HOVNANIAN ENTERPRISES INC
Form 10-K
December 22, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended OCTOBER 31, 2009

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

Commission file number: 1-8551

Hovnanian Enterprises, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:

Class B Common Stock, $.01 par value per share

(Title of Class)

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

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

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 x No o

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

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

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was $143,631,421.

As of the close of business on December 17, 2009, there were outstanding 62,875,952 shares of the Registrant's Class A Common Stock and 14,572,769 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III—Those portions of registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of shareholders to be held on March 16, 2010, which are responsive to Part III, Items 10, 11, 12, 13, and 14.

FORM 10-K

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Part I

ITEM 1

BUSINESS

Business Overview

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. (the "Company", "we", "us" or "our") was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 286,000 homes, including 5,659 homes in fiscal 2009. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 179 communities in 39 markets in 18 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. We offer a variety of home styles at base prices ranging from $36,000 (low income housing) to $1,800,000 with an average sales price, including options, of $283,900 nationwide in fiscal 2009.

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

The following is a summary of our growth history:

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

1983 - Completed initial public offering.

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

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

1994 - Entered the Coastal Southern California market.

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

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

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

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

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

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

2005 - Entered the Orlando, Florida market through our acquisition of Cambridge Homes and entered the greater Chicago, Illinois market and expanded our position in Florida and Minnesota through the acquisition of the operations of Town &

Country Homes, which occurred concurrently with our entering into a joint venture with affiliates of Blackstone Real Estate Advisors to own and develop Town & Country's existing residential communities. We also entered the Fort Myers market through the acquisition of First Home Builders of Florida, and the Cleveland, Ohio market through the acquisition of Oster Homes.

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

Geographic Breakdown of Markets by Segment

Hovnanian markets and builds homes that are constructed in 21 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, Pennsylvania

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

Midwest: Illinois, Kentucky, Minnesota, Ohio

Southeast: Florida, Georgia, North Carolina, South Carolina

Southwest: Arizona, Texas

West: California

We employed approximately 1,750 full-time employees (which we refer to as associates) as of October 31, 2009.

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

Business Strategies

Due to the progressive weakening of demand in our homebuilding markets over the past few years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges, and incurred losses in fiscal 2007, 2008, and 2009. Although the timing of a recovery in the housing market is unclear, because certain long-term fundamentals which support housing demand, namely population growth and household formation, remain solid, we believe the current negative conditions will moderate over time. Consequently, our primary focus while market conditions are weak is to strengthen our financial condition by reducing inventories of homes and land, controlling and reducing construction and overhead costs, maximizing cash flows, reducing outstanding debt, and maintaining strong liquidity.

In addition to our current focus on maintaining strong liquidity, we will continue to focus on our historic key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to improve our business, lead to higher returns for our shareholders, and give us a clear advantage over our competitors.

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

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

We are committed to customer satisfaction and quality in the homes that we build. We recognize that our future success rests in the ability to deliver quality homes to satisfied customers. We seek to expand our commitment to customer service through a variety of quality initiatives. In addition, our focus remains on attracting and developing quality associates.

We use several leadership development and mentoring programs to identify key individuals and prepare them for positions of greater responsibility within our Company.

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

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

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

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

Operating Policies and Procedures

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

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

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

- We typically acquire land for future development principally through the use of land options which need not be exercised before the completion of the regulatory approval process. We attempt to structure these options with flexible take down schedules rather than with an obligation to take down the entire parcel upon receiving regulatory approval. Additionally, we purchase improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows us to minimize the economic costs and risks of carrying a large land inventory, while maintaining our ability to commence new developments during favorable market periods.
- Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In fiscal 2009, 2008, and 2007, rather than purchase additional lots in underperforming communities, we took advantage of this right and walked away from 6,474 lots, 15,370 lots, and 18,157 lots, respectively, out of 17,817 total lots, 31,834 total lots, and 54,261 total lots, respectively, under option, resulting in pretax charges of $45.4 million, $114.1million, and $126.0 million, respectively.

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

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

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

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

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

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

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

During the year ended October 31, 2009, for the markets in which our mortgage subsidiaries originated loans, 11.3% of our homebuyers paid in cash and 81.9% of our non-cash homebuyers obtained mortgages from one of our mortgage banking subsidiaries. The loans we originated in fiscal 2009 were 46.4% Federal Housing Administration/Veterans Affairs ("FHA/VA"), 50.8% prime, 2.5% United States Department of Agriculture, 0.1% broker non-subprime, and 0.2% construction to permanent.

