our Company. Based on these observations we believe consolidating VIE's based on land and lot option deposits does not reflect the economic realities or risks of owning and developing land.

At April 30, 2004 all VIE's we were required to consolidate were a result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these thirty-three VIE's totaling \$27.4 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIE's was \$260.3 million. Because we could not get the remainder of the selling entities to provide us with any financial information, the fair value of the optioned property less our cash deposits and liabilities from inventory not owned, which totaled \$238.1 million, was reported on the balance sheet as "Minority interest from inventory not owned". Creditors of these VIE's have no recourse against our Company.

We will continue to secure land and lots using options. Not all our deposits are with VIE's. Including the deposits with the thirty-three VIE's above, at April 30, 2004, we have total cash and letters of credit deposits amounting to approximately \$177.2 million to purchase land lots with a total purchase price of \$2.8 billion. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met.

13. Recent Accounting Pronouncements - In December 2003, the Financial Accounting Standards Board ("FASB") issued Revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R requires the primary beneficiary of a variable interest entity to consolidate that entity. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the variable interest entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual, or other financial interests in the entity. Expected losses are the expected negative variability in the fair value of an entity's net assets exclusive of its variable interests, and expected residual returns are the expected positive variability in the fair value of an entity's net assets, exclusive of variable interests. We have fully implemented FIN 46 as of April 30, 2004.

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

14. On November 6, 2003 we acquired a Florida homebuilder for cash

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and 489,236 shares of our Class A Common Stock. This acquisition was accounted for as a purchase, with the results of operations of this entity included in our condensed consolidated financial statements as of the date of acquisition. In connection with the acquisition, we have definite life intangible assets equal to the excess purchase price over the fair value of the net assets estimated to be \$33 million. It is our policy to obtain appraisals of acquisition intangibles. We are awaiting the appraisal from this acquisition. Until the appraisal is received, we estimated the intangible value for amortization calculations. We expect to have our final appraisal by our third quarter ended July 31, 2004. We expect to amortize the definite life intangibles over their estimated lives.

15. Intangible Assets - The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements, with both definite and indefinite lives resulting from acquisitions. We no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We are amortizing the definite life intangibles over their expected useful life, ranging from three to seven years.

16. Hovnanian Enterprises, Inc., the parent company (the "Parent"), is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the "Subsidiary Issuer"), acts as a finance entity that as of April 30, 2004 had issued and outstanding approximately \$300 million Senior Subordinated Notes, \$752.4 million face value Senior Notes, and a Revolving Credit Agreement with no outstanding balance. The Senior Subordinated Notes, Senior Notes and the Revolving Credit Agreement are fully and unconditionally guaranteed by the Parent.

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

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

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

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -UNAUDITED  
CONDENSED CONSOLIDATING BALANCE SHEET  
APRIL 30, 2004  
(Dollars in Thousands)

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	Parent	Guarantor Subsidiary Issuer	Non- Subsid- iaries	Guarantor Subsidiaries	Elimin- ations	Cons idat
<b>ASSETS</b>						
Homebuilding.....	\$ 115	\$ 143,368	\$2,499,794	\$ 33,263	\$	\$2,676
Financial Services.....			82	129,638		129
Income Taxes (Payable) Receivable.	25,774		3,326	(56)		29
Investments in and amounts due to and from consolidated subsidiaries.....	944,296	977,032	(1,202,771)	(5,776)	(712,781)	
<b>Total Assets.....</b>	<b>\$970,185</b>	<b>\$1,120,400</b>	<b>\$1,300,431</b>	<b>\$ 157,069</b>	<b>\$ (712,781)</b>	<b>\$2,835</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Homebuilding.....	\$	\$	\$ 430,772	\$ 1,526	\$	\$ 432
Financial Services.....			(117)	111,751		111
Notes Payable.....		1,072,829	(2,341)	4,153		1,074
Income Taxes Payable (Receivable).						
Minority Interest.....			238,827	7,719		246
Stockholders' Equity.....	970,185	47,571	633,290	31,920	(712,781)	970
<b>Total Liabilities and Stockholders' Equity.....</b>	<b>\$970,185</b>	<b>\$1,120,400</b>	<b>\$1,300,431</b>	<b>\$ 157,069</b>	<b>\$ (712,781)</b>	<b>\$2,835</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATING BALANCE SHEET  
OCTOBER 31, 2003  
(Dollars in Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Cons idat
<b>Assets</b>						
Homebuilding.....	\$ (279)	\$ 151,050	\$1,910,484	\$ 35,632	\$	\$2,096
Financial Services.....			(252)	234,557		234
Income Taxes (Payable)Receivable...	18,713	(1,241)	(15,656)	(637)		1
Investments in and amounts due to and from consolidated subsidiaries.....	801,278	690,971	(851,398)	(56,837)	(584,014)	
<b>Total Assets.....</b>	<b>\$819,712</b>	<b>\$ 840,780</b>	<b>\$1,043,178</b>	<b>\$ 212,715</b>	<b>\$ (584,014)</b>	<b>\$2,332</b>
<b>Liabilities</b>						
Homebuilding.....	\$	\$	\$ 425,847	\$ 1,800	\$	\$ 427
Financial Services.....			(35)	172,663		172
Notes Payable.....		816,960	(2,984)	3,865		817
Income Taxes Payable (Receivables).						
Minority Interest.....			90,252	4,291		94
Stockholders' Equity.....	819,712	23,820	530,098	30,096	(584,014)	819
<b>Total Liabilities and Stockholders' Equity.....</b>	<b>\$819,712</b>	<b>\$ 840,780</b>	<b>\$1,043,178</b>	<b>\$ 212,715</b>	<b>\$ (584,014)</b>	<b>\$2,332</b>

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 THREE MONTHS ENDED APRIL 30, 2004  
 (Dollars in Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 77	\$ 897,147	\$ 8,114	\$	\$ 905,
Financial Services.....			1,164	12,306		13,
Intercompany Charges.....		18,524	32,324		(50,848)	
Equity In Pretax Income of Consolidated Subsidiaries.....	112,157				(112,157)	
<b>Total Revenues.....</b>	<b>112,157</b>	<b>18,601</b>	<b>930,635</b>	<b>20,420</b>	<b>(163,005)</b>	<b>918,</b>
<b>Expenses:</b>						
Homebuilding.....		653	827,734	6,308	(36,714)	797,
Financial Services.....			575	8,888	(793)	8,
<b>Total Expenses.....</b>		<b>653</b>	<b>828,309</b>	<b>15,196</b>	<b>(37,507)</b>	<b>806,</b>
Income (Loss) Before Income Taxes.....	112,157	17,948	102,326	5,224	(125,498)	112,
State and Federal Income Taxes.....	41,685	5,043	39,257	2,054	(46,354)	41,
<b>Net Income (Loss).....</b>	<b>\$ 70,472</b>	<b>\$ 12,905</b>	<b>\$ 63,069</b>	<b>\$ 3,170</b>	<b>\$ (79,144)</b>	<b>\$ 70,</b>

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 THREE MONTHS ENDED APRIL 30, 2003  
 (Dollars in Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 166	\$ 668,756	\$ 1	\$ (5)	\$ 668,
Financial Services.....			1,853	9,046		10,
Intercompany Charges.....		41,833	8,083		(49,916)	
Equity In Pretax Income of Consolidated Subsidiaries.....	84,428				(84,428)	
<b>Total Revenues.....</b>	<b>84,428</b>	<b>41,999</b>	<b>678,692</b>	<b>9,047</b>	<b>(134,349)</b>	<b>679,</b>
<b>Expenses:</b>						
Homebuilding.....		41,999	590,202	144	(43,129)	589,
Financial Services.....			593	5,937	(357)	6,
<b>Total Expenses.....</b>		<b>41,999</b>	<b>590,795</b>	<b>6,081</b>	<b>(43,486)</b>	<b>595,</b>

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Income (Loss) Before Income Taxes..	84,428		87,897		2,966		(90,863)		84,428
State and Federal Income Taxes.....	31,860	(424)	33,236		1,299		(34,111)		31,860
Net Income (Loss).....	\$52,568	\$ 424	\$ 54,661		\$ 1,667		\$ (56,752)		\$ 52,568

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -UNAUDITED  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
SIX MONTHS ENDED APRIL 30, 2004  
(Dollars in Thousands)

	Parent	Guarantor Subsidiary Issuer	Non- Subsid- iaries	Guarantor Subsidiaries	Elimin- ations	Conso- lidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 186	\$1,649,463	\$ 16,214	\$ (83)	\$1,665,465
Financial Services.....			2,116	26,127		28,243
Intercompany Charges.....		34,808	63,440		(98,248)	
Equity In Pretax Income of Consolidated Subsidiaries.....	204,852				(204,852)	
<b>Total Revenues.....</b>	<b>204,852</b>	<b>34,994</b>	<b>1,715,019</b>	<b>42,341</b>	<b>(303,183)</b>	<b>1,694,019</b>
<b>Expenses:</b>						
Homebuilding.....		428	1,531,499	12,973	(72,426)	1,472,574
Financial Services.....			1,065	17,531	(1,899)	16,697
<b>Total Expenses.....</b>		<b>428</b>	<b>1,532,564</b>	<b>30,504</b>	<b>(74,325)</b>	<b>1,489,257</b>
Income (Loss) Before Income Taxes..	204,852	34,566	182,455	11,837	(228,858)	204,852
State and Federal Income Taxes.....	76,669	10,859	69,533	4,678	(85,070)	76,669
Net Income (Loss).....	\$128,183	\$ 23,707	\$ 112,922	\$ 7,159	\$ (143,788)	\$ 128,183

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -UNAUDITED  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
SIX MONTHS ENDED APRIL 30, 2003  
(Dollars in Thousands)

	Parent	Guarantor Subsidiary Issuer	Non- Subsid- iaries	Guarantor Subsidiaries	Elimin- ations	Conso- lidated
<b>Revenues:</b>						
Homebuilding.....	\$	\$ 638	\$1,285,420	\$ 10	\$ (10)	\$1,286,420
Financial Services.....			3,463	17,931		21,394
Intercompany Charges.....		85,371	11,459		(96,830)	
Equity In Pretax Income of Consolidated Subsidiaries.....	155,564				(155,564)	
<b>Total Revenues.....</b>	<b>155,564</b>	<b>86,009</b>	<b>1,300,342</b>	<b>17,941</b>	<b>(252,404)</b>	<b>1,307,510</b>