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

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

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

Residential Development Activities

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

Current base prices for our homes in contract backlog at October 31, 2009, range from $36,000 (low income housing) to $1,800,000 in the Northeast, from $155,000 to $1,262,000 in the Mid-Atlantic, from $80,000 to $499,000 in the Midwest, from $95,000 to $600,000 in the Southeast, from $81,000 to $1,034,000 in the Southwest, and from $102,000 to $706,000 in the West. Closings generally occur and are typically reflected in revenues within 18 months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2009, is set forth below:

(Housing Revenue in thousands)	**Housing Revenues**	**Homes Delivered**	**Average Price**
Northeast	$357,745	823	$434,684
Mid-Atlantic	296,286	788	375,997
Midwest	116,990	520	224,981
Southeast	113,034	489	231,153
Southwest	408,746	1,867	218,932
West	229,668	875	262,478
Consolidated Total	$1,522,469	5,362	$283,937
Unconsolidated Joint Ventures	113,016	297	380,525
Total Including Unconsolidated Joint Ventures	$1,635,485	5,659	$289,006

The value of our net sales contracts, excluding unconsolidated joint ventures, decreased 23.8% to $1.4 billion for the year ended October 31, 2009, from $1.9 billion for the year ended October 31, 2008. This decrease was the result of a net 20.1% decrease in the number of homes contracted to 5,227 in 2009 from 6,546 in 2008, as well as increased incentives or base price reductions as the homebuilding market weakened further in 2009. The decline in the number of homes contracted is a direct result of the 35.3% decrease in the average number of open-for-sale communities. We contracted an average of 23.3 homes per community in 2009 compared to an average of 17.7 homes per community in 2008.

Information on the value of net sales contracts by segment for the years ended October 31, 2009 and 2008, is set forth below:

(Value of Net Sales Contracts in thousands)	**2009**	**2008**	**% Change**
Northeast	$350,515	$381,401	(8.1)%
Mid-Atlantic	281,194	313,405	(10.3)%
Midwest	95,764	106,887	(10.4)%
Southeast	103,173	132,245	(22.0)%
Southwest	377,292	518,565	(27.2)%
West	220,369	421,292	(47.7)%
Consolidated total	$1,428,307	$1,873,795	(23.8)%
Unconsolidated joint ventures	56,886	221,858	(74.4)%
Total Including unconsolidated joint ventures	$1,485,193	$2,095,653	(29.1)%

The following table summarizes our active selling communities under development as of October 31, 2009. The contracted not delivered and remaining homes available in our active selling communities are included in the consolidated total home sites under the total residential real estate chart in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Active Selling Communities

	Communities	**Approved Homes**	**Homes Delivered**	**Contracted Not Delivered(1)(3)**	**Remaining Homes Available(2)**
Northeast	18	7,295	5,577	457	1,261
Mid-Atlantic	27	5,871	3,891	385	1,595
Midwest	21	4,869	1,864	253	2,752
Southeast	14	3,787	3,167	135	485
Southwest	78	13,602	9,487	351	3,764
West	21	8,653	6,146	187	2,320
Total	179	44,077	30,132	1,768	12,177

(1) *Includes 123 home sites under option.*
(2) *Of the total remaining homes available, 883 were under construction or completed (including 224 models and sales offices), 6,960 were under option.*
(3) *Includes four homes in backlog for communities in planning.*

Backlog

At October 31, 2009 and 2008, including unconsolidated joint ventures, we had a backlog of signed contracts for 1,931 homes and 2,170 homes, respectively, with sales values aggregating $0.6 billion and $0.8 billion, respectively. The majority of our backlog at October 31, 2009 is expected to be completed and closed within the next 12 months. At November 30, 2009 and 2008, our backlog of signed contracts, including unconsolidated joint ventures, was 1,755 homes and 2,097 homes, respectively, with sales values aggregating $0.6 billion and $0.8 billion, respectively.

Sales of our homes typically are made pursuant to a standard sales contract that provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. This contract requires a nominal customer deposit at the time of signing. In addition, in the Northeast, Mid-Atlantic, and some sections of the Southeast, we typically obtain an additional 5% to 10% down payment due within 30 to 60 days after signing. The contract may include a financing contingency, which permits the customers to cancel their obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution. When housing values decline in certain markets, some customers cancel their contracts and forfeit their deposits. Cancellation rates are discussed further in Item 7 “Managements’ Discussion and Analysis of Financial Condition and Results of Operations.” Sales contracts are included in backlog once the sales contract is signed by the customer, which in some cases includes contracts that are in the rescission or cancellation periods. However, revenues from sales of homes are recognized in the Consolidated Statement of Operations, when title to the home is conveyed to the buyer, adequate initial and continuing investment have been received and there is no continued involvement.

Residential Land Inventory in Planning

It is our objective to control a supply of land, primarily through options, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land as of October 31, 2009, exclusive of communities under development described above under “Active Selling Communities” and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities under development are included in the 27,958 consolidated total home sites under the total residential real estate chart in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Communities in Planning

(Dollars in thousands)	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value(2)
Northeast:				
Under option(1)	15	3,272	$93,570	$47,654
Owned	21	1,761		235,733
Total	36	5,033		283,387
Mid-Atlantic:				
Under option(1)	5	283	26,667	2,413
Owned	11	1,763		27,849
Total	16	2,046		30,262
Midwest:				
Under option(1)				
Owned	2	102		2,550
Total	2	102		2,550
Southeast:				
Under option(1)		62	2,567	
Owned	24	736		7,884
Total	24	798		7,884
Southwest:				
Under option(1)	8	643	31,284	144
Owned	6	501		6,436
Total	14	1,144		6,580
West:				
Under option(1)				
Owned	39	4,890		69,910
Total	39	4,890		69,910
Totals:				
Under option(1)	28	4,260	$154,088	50,211
Owned	103	9,753		350,362
Combined total	131	14,013		$400,573

(1)

Properties under option also include costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2009, option fees and deposits aggregated approximately $5.8 million. As of October 31, 2009, we spent an additional $44.4 million in non-refundable predevelopment costs on such properties.