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Expenses:					
Homebuilding.....	86,009	1,141,027	219	(87,361)	1,139,
Financial Services.....		1,135	11,717	(858)	11,
	-----	-----	-----	-----	-----
Total Expenses.....	86,009	1,142,162	11,936	(88,219)	1,151,
	-----	-----	-----	-----	-----
Income (Loss) Before Income Taxes..	155,564	158,180	6,005	(164,185)	155,
State and Federal Income Taxes.....	58,235	(629)	59,431	(61,251)	58,
	-----	-----	-----	-----	-----
Net Income (Loss).....	\$97,329	\$ 629	\$ 98,749	\$ (102,934)	\$ 97,
	=====	=====	=====	=====	=====

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
 SIX MONTHS ENDED APRIL 30, 2004  
 (Dollars in Thousands)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Con ida
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$ 128,183	\$ 23,707	\$ 112,922	\$ 7,159	\$ (143,788)	\$ 128
Adjustments to reconcile net income to net cash provided by (used in) operating activities...	32,298	82	(558,863)	106,980	143,788	(275
	-----	-----	-----	-----	-----	-----
Net Cash Provided By (Used In) Operating Activities.....	160,481	23,789	(445,941)	114,139		(147
Net Cash (Used In) Investing Activities.....	(19,865)		(28,822)	(210)		(48
Net Cash Provided By (Used In) Financing Activities.....	2,419	250,000	7,788	(59,684)		200
Intercompany Investing and Financing Activities - Net.....	(143,018)	(286,061)	480,140	(51,061)		
	-----	-----	-----	-----	-----	-----
Net Increase (Decrease) In Cash.....	17	(12,272)	133,165	3,184		4
Balance, Beginning of Period.....	15	135,846	(14,372)	6,732		128
	-----	-----	-----	-----	-----	-----
Cash and Cash Equivalents Balance, End of Period.....	\$ 32	\$ 123,574	\$ (1,207)	\$ 9,916	\$	\$ 132
	=====	=====	=====	=====	=====	=====

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
 SIX MONTHS ENDED APRIL 30, 2003  
 (Dollars in Thousands)

	Subsidiary	Guarantor Subsid-	Non- Guarantor	Elimin-	Con
	-----	-----	-----	-----	-----

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	Parent	Issuer	aries	Subsidiaries	ations	ida
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$ 97,329	\$ 629	\$ 98,749	\$ 3,556	\$ (102,934)	\$ 97
Adjustments to reconcile net income to net cash provided by (used in) operating activities...	(29,463)	3,677	(347,348)	21,230	102,934	(248
Net Cash Provided By (Used In) Operating Activities.....	67,866	4,306	(248,599)	24,786		(151
Net Cash Provided By (Used In) Investing Activities.....	(3,233)	2,866	(130,704)	(154)		(131
Net Cash Provided By (Used In) Financing Activities.....	(7,261)	29,800	20,937	(7,074)		36
Intercompany Investing and Financing Activities - Net.....	(57,367)	(288,577)	365,968	(20,024)		
Net Increase (Decrease) In Cash.....	5	(251,605)	7,602	(2,466)		(246
Balance, Beginning of Period.....	10	218,844	43,689	7,447		269
Cash and Cash Equivalents Balance, End of Period.....	\$ 15	\$ (32,761)	\$ 51,291	\$ 4,981	\$	\$ 23
	=====	=====	=====	=====	=====	=====

17. Subsequent Events - On May 3, 2004, we redeemed all of our \$150 million outstanding 9 1/8% Senior Notes due 2009. We recorded \$8.7 million of expenses associated with the extinguishment of this debt.

In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This will result in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles on our July 31, 2004 Condensed Consolidated Balance Sheet.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 No. 141 (for acquisitions subsequent to June 30, 2001) and APB 16 (for acquisitions prior to June 30, 2001) we record as our cost the estimated fair value of the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible assets less liabilities is recorded as goodwill, indefinite or definite life intangibles. The reported income of an acquired company includes the operations of the acquired company from

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the date of acquisition.

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

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

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

Insurance Deductible Reserves - Our deductible is \$150,000 per occurrence for worker's compensation and general liability insurance. Reserves have been established based upon actuarial analysis of estimated losses incurred during 2004 and 2003.

Interest - Costs related to properties under development are capitalized during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold. Costs related to properties not under development are charged to interest expense.

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. 46 ("FIN 46") "Consolidated of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, SFAS No. 49 "Accounting for Product Financing Arrangements" ("SFAS 49"), SFAS No. 98 "Accounting for Leases" ("SFAS 98"), and Emerging Issues Task Force ("EITF") No. 97-10 "The Effects of Lessee Involvement in Asset Construction" ("EITF 97-10"), we record on the Consolidated Balance Sheet specific performance options, options with variable interest entities, and other options under Consolidated inventory not owned with the offset to Liabilities from inventory not owned, Minority interest from inventory not owned and Minority interest from consolidated joint ventures.

Intangible Assets - The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements with both definite and indefinite lives resulting from company acquisitions. We no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We are amortizing the definite life intangibles over their expected useful life, ranging from three to seven years.

Post Development Completion Costs - In those instances where a development is substantially completed and sold and we have additional

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construction work to be incurred, an estimated liability is provided to cover the cost of such work and is recorded in accounts payable and other liabilities in the consolidated balance sheets.

### CAPITAL RESOURCES AND LIQUIDITY

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York state, Pennsylvania, and Ohio), our Southeast Region (Washington D. C., Maryland, Virginia, West Virginia, North Carolina, South Carolina, and Florida), our Southwest Region (Texas and Arizona), and our West Region (California). In addition, we provide financial services to our homebuilding customers.

Our cash uses during the six months ended April 30, 2004 were for operating expenses, increases in housing inventories, construction, income taxes, interest, the paydown of our revolving credit facility, the payoff of our Term Loan, and the acquisition of a Florida homebuilder. We provided for our cash requirements from housing and land sales, the revolving credit facility, the issuance of \$365 million of Senior Notes, 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. On March 5, 2004 our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. As of April 30, 2004, 1.8 million shares of Class A Common Stock have been purchased under this program. In addition in 2003, we retired at no cost 1.6 million shares that were held by a seller of a previous acquisition. All share information reflects our dividend.

Our homebuilding bank borrowings are made pursuant to an amended and restated unsecured revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of \$590 million through July 2006. Interest is payable monthly and at various rates of either the prime rate plus 0.275% or LIBOR plus 1.75%. At April 30, 2004, there were no outstanding borrowings under our \$590 million revolving credit facility and we had approximately \$122.9 million of homebuilding cash. At April 30, 2004 we had issued \$127.1 million of letters of credit which reduces cash available under our agreement. We believe that we will be able either to extend the Agreement beyond July 2006 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. Each of our significant subsidiaries, except for our financial services subsidiaries and joint ventures, is a guarantor under the revolving credit agreement.

At April 30, 2004 we had \$755.3 million of outstanding senior debt (\$752.4 million, net of discount), comprised of \$140.3 million 10 1/2% Senior Notes due 2007, \$150 million 9 1/8% Senior Notes due 2009, \$100 million 8% Senior Notes due 2012, \$215 million 6 1/2% Senior Notes due 2014, and \$150 million 6 3/8% Senior Notes due 2014. At April 30, 2004, we had outstanding \$300 million of senior subordinated debt comprised of \$150 million 8 7/8% Senior Subordinated Notes due 2012, and \$150 million 7 3/4% Senior Subordinated Notes due 2013. On May 3, 2004 we redeemed our 9 1/8% Senior Notes due 2009, and we recorded \$8.7 million of expenses associated with the extinguishment of this debt. Each of our significant subsidiaries, except for our financial services subsidiaries and joint ventures, is a guarantor of the Senior Notes and Senior Subordinated Notes.

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On March 18, 2004, we paid off our \$115 million Term Loan. We recorded \$0.9 million of expenses associated with the extinguishment of the debt in Other operations on the Condensed Consolidated Statement of Income.

Our mortgage banking subsidiary's warehousing agreement was amended and restated on July 31, 2003. Pursuant to the agreement, we may borrow up to \$200 million. The agreement expires in July 2004 and interest is payable monthly at the Federal Funds Rate plus 1.375%. We believe that we will be able either to extend this agreement beyond July 2004 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of April 30, 2004, the aggregate principal amount of all borrowings under this agreement was \$107 million.

Total inventory increased \$390.8 million during the six months ended April 30, 2004. This increase excluded the change in consolidated inventory not owned of \$126 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10, and Variable Interest Entities in accordance with FIN 46. See "Notes to Condensed Consolidated Financial Statements" - Note 12 for additional information on FIN 46. Excluding the impact from our Florida acquisition in November 2003 of \$37.6 million, total inventory in our Northeast Region increased \$83.4 million, the Southeast Region increased \$73.1 million, the Southwest Region increased \$35.8 million, and our West Region increased \$160.9 million. The increase in inventory was primarily the result of future planned organic growth in our existing markets. Substantially all homes under construction or completed and included in inventory at April 30, 2004 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our line of credit, and senior and senior subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we 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.

The following table summarizes the number of buildable homes included in our total residential real estate. The April 30, 2004 and October 31, 2003 numbers exclude real estate owned and options in locations where we have ceased development.

	Active Communities	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
	-----	-----	-----	-----
April 30, 2004:				
Northeast Region..	35	7,894	18,182	26,076
Southeast Region..	119	11,896	16,321	28,217
Southwest Region..	86	8,319	6,283	14,602
West Region.....	51	8,223	8,640	16,863
	-----	-----	-----	-----
	291	36,332	49,426	85,758
	=====	=====	=====	=====
Owned.....		20,310	4,752	25,062
Optioned.....		16,022	44,674	60,696
		-----	-----	-----
Total.....		36,332	49,426	85,758
		=====	=====	=====

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	Active Communities	Active Communities Homes	Proposed Developable Homes	Grand Total Homes
October 31, 2003:				
Northeast Region..	32	8,536	15,744	24,280
Southeast Region..	107	10,163	12,345	22,508
Southwest Region..	81	7,127	6,813	13,940
West Region.....	37	7,359	6,211	13,570
	257	33,185	41,113	74,298
Owned.....		16,111	5,359	21,470
Optioned.....		17,074	35,754	52,828
Total.....		33,185	41,113	74,298

Homes in active communities under contract at April 30, 2004 and October 31, 2003 were 7,227 and 5,020, respectively. Such amounts do not include our build on your own lot contracts or contracts from our unconsolidated joint ventures.