(2) The book value of $400.6 million included the amount on the Consolidated Balance Sheets identified as "Inventories-land and land options held for future development or sale," as well as $26.2 million for specific performance options, and $2.2 million for other options reported under "Consolidated inventory not owned."

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

Competition

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

Regulation and Environmental Matters

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

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

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

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

ITEM 1A

RISK FACTORS

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

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

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

- employment levels and job growth;
- availability of financing for home buyers;

- interest rates;
- foreclosure rates;
- inflation;
- adverse changes in tax laws;
- consumer confidence;
- housing demand; and
- population growth.

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

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

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

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

The homebuilding industry is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has resulted from a lack of consumer confidence, decreased housing affordability, decreased availability of mortgage financing, and large supplies of resale and new home inventories. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes, and foreclosures, has depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations during fiscal years 2007, 2008, and 2009 and are continuing to materially adversely affect our business and results of operations in fiscal 2010. Further, we substantially increased our inventory through fiscal 2006, which required significant cash outlays and which has increased our price and margin exposure as we continue to work through this inventory. Although our absorption rate per community is stabilizing or even increasing, we expect our aggregate net sales to continue to decline due to the further reduction of active communities as we deliver our final homes therein without replacements at an equivalent rate. Looking forward, given the continued deterioration in the housing market, it will become more difficult to generate positive cash flow. General economic conditions in the U.S. remain weak. Market volatility has been unprecedented and extraordinary in the last 18 months, and the resulting economic turmoil may continue to exacerbate industry conditions or have other unforeseen consequences, leading to uncertainty about future conditions in the homebuilding industry. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets, or increase liquidity and the availability of credit, or whether any such results will be sustainable. Continuation or worsening of this downturn or general economic conditions would continue to have a material adverse effect on our business, liquidity, and results of operations.

The housing market has benefited from a number of government programs, including:

- tax credits for home buyers provided by the federal government and certain state governments, including California; and
- support of the mortgage market, including through purchases of mortgage-backed securities by The Federal Reserve Bank and the underwriting of a substantial amount of new mortgages by the Federal Housing Administration ("FHA") and other governmental agencies.

These programs are expected to wind down over time; for example the California tax credit ended recently and the federal tax credit is scheduled to expire in April 2010. In addition, recent remarks from the U.S. Department of Housing and Urban Development ("HUD") secretary suggest that FHA underwriting standards may be tightened. We cannot assure that the housing markets will not decline further as these programs are ended.

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

We have a significant amount of debt.

- our debt, as of October 31, 2009, including the debt of the subsidiaries that guarantee our debt, was $1,767.7 million ($1,751.7 million net of discount); and
- our debt service payments for the 12-month period ended October 31, 2009, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on non-recourse secured debt and debt of our financial subsidiaries), were $176.9 million.

In addition, as of October 31, 2009, we had $130.3 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by $135.2 million of restricted cash. We also had substantial contractual commitments and contingent obligations, including approximately $446.0 million of performance bonds as of October 31, 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations."

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

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements, or other requirements;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business;

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

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

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

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

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

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

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

If we fail to comply with any of the restrictions or covenants of our debt instruments, and are unable to amend the instrument or obtain a waiver, or make timely payments on this debt and other material indebtedness, the trustees under the indentures governing our debt instruments could cause our debt to become due and payable prior to maturity. In such a situation, there can be no assurance that we would be able to obtain alternative financing. Either situation could have a material adverse effect on the solvency of the Company.

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

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

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

Our ability to access capital on favorable terms is a key factor in our ability to service our indebtedness to cover our operating expenses, and to fund our other liquidity needs. On March 16, 2009, Fitch lowered the Company’s issuer default rating to CCC from B-. On April 7, 2009, Moody’s affirmed our corporate family rating of Caa1, with a negative outlook. On April 1, 2009, S&P lowered our B- corporate credit rating to CCC, with a negative outlook. On October 5, 2009, S&P raised our corporate credit rating to CCC+ from CCC and revised our outlook to developing from negative. Downgrades may make it more difficult and costly for us to access capital, therefore, any further downgrade by any of the principal credit agencies may exacerbate these difficulties.

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

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

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

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

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

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

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots, and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See “Critical Accounting Policies.” For example, during 2009, 2008, and 2007, we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of $45.4 million, $114.1 million and $126.0 million, respectively. Also, in 2009, 2008, and 2007, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of $614.1 million, $596.0 million, and $331.8 million, respectively. If market conditions continue to worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

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

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

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

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

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

In addition, we believe that the availability of mortgage financing, including Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and FHA/VA financing, is an important factor in marketing many of our homes. Recently, remarks from the HUD secretary suggest that FHA underwriting standards may be tightened. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

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

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At October 31, 2009, we had invested an aggregate of $41.3 million in these joint ventures, which had borrowings outstanding of approximately $11.5 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

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

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

For example, during 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (the "EPA"). These requests sought information concerning storm water discharge practices in connection with completed, ongoing, and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The Department of Justice ("DOJ") is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters, which we anticipate will include a monetary fine and an agreement to implement certain operational and training measures nationwide to ensure ongoing compliance with storm water regulations. Although we do not currently anticipate that we will incur any material costs in excess of the amount we have reserved for this matter, we cannot predict whether our discussions with the DOJ and EPA will result in a resolution, or what any resolution of these matters ultimately will require of us.

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

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

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, we may experience losses that could hurt our financial results. Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims. Recently, other homebuilders in Florida have had construction defect claims associated with allegedly defective drywall manufactured in China (Chinese Drywall) that may be responsible for noxious smells and accelerated corrosion of certain metals in the home. We have identified only 15 homes with this potential issue, however, if additional homes are identified to have this issue, or our actual costs to remediate differ from our current estimated costs, it may require us to revise our warranty reserves.

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

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

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

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

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

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

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

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

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

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

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

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

Based on recent impairments and our current financial performance, we generated a federal net operating loss carryforward of $1.3 billion through the year ended October 31, 2009, and we may generate net operating loss carryforwards in future years.

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

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

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

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

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

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

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

ITEM 1B

UNRESOLVED STAFF COMMENTS

None.

ITEM 2

PROPERTIES

We own a 69,000-square foot office complex located in the Northeast that serves as our corporate headquarters. We own 215,000 square feet of office and warehouse space throughout the Midwest. We lease approximately 768,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West.

ITEM 3

LEGAL PROCEEDINGS

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

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

In March 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the EPA. These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The DOJ is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters, which we anticipate will include a monetary fine and an agreement to implement certain operational and training measures nationwide to ensure ongoing compliance with storm water regulations. Although we do not currently anticipate that we will incur any material costs in excess of the amount we have reserved for this matter, we cannot predict whether our discussions with the DOJ and EPA will result in a resolution, or what any resolution of these matters ultimately will require of us.

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

The Company is also involved in the following litigation:

The Company, Chairman of the Board, Chief Executive Officer and President, Ara K. Hovnanian, Executive Vice President and Chief Financial Officer, J. Larry Sorsby and a former officer of a Company subsidiary have been named as defendants in a purported class action. The original complaint, which only named Mr. Sorsby as a defendant, was filed on September 14, 2007 in the United States District Court for the Central District of California, captioned *Herbert Mankofsky v. J. Larry Sorsby*. On January 31, 2008, the court appointed Herbert Mankofsky as Lead Plaintiff. On February 19, 2008, the action was transferred to the United States District Court for the District of New Jersey. On March 10, 2008, Lead Plaintiff filed an amended complaint, captioned *In re Hovnanian Enterprises, Inc. Securities Litigation*, alleging, among other things, that the defendants violated federal securities laws by making false and misleading statements regarding the Company's business and future prospects in connection with the Company's acquisition of First Home Builders of Florida. The Company and Messrs. Hovnanian and Sorsby filed a Motion to Dismiss the amended complaint on July 14, 2008. On September 11, 2008, Lead Plaintiff filed his opposition to the Motion to Dismiss. The Company and Messrs. Hovnanian and Sorsby filed their reply brief on October 28, 2008. In March, 2009, by court-ordered stipulation, the defendants withdrew their Motion to Dismiss, and a second amended complaint was filed in June 2009. The Company's insurance carrier has agreed to provide coverage for the case under the Company's insurance policy, therefore, the maximum exposure to the Company is the deductible, which has already been incurred and expensed. The matter has been resolved, and the resolution has been approved by the court, with no further payments from the Company.

A subsidiary of the Company has been named as a defendant in a purported class action suit filed on May 30, 2007 in the United States District Court for the Middle District of Florida, *Randolph Sewell, et al., v. D'Allesandro & Woodyard, et al.*, alleging violations of the federal securities acts, among other allegations, in connection with the sale of some of the subsidiary's homes in Fort Myers, Florida. Plaintiffs filed an amended complaint on October 19, 2007. Plaintiffs sought to represent a class of certain home purchasers in southwestern Florida and sought damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs. The Company's subsidiary filed a Motion to Dismiss the amended complaint on December 14, 2007. Following oral argument on the Motion in September 2008, the court dismissed the amended complaint with leave for plaintiffs to amend. Plaintiffs filed a second amended complaint on October 31, 2008. The Company's subsidiary filed a Motion to Dismiss this second amended complaint. The Court dismissed portions of the second amended complaint. The Company's subsidiary has filed a Motion for Reconsideration of a position of the Court's decision and is awaiting a decision. Plaintiffs seek to represent a class of certain home purchasers in southwestern Florida and seek damages, rescission of certain purchase agreements, restitution of out-of-pocket expenses, and attorneys' fees and costs. While we have determined that a loss related to this case is not probable, it is not possible to estimate a loss or range of loss related to this matter at this time.