The following table summarizes our started or completed unsold homes and models:

	April 30, 2004			October 31, 2003		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	116	55	171	130	44	174
Southeast Region....	164	36	200	207	32	239
Southwest Region....	628	93	721	557	94	651
West Region.....	128	122	250	185	105	290
Total	1,036	306	1,342	1,079	275	1,354

Receivables, deposits, and notes increased \$10.6 million to \$53.1 million at April 30, 2004. The increase was primarily due to the timing of cash received from homes that closed on April 30, 2004. Receivables from home sales amounted to \$11.4 million and \$4.1 million at April 30, 2004 and October 31, 2003, respectively.

Prepaid expenses and other assets are as follows:

	April 30, 2004	October 31, 2003	Dollar Change
Prepaid insurance.....	\$ 6,945	\$	\$ 6,945
Prepaid project costs.....	43,099	34,171	8,928
Investment in joint ventures.....	22,486	23,232	(746)
Senior residential rental properties.	8,926	9,118	(192)
Other prepaids.....	19,390	16,209	3,181
Other assets.....	26,283	23,795	2,488
	\$ 127,129	\$ 106,525	\$ 20,604

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Prepaid insurance increased due to a payment of a full year of insurance costs every first quarter. These costs are amortized monthly on a straight line basis. Prepaid project costs increased due to increased 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. Investments in Joint Ventures have remained relatively flat when comparing April 30, 2004 to October 31, 2003. As of April 30, 2004 we have entered into two homebuilding joint ventures and three land and land development joint ventures. Other than completion guarantees, no other guarantees associated with unconsolidated joint ventures have been given. Also included in prepaid expenses and other assets are debt issuance fees, non-qualified associate benefit plan assets, and miscellaneous prepaids and assets.

At April 30, 2004, we had \$82.7 million of goodwill and indefinite life intangibles. This amount resulted from company acquisitions prior to fiscal 2003. In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This will result in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles on our July 31, 2004 Condensed Consolidated Balance Sheet.

Definite life intangibles increased \$24.3 million to \$81.3 million at April 30, 2004. This increase was the result of our November 6, 2003 Florida acquisition net of amortization expense. To the extent the acquisition price was greater than the book value of tangible assets which were stepped up to fair values, purchase price premiums were classified as intangibles. Professionals are hired to appraise all acquired intangibles. Such appraisals resulted in all fiscal 2003 acquisition premiums to be categorized as definite life intangibles. The intangibles from our fiscal 2004 acquisition are estimated, as we await the final appraisal. See the "Critical Accounting Policies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional explanation of intangibles. For tax purposes all our intangibles, except those resulting from an acquisition classified as a tax free exchange, are being amortized over 15 years.

Income taxes receivable increased \$27.9 million to \$29.0 million at April 30, 2004. This increase was primarily the result of the payment of \$28.4 million of federal and state taxes accrued at October 31, 2003 and netted against deferred taxes receivable. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as offset against future taxable income.

Accounts payable and other liabilities are as follows:

	April 30, 2004	October 31, 2003	Dollar Change
	-----	-----	-----
Accounts payable.....	\$ 88,782	\$ 68,935	\$19,847
Reserves.....	52,914	46,699	6,215
Accrued expenses.....	19,980	27,064	(7,084)
Accrued compensation.....	49,166	72,495	(23,329)
Property secured by a mortgage.....	24,171	-	24,171
Other liabilities.....	16,536	15,503	1,033
	-----	-----	-----
	\$251,549	\$ 230,696	\$20,853
	=====	=====	=====

The increase in accounts payable and other liabilities was primarily

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due to the consolidation of a property in our Northeast Region that was secured by a mortgage which was subsequently replaced by a letter of credit, increases in accounts payable due to our November 2003 Florida acquisition as well as the opening of new communities in our existing markets, increases in reserves for our General Liability policy and an increase in miscellaneous other liabilities. These increases were offset by decreases in accrued expenses due to the payment of our fiscal year 2003 accruals and a decrease in accrued compensation due to the payout of our fiscal year 2003 bonuses during the first six months of 2004. Other liabilities include payroll withholdings, deferred income, and a nonrecourse mortgage associated with our Corporate Office.

Financial Services - Mortgage loans held for sale consist of residential mortgages receivable of which \$115.2 million and \$223.9 million at April 30, 2004 and October 31, 2003, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale are being held as an investment. 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.

### RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2004 COMPARED TO THE THREE AND SIX MONTHS ENDED APRIL 30, 2003

#### Total Revenues:

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

	Three Months Ended			
	April 30, 2004	April 30, 2003	Dollar Change	Percentage Change
	(Dollars In Thousands)			
Homebuilding:				
Sale of homes.....	\$ 900,943	\$ 666,553	\$ 234,390	35.2%
Land sales and other revenues.....	4,395	2,365	2,030	85.8%
Financial Services...	13,470	10,899	2,571	23.6%
Total Revenues...	\$ 918,808	\$ 679,817	\$ 238,991	35.2%

	Six Months Ended			
	April 30, 2004	April 30, 2003	Dollar Change	Percentage Change
	(Dollars In Thousands)			
Homebuilding:				
Sale of homes.....	\$1,658,216	\$1,274,054	\$ 384,162	30.2%
Land sales and other revenues.....	7,564	12,004	(4,440)	(37.0%)
Financial Services...	28,243	21,394	6,849	32.0%
Total Revenues...	\$1,694,023	\$1,307,452	\$ 386,571	29.6%



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### Homebuilding:

Compared to the same prior period, housing revenues increased \$234.4 million or 35.2% during the three months ended April 30, 2004 and increased \$384.2 million or 30.2% during the six months ended April 30, 2004. Housing revenues are recorded at the time when title is conveyed to the buyer, adequate cash payment has been received, and there is no continued involvement.