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year ended October 31, 2009, no matters were submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Part II

ITEM 5

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

Our Class A Common Stock is traded on the New York Stock Exchange and was held by 590 stockholders of record at December 17, 2009. There is no established public trading market for our Class B Common Stock, which was held by 270 stockholders of record at December 17, 2009. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low sales prices for our Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 2009 and 2008:

	Oct. 31, 2009		Oct. 31, 2008	
Quarter	**High**	**Low**	**High**	**Low**
First	$4.99	$1.61	$10.45	$4.80
Second	$2.93	$0.58	$12.41	$8.09
Third	$3.25	$1.81	$11.87	$4.64
Fourth	$5.61	$3.42	$ 9.05	$3.38

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

Issuer Purchases of Equity Securities

In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to four million shares of Class A Common Stock (adjusted for a two-for-one stock dividend on March 5, 2004). No shares of our Class A Common Stock or Class B Common Stock were purchased by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2009 (excluding purchases by certain members of the Hovnanian family, which have been previously reported in filings with the Securities and Exchange Commission). The maximum number of shares that may yet be purchased under the Company’s plans or programs is 0.6 million.

ITEM 6

SELECTED CONSOLIDATED FINANCIAL DATA

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

Summary Consolidated Statements of Operations Data	**Year Ended**				
(In thousands, Except Per Share Data)	**October 31, 2009**	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**
Revenues	$1,596,290	$3,308,111	$4,798,921	$6,148,235	$5,348,417
Expenses	1,972,978	3,692,556	4,797,767	5,539,489	4,551,427
Inventory impairment loss and land option write-offs	659,475	710,120	457,773	336,204	5,360
Goodwill and intangible amortization and impairment		36,883	162,124	54,821	46,084
Gain on extinguishment of debt	410,185				
(Loss) income from unconsolidated joint ventures	(46,041)	(36,600)	(28,223)	15,385	35,039
(Loss) income before income taxes	(672,019)	(1,168,048)	(646,966)	233,106	780,585
State and Federal income tax (benefit)provision	44,693	(43,458)	(19,847)	83,573	308,738
Net (loss) income	(716,712)	(1,124,590)	(627,119)	149,533	471,847
Less: preferred stock dividends			10,674	10,675	2,758
Net (loss) income available to common stockholders	$(716,712)	$(1,124,590)	$(637,793)	$138,858	$469,089
Per share data:					
Basic:					
(Loss) income per common share	$(9.16)	$(16.04)	$(10.11)	$2.21	$7.51
Weighted average number of common shares outstanding	78,238	70,131	63,079	62,822	62,490
Assuming dilution:					
(Loss) income per common share	$(9.16)	$(16.04)	$(10.11)	$2.14	$7.16
Weighted average number of common shares outstanding	78,238	70,131	63,079	64,838	65,549

Summary Consolidated Balance Sheet Data					
(In thousands)	**October 31, 2009**	**October 31, 2008**	**October 31, 2007**	**October 31, 2006**	**October 31, 2005**
Total assets	$2,024,577	$3,637,322	$4,540,548	$5,480,035	$4,726,138
Mortgages, term loans, revolving credit agreements, and notes payable	$77,364	$107,913	$410,298	$319,943	$271,868
Senior secured notes, senior notes, and senior subordinated notes	$1,751,701	$2,505,805	$1,910,600	$2,049,778	$1,498,739
Stockholders' (deficit) equity	$(349,598)	$330,264	$1,321,803	$1,942,163	$1,791,357

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

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

	Years Ended October 31,				
	2009	2008	2007	2006	2005
Ratio of earnings to fixed charges	(a)	(a)	(a)	2.0	7.8
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	(b)	1.8	7.5

(a) *Earnings for the years ended October 31, 2009, 2008, and 2007 were insufficient to cover fixed charges for such period by $616.1 million, $1,138.5 million, and $667.5 million, respectively.*

(b) *Earnings for the years ended October 31, 2009, 2008, and 2007 were insufficient to cover fixed charges and preferred stock dividends for such period by $616.1 million, $1,138.5 million, and $678.6 million, respectively. Due to restrictions in our indentures on our senior, senior secured, and senior subordinated notes, we are currently prohibited from paying dividends on our preferred stock and did not make any dividend payments in fiscal 2009 and 2008. In fiscal 2007, we paid $10.7 million of dividends on our preferred stock.*

ITEM 7

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

Beginning during the second half of our fiscal year ended October 31, 2006 and continuing through today, the U.S. housing market has been impacted by a lack of consumer confidence, increasing home foreclosure rates and large supplies of resale and new home inventories. The result has been weakened demand for new homes, slower sales, higher than normal cancellation rates until recently, and increased price discounts and other sales incentives to attract homebuyers. Additionally, the availability of certain mortgage financing products became more constrained starting in February 2007 when the mortgage industry began to more closely scrutinize subprime, Alt-A, and other non-prime mortgage products. The overall economy has weakened significantly and fears of a prolonged recession are pronounced due to rising unemployment levels, further deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we have experienced significant decreases in our revenues and gross margins during 2009, 2008, and 2007 compared with prior years. Additionally, we incurred total land-related impairment charges of $659.5 million, $710.1 million and $457.8 million for the years ended October 31, 2009, 2008 and 2007, respectively. These charges resulted from the write-off of deposit and preacquisition costs of $45.4 million, $114.1 million and $126.0 million, respectively, related to land we no longer plan to pursue and impairments on owned inventory of $614.1 million, $596.0 million, and $331.8 million for the fiscal years ended October 31, 2009, 2008, and 2007, respectively. In addition to land related charges, the continued weakening of the market resulted in impairments of our finite-lived intangible assets and goodwill of zero, $35.4 million and $135.2 million during fiscal 2009, 2008, and 2007, respectively.

We have exposure to additional impairments of our inventories, which, as of October 31, 2009, have a book value of $1.1 billion, net of $981.4 million of impairments recorded on 222 of our communities. We also have $73.0 million invested in 11,343 lots under option, including cash and letters of credit option deposits of $26.7 million as of October 31, 2009. We will record a write-off for the amounts associated with an option if we determine it is probable we will not exercise it. As of October 31, 2009, we have total investments in, and advances to, unconsolidated joint ventures of $41.3 million. Each of our joint ventures assesses its inventory and other long-lived assets for impairment and we separately assess our investment in joint ventures for recoverability, which has resulted in total reductions in our investment in joint ventures of $115.8 million from the second half of fiscal 2006, the first quarter in which we had impairments on our joint ventures, through October 31, 2009. We still have exposure to future write-downs of our investment in unconsolidated joint ventures if conditions continue to deteriorate in the markets in which our joint ventures operate. With respect to goodwill and intangibles, there is no remaining risk of further exposure to impairments because both goodwill and finite lived intangibles have been fully written off as of October 31, 2008.

During fiscal 2009, we continued to operate our business with the expectation that difficult market conditions would continue to impact us for the foreseeable future. We adjusted our approach to land acquisition and construction practices and continued to shorten our land pipeline, reduce production volumes, and balance home price and profitability with sales pace. We delayed and cancelled planned land purchases and renegotiated land prices and significantly reduced our total number of controlled lots owned and under option. Additionally, we significantly reduced the number of speculative homes put into production. We have recently begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces, therefore in 2010, we plan to pursue land when it makes strategic and economic sense to do so. New land purchases at pricing that will generate good investment returns are needed to return to profitability. During 2009, we also evaluated and made reductions in selling, general, and administrative expenses, including corporate general and administrative expenses, reducing these expenses $138.3 million from $459.9 million in fiscal 2008 to $321.6

million in fiscal 2009, due in large part to a 75% reduction in head count at the end of fiscal 2009 from our peak in June 2006. Given the persistence of difficult market conditions, improving the efficiency of our selling, general, and administrative expenses will continue to be a significant area of focus. For the year ended October 31, 2009, homebuilding selling, general and administrative costs declined 36% to $239.6 million compared to the year ended October 31, 2008. Corporate general and administrative expenses of $82.0 million for the year ended October 31, 2009 include $14.7 million related to the election by the Chief Executive Officer, Chief Financial Officer, non-executive members of the Board of Directors, and other senior executives of the Company, to cancel certain stock options during fiscal 2009. Excluding this charge, corporate general and administrative expenses would have declined 18.8% to $67.3 million, compared to year ended October 31, 2008.

Critical Accounting Policies

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

Effective July 1, 2009, the Financial Accounting Standards Board ("FASB") established the Accounting Standards Codification ("ASC") as the primary source of accounting principles generally accepted in the United States of America ("US GAAP") recognized by the FASB to be applied by nongovernmental entities. Although the establishment of the ASC did not change US GAAP, it did change the way we refer to US GAAP throughout this document to reflect the updated referencing convention.

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

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

Income Recognition from Mid-Rise Buildings - When we develop mid-rise buildings, they often take more than 12 months to complete. If these buildings qualify, revenues and costs are recognized using the percentage of completion method of accounting in accordance with ASC 360-20. Under the percentage of completion method, revenues and costs are to be recognized when construction is beyond the preliminary stage, the buyer is committed to the extent of having a sufficient initial and continuing investment that the buyer cannot require to be refunded except for non-delivery of the home, sufficient homes in the building have been sold to ensure that the property will not be converted to rental property, the sales prices are collectible, and the aggregate sales proceeds and the total cost of the building can be reasonably estimated. We currently do not have any buildings that meet these criteria. Therefore, the revenues from delivering homes in mid-rise buildings are recognized when title is conveyed to the buyer, adequate initial and continuing investment have been received, and there is no continued involvement with respect to that home.