Information on homes delivered by market area is set forth below:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
(Dollars in Thousands)				
Northeast Region: (1)				
Dollars.....	\$ 208,620	\$ 148,155	\$ 400,528	\$ 284,918
Homes.....	669	462	1,309	893
Southeast Region: (1)				
Dollars.....	\$ 253,485	\$ 156,162	\$ 444,547	\$ 314,282
Homes.....	987	621	1,774	1,244
Southwest Region: (1)				
Dollars.....	\$ 154,564	\$ 106,767	\$ 282,378	\$ 179,429
Homes.....	884	520	1,608	879
West Region:				
Dollars.....	\$ 284,274	\$ 255,469	\$ 530,763	\$ 494,164
Homes.....	813	893	1,563	1,756
Other:				
Dollars.....	\$ --	\$ --	\$ --	\$ 1,261
Homes.....	--	--	--	9
Consolidated Total:				
Dollars.....	\$ 900,943	\$ 666,553	\$1,658,216	\$1,274,054
Homes.....	3,353	2,496	6,254	4,781
Unconsolidated Joint Ventures:				
Dollars.....	\$ 8,484	\$ 2,178	\$ 11,310	\$ 4,173
Homes.....	19	11	29	21
Totals:				
Housing Revenues...	\$ 909,427	\$ 668,731	\$1,669,526	\$1,278,227
Homes Delivered....	3,372	2,507	6,283	4,802

(1) April 30, 2004 includes six months of deliveries from our Texas, Ohio, Arizona, and Florida acquisitions which closed in January 2003, April 2003, August 2003, and November 2003, respectively.

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

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	Sales Contracts for the		Contract Backlog	
	Six Months Ended		as of April 30,	
	April 30,			
	2004	2003	2004	2003
(Dollars in Thousands)				
Northeast Region: (1)				
Dollars.....	\$ 510,609	\$ 320,391	\$ 733,520	\$ 538,742
Homes.....	1,550	1,007	2,440	2,024
Southeast Region: (1)				
Dollars.....	\$ 592,990	\$ 397,360	\$ 750,663	\$ 423,614
Homes.....	2,143	1,535	2,592	1,531
Southwest Region: (1)				
Dollars.....	\$ 323,925	\$ 212,905	\$ 204,621	\$ 128,786
Homes.....	1,873	1,085	1,254	645
West Region:				
Dollars.....	\$ 832,706	\$ 546,086	\$ 587,174	\$ 336,741
Homes.....	2,340	1,901	1,570	1,100
Other:				
Dollars.....	\$ --	\$ 313	\$ --	\$ --
Homes.....	--	2	--	--
Consolidated Total:				
Dollars.....	\$2,260,230	\$1,477,055	\$2,275,978	\$1,427,883
Homes.....	7,906	5,530	7,856	5,300
Unconsolidated Joint Ventures:				
Dollars.....	\$ 135,786	\$ 3,248	\$ 140,353	\$ 3,715
Homes.....	230	16	237	18
Totals:				
Dollars.....	\$2,396,016	\$1,480,303	\$2,416,331	\$1,431,598
Homes.....	8,136	5,546	8,093	5,318

(1) Included in sales contracts for the six months ended April 30, 2004 and contract backlog as of April 30, 2004 are sales contracts and backlog from our Texas, Ohio, Arizona, and Florida acquisitions which closed in January 2003, April 2003, August 2003, and November 2003, respectively.

During May 2004, we signed an additional 1,454 net contracts amounting to \$431.1 million in consolidated communities and 33 net contracts amounting to \$23.8 million in unconsolidated joint ventures compared to 1,215 net contracts amounting to \$326.9 million in consolidated communities and 3 net contracts amounting to \$0.8 million in unconsolidated joint ventures in the same month last year.

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

Three Months Ended		Six Months Ended	
April 30,		April 30,	
2004	2003	2004	2003

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	-----	-----	-----	-----
	(Dollars in Thousands)			
Sale of Homes.....	\$900,943	\$666,553	\$1,658,216	\$1,274,054
Cost of Sales.....	673,778	496,130	1,236,678	953,656
	-----	-----	-----	-----
Housing Gross Margin.....	\$227,165	\$170,423	\$ 421,538	\$ 320,398
	=====	=====	=====	=====
Gross Margin Percentage.....	25.2%	25.6%	25.4%	25.1%

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

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	-----	-----	-----	-----
	2004	2003	2004	2003
	-----	-----	-----	-----
Sale of Homes.....	100.0%	100.0%	100.0%	100.0%
Cost of Sales:				
Housing, land &				
development costs....	66.7%	66.7%	66.5%	67.2%
Commissions.....	2.3%	2.1%	2.3%	2.1%
Financing concessions..	1.1%	1.0%	1.0%	1.0%
Overheads.....	4.7%	4.6%	4.8%	4.6%
	-----	-----	-----	-----
Total Cost of Sales.....	74.8%	74.4%	74.6%	74.9%
	-----	-----	-----	-----
Gross Margin.....	25.2%	25.6%	25.4%	25.1%
	=====	=====	=====	=====

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the geographic mix of deliveries and the mix of both communities and of home types delivered, consolidated quarterly gross margin will fluctuate up or down and may not be representative of the consolidated gross margin for the year.