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

We elected the fair value option for our loans held for sale for mortgage loans originated subsequent to October 31, 2008 in accordance with ASC 825, "Financial Instruments", which permits us to measure our loans held for sale at fair value. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, we adopted Staff Accounting Bulletin 109 on February 1, 2008, requiring the recognition of the fair value of our rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in loans held for sale. Prior to February 1, 2008, the fair value of the servicing rights was not recognized until the related loan was sold. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts.

Substantially all of the loans originated are sold within a short period in the secondary mortgage market on a servicing released, non-recourse basis although the Company remains liable for certain limited representations and warranties related to loan sales. There were, however, $3.5 million of mortgage loans held for investment at October 31, 2009, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. Loans held for investment are carried at cost, net of unamortized discounts and any allowance for loan losses. Profits and losses relating to the sale of mortgage loans held for investment are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

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

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

As a result of the declining homebuilding market, we have decided to mothball (or stop development on) certain communities where we determine the current performance does not justify further investment at this time. When we decide to mothball a community, the inventory is reclassified from Sold and unsold homes and lots under development to Land and land options held for future development or sale. As of October 31, 2009, the book value associated with the 77 mothballed communities was $295.3 million, net of an impairment balance of $547.4 million. We continually review communities to determine if mothballing is appropriate.

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

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly, primarily by completing detailed budgets for all of our communities and identifying those communities with a projected operating loss for any projected fiscal year or for the entire projected community life. For those communities with projected losses, we estimate the remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

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

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

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

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;
- community-specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;
- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community; and
- current local market economic and demographic conditions and related trends and forecasts.

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair-value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. Our discount rates used for all impairments recorded from October 31, 2006 to date range from 13.5% to 20.3%. The estimated future cash flow assumptions are the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative value basis.

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

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

The impairment of communities under development and held for future development and inventories held for sale, and the charge for land option write-offs, are reflected on the Consolidated Statement of Operations in a separate line entitled “Homebuilding - Inventory impairment loss and land option write-offs”. See also “Results of Operations” and Note 13 to the Consolidated Financial Statements for inventory impairment and land option write-off amounts by segment.

Insurance Deductible Reserves - For homes delivered in fiscal 2009 and 2008, our deductible is $20 million per occurrence with an aggregate $20 million for liability claims and an aggregate $21.5 million for construction defect claims under our general liability insurance. Our worker’s compensation insurance deductible is $0.5 million per occurrence in fiscal 2009 and

2008. Reserves for estimated losses for fiscal 2009 and 2008 have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty data to assist our management to estimate our unpaid claims, claim adjustment expenses and incurred but not reported claims reserves for the risks that we are assuming under the general liability and workers compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices, and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Interest - In accordance with ASC 835-20, "Interest - Capitalization of Interest," interest attributable to properties under development during the land development and home construction period is capitalized and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized, which occurs when assets qualifying for interest capitalization are less than our outstanding debt balances, is expensed as incurred in "Other interest."

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

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but is generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, "Investments - Equity Method and Joint Ventures - Overall" ("ASC 323-10"), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture's projected cash flows. This process requires significant management judgment and estimate. During fiscal 2009 and 2008, we wrote-down certain joint venture investments by $26.4 million and $11.3 million, respectively. There were no write-downs in fiscal 2007.

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

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

We recognize tax liabilities in accordance with ASC 740-10, and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a liability that is materially different from our current estimate. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Recent Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements included elsewhere in this Form 10-K.

Capital Resources and Liquidity

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

Our cash uses during the 12 months ended October 31, 2009 and 2008 were for operating expenses, land purchases, land deposits, construction spending, state income taxes, interest and debt repurchases. We provided for our cash requirements from available cash on hand, housing and land sales, the issuance of $785 million of senior secured first lien notes, our prior revolving credit facility, financial service revenues, a federal tax refund and other revenues. We believe that these sources of cash will be sufficient through 2010 to finance our working capital requirements and other needs, despite continued declines in total revenues, the termination of our revolving credit facility and the collateralization with cash in segregated accounts to support certain of our letters of credit. We may also enter into land sale agreements or joint ventures to generate cash from our existing balance sheet. In addition, we received a federal tax refund in fiscal 2009 of $145.2 million. Due to a change in tax legislation that became effective on November 6, 2009, we can carryback our 2009 net operating loss five years to previously profitable years. Prior to the new tax legislation, we were not able to carryback our 2009 net operating loss. We anticipate receiving a federal income tax cash refund of approximately $275 million to $295 million during our second quarter of fiscal 2010.