Excluding our Florida and Arizona acquisitions, our gross margins increased to 26% and 26.2% during the three and six months ended April 30, 2004, respectively when compared to the same periods last year. These increases are primarily due to increases in sales prices and the effects from some of the processing improvements that we have been implementing in our existing operations. The decreased margin from our Florida acquisition is primarily due to the step up of inventory to reflect fair value at the time of purchase. Although we achieve targeted returns from our Arizona acquisition through higher inventory turnover our margins are lower than our average consolidated margins. Another factor that has begun to hinder our gross margins is the increase in material costs such as lumber. Despite the effect of our acquisitions and material price increases, if home prices continue to appreciate, there is the potential for upside in our homebuilding gross margin for the full year in fiscal 2004.

Homebuilding selling, general, and administrative expenses as a percentage of homebuilding revenues, remained relatively flat at approximately 9.0% for the three and six months ended April 30, 2004 when compared to the same period last year. Such expenses increased \$20.9 million and \$38.4 million during the three and six months ended April 30, 2004, respectively, compared to the same period last year. The dollar increase was primarily due to our acquisitions and increased selling,

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general and administrative costs associated with the increase in the number of active selling communities in all of our regions.

### Land Sales and Other Revenues:

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
Land and Lot Sales.....	\$ 446	\$ 1,298	\$ 1,585	\$ 9,750
Cost of Sales.....	328	1,089	1,363	6,741
Land and Lot Sales Gross Margin...	118	209	222	3,009
Interest Expense.....	30	11	40	355
Land and Lot Sales Profit				
Before Tax.....	\$ 88	\$ 198	\$ 182	\$ 2,654

Land and lot sales are incidental to our residential housing operations and are expected to continue in the future but may significantly fluctuate up or down.

### Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. For the three and six months ended April 30, 2004 financial services provided a \$4.8 million and \$11.5 million profit before income taxes compared to a profit of \$4.7 million and \$9.4 million for the same periods in 2003. While the pretax profit increased slightly during the three and six months ended April 30, 2004 compared to the same period last year, the pretax margin percentage decreased. This decrease is primarily due to reduced spreads resulting from the steady rise in homebuyers choosing to use Adjustable Rate Mortgage (ARM) products which historically are less profitable to originate and lower gross spreads due to increased competition for purchase mortgages as the market for refinancing mortgages has significantly declined.

### Corporate General and Administrative

Corporate general and administrative expenses represents the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. As a percentage of total revenues such expenses decreased to 1.6% for the three months ended April 30, 2004 from 2.0% for the prior year's three months and decreased to 1.7% for the six months ended April 30, 2004 from 2.1% for the prior year's six months. Corporate general and administrative expenses increased \$1.2 million during the three and six months ended April 30, 2004 compared to the same periods last year. Increases in corporate general and administrative dollar expenses are primarily attributed to increased headcount as our company continues to

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grow.

### Interest

Interest expense includes housing and land and lot interest. Interest expense is broken down as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
Sale of Homes.....	\$ 19,066	\$ 13,414	\$ 35,999	\$ 26,749
Land and Lot Sales.....	30	11	40	355
Total.....	\$ 19,096	\$ 13,425	\$ 36,039	\$ 27,104

Housing interest as a percentage of sale of homes revenues remained flat at 2.0% for the three months ended April 30, 2004, compared to the same period last year and increased 0.1% for the six months ended April 30, 2004 to 2.2% from 2.1% for the same period last year. Housing interest as a percentage of sale of homes remained relatively flat due to our efforts to maintain leverage at a 50% net debt to capital level.

### Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, amortization of senior and senior subordinated note issuance expenses, earnout payments from homebuilding company acquisitions, amortization of the consultant agreements and the right of first refusal agreement from our California acquisition in fiscal 2002, minority interest relating to joint ventures, and corporate owned life insurance.

### Intangible Amortization

We are amortizing our definite life intangibles over their expected useful life, ranging from three to seven years. Intangible amortization increased \$2.8 million and \$7.1 million for the three and six months ended April 30, 2004, respectively, when compared to the same period last year. This increase was the result of our November 2003 Florida acquisition and a full six months of amortization expense from our Texas and Ohio acquisitions that closed in January 2003 and April 2003, respectively.

### Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued Revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R requires the primary beneficiary of a variable interest entity to consolidate that entity. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the variable interest entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual, or other financial interests in the entity. Expected losses are the expected negative variability in the fair value of an entity's net assets exclusive of its variable interests, and expected

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residual returns are the expected positive variability in the fair value of an entity's net assets, exclusive of variable interests. We have fully implemented FIN 46 as of April 30, 2004.

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

### Total Taxes

Total taxes as a percentage of income before taxes remained unchanged at approximately 37.4% for both the six months ended April 30, 2004 and 2003. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If for some reason the combination of future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income.

### Inflation

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

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 56% of our homebuilding cost of sales.

### Mergers and Acquisitions

On November 6, 2003, we acquired a Florida homebuilder for cash and 489,236 shares of our Class A Common Stock (shares reflect stock dividend). On November 1, 2002 and December 31, 2002 we acquired two Texas homebuilding companies. On April 9, 2003, we acquired a build-on-your-own lot homebuilder in Ohio and on August 8, 2003 we acquired a homebuilder in Arizona. All fiscal 2003 acquisitions were paid for in cash.

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### Safe Harbor Statement

All statements in this Form 10-Q that are not historical facts should be considered as "Forward-Looking Statements" within the meaning of the Private Securities Litigation 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 business conditions;
- . Weather conditions;
- . Changes in market conditions;
- . Changes in home prices and sales activity in the California, New Jersey, Texas, North Carolina, Virginia, and Maryland markets;
- . Government regulation, including regulations concerning development of land, the homebuilding process, and the environment;
- . Fluctuations in interest rates and the availability of mortgage financing;
- . Shortages in and price fluctuations of raw materials and labor;
- . The availability and cost of suitable land and improved lots;
- . Levels of competition;
- . Availability of financing to the Company;
- . Utility shortages and outages or rate fluctuations; and
- . Geopolitical risks, terrorist acts and other acts of war.

Certain risks, uncertainties, and other factors are described in detail in Item 1 and 2 "Business and Properties" in our Form 10-K for the year ended October 31, 2003.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary market risk facing us is interest rate risk on our long-term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly, the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following table sets forth as of April 30, 2004, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV").

As of April 30, 2004							
-----							
Expected Maturity Date							
2004	2005	2006	2007	2008	2009	Thereafter	Total

FMV @  
4/30/

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(Dollars in Thousands)

Long Term Debt (1):

Fixed Rate....	\$34,214	\$	81	\$	88	\$140,346	\$	104	\$150,112	\$765,115	\$1,090,060	\$1,121,8
Average												
interest rate	5.88%		8.38%		8.38%	10.50%		8.38%	9.12%	7.38%		7.98%

(1) Does not include bonds collateralized by mortgages receivable.

#### Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of April 30, 2004. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company's internal control over financial reporting that occurred during the quarter ended April 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II. Other Information

##### Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

This table provides information with respect to our purchases of shares of our Class A common stock during the fiscal second quarter of 2004.

##### Issuer Purchases of Equity Securities (1)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under The Plan or Program
February 1, 2004 Through February 29, 2004	-	-	-	2,192,124





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	-----	-----
.. Votes For	32,091,296	120,303,442
.. Votes Against	1,329,962	11,920
.. Abstain	7,058	-

(4) Approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan.

	Class A -----	Class B -----
.. Votes For	24,277,272	120,216,278
.. Votes Against	2,386,066	55,620
.. Abstain	34,494	5,200
.. Broker Non-Votes	6,730,484	38,264

(5) Approval of the Company's amended and restated 1999 Stock Incentive Plan.

	Class A -----	Class B -----
.. Votes For	14,473,422	120,218,678
.. Votes Against	11,230,260	53,220
.. Abstain	994,150	5,200
.. Broker Non-Votes	6,730,484	38,264

Item 6. Exhibits and Reports on Form 8-K.

(a)

Exhibit 3(a) Certificate of Incorporation of the Registrant. (1)

Exhibit 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant. (2)

Exhibit 3(c) Certificate of Amendment of Certificate of Incorporation of the Registrant. (3)

Exhibit 3(d) Restated Bylaws of the Registrant. (4)

Exhibit 4(a) Indenture dated as of March 18, 2004, relating to 6 3/8% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee.(5)

Exhibit 31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

Exhibit 31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

Exhibit 32(a) Section 1350 Certification of Chief Executive Officer.

Exhibit 32(b) Section 1350 Certification of Chief Financial Officer.

(1) Incorporated by reference to Exhibits to

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Registration Statement (No. 2-85198) on  
Form S-1 of the Registrant.

(2) Incorporated by reference to Exhibits to Registration  
Statement (No. 333-106761) on Form S-3  
of the Registrant.

(3) Incorporated by reference to Exhibit 3(c) to  
Quarterly Report on Form 10-Q of the Registrant for  
the quarter ended January 32, 2004.

(4) Incorporated by reference to Exhibit 3.2 to  
Registration Statement (No. 1-08551) on  
Form 8-A of the Registrant.

(5) Incorporated by reference to Exhibit 4.1 to  
Registration Statement (No. 333-115742) on  
Form S-4 of the Registrant.

Item 6(b). The following reports have been filed during quarter  
ended April 30, 2004:

On March 29, 2004, the Registrant filed a report on Form 8-K, Items 5 and  
7.

The following reports have been furnished during the quarter ended April  
30, 2004:

On March 1, 2004, the Registrant furnished a report on Form 8-K, Items 7  
and 12.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,  
the registrant has duly caused this report to be signed on its behalf by the  
undersigned thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.  
(Registrant)

DATE: June 14, 2004

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

DATE: June 14, 2004

/S/PAUL W. BUCHANAN  
Paul W. Buchanan,  
Senior Vice President  
Corporate Controller

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CERTIFICATIONS

Exhibit 31(a)

I, Ara K. Hovnanian, President & Chief Executive Officer of Hovnanian Enterprises, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 11, 2004

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

CERTIFICATIONS

Exhibit 31(b)

I, J. Larry Sorsby, Executive Vice President & Chief Financial Officer of Hovnanian Enterprises, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement

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of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

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

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

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

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

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

Date: June 11, 2004

/s/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

Exhibit 32(a)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: June 11, 2004

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

Exhibit 32(b)

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

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2004

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