Our homebuilding cash balance at of October 31, 2009 decreased by $418.3 million from October 31, 2008. This decrease was impacted by $335.9 million for debt repurchases and tender offers, $39.0 million for interest paid in the fourth quarter of fiscal 2009 due to debt repurchases and the October 2009 tender offer, which would have otherwise been paid in the first quarter of fiscal 2010, and $149.9 million of cash used to collateralize surety bonds and letter of credit agreements and facilities, which is now included as restricted cash.

Our net (loss) income historically does not approximate cash flow from operating activities. The difference between net (loss) income and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and non-cash charges relating to depreciation, amortization of computer software costs, amortization of finite-lived intangibles, stock compensation awards and impairment losses for inventory, finite-lived intangibles and goodwill. When we are expanding our operations, which was the case in fiscal 2006, inventory levels, prepaids, and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increase, but for cash flow purposes are offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what has been happening since the last half of fiscal 2007, allowing us to generate positive cash flow from operations during this period. Looking forward, given the continued deterioration in the housing market, it will become more difficult to generate positive cash flow. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity. We continue to focus on maximizing cash flow by limiting our investment in currently owned communities that we believe will not generate positive cash flow in the near term, and by seeking to identify and purchase new land parcels (primarily finished lots) on which homes can be built and delivered in a short period of time, generating acceptable returns, based on our underwriting standards, and positive cash flow.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2009, 3.4 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 5 for information on equity purchases).

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

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

In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. As of October 31, 2008, there was zero drawn under the revolving credit facility then in effect, excluding letters of credit totaling $197.5 million. Also in connection with the refinancing, we entered into certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of $130.3 million of letters of credit outstanding as of October 31, 2009. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of October 31, 2009, the amount of cash collateral in these segregated accounts was $135.2 million.

Our wholly owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with a group of banks is a short-term borrowing facility that provides up to $60 million through March 5, 2010. Interest is payable monthly, at the Company’s option, at either LIBOR plus 2.00% or the prime rate, with a rate floor of 4.25% on both. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. We believe that we will be able to replace the Master Repurchase Agreement at its expiration date with a similar agreement, but there can be no assurance that such an agreement will be finalized. As of October 31, 2009, the aggregate principal amount of all borrowings under the Master Repurchase Agreement was $55.9 million. The Master Repurchase Agreement requires K. Hovnanian American Mortgage, LLC to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage LLC before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the facility, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the Master Repurchase Agreement, we do not consider any of these covenants to be substantive or material. As of October 31, 2009, we believe we were in compliance with the covenants of the Master Repurchase Agreement. We also previously had a commercial paper facility which provided for up to $200 million through April 25, 2008, with interest payable monthly at LIBOR, plus 0.40%. On November 28, 2007, we paid the outstanding balance in full and terminated the commercial paper facility.

On May 27, 2008, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”) issued $600 million ($594.4 million net of discount) of 11 1/2% Senior Secured Notes due 2013. The notes are secured, subject to permitted liens and other exceptions, by a second-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under the revolving credit facility. The notes are redeemable in whole or in part at our option at 102% of principal commencing November 1, 2010, 101% of principal commencing May 1, 2011, and 100% of principal commencing May 1, 2012. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before

May 1, 2011 with the net cash proceeds from certain equity offerings at 111.50% of principal. A portion of the net proceeds of the issuance were used to repay the outstanding balance under the then existing amended credit facility. These third lien notes were the subject of a tender offer discussed below.

On December 3, 2008, K. Hovnanian issued $29.3 million of 18.0% Senior Secured Notes due 2017 in exchange for $71.4 million of unsecured senior notes as follows: $0.5 million aggregate principal amount of 8% Senior Notes due 2012, $12.0 million aggregate principal amount of 6 1/2% Senior Notes due 2014, $1.1 million aggregate principal amount of 6 3/8% Senior Notes due 2014, $3.3 million aggregate principal amount of 6 1/4% Senior Notes due 2015, $24.8 million aggregate principal amount of 7 1/2% Senior Notes due 2016, $28.7 million aggregate principal amount of 6 1/4% Senior Notes due 2016 and $1.0 million aggregate principal amount of 8 5/8% Senior Notes due 2017. This exchange resulted in a recognized gain on extinguishment of debt of $41.3 million, net of the write-off of unamortized discounts and fees. These third lien notes were the subject of a tender offer discussed below.

On October 20, 2009, we issued $785.0 million ($770.9 million net of discount) of 10 5/8% Senior Secured Notes due October 15, 2016. The notes are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets owned by us, K Hovnanian and the guarantors. The notes are redeemable in whole or in part at our option at 107.969% of principal commencing October 15, 2012, 105.313% of principal commencing October 15, 2013, 102.656% of principal commencing October 15, 2014, and 100% of principal commencing October 15, 2015. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before October 15, 2012 with the net proceeds from certain equity offerings at 110.625% of principal. The net proceeds from this issuance, together with cash on hand, were used to fund certain cash tender offers and consent solicitations for our 11½% Senior Secured Notes due 2013 and 18.0% Senior Secured Notes due 2017 and the cash tender offers for certain series of our unsecured notes discussed below.

The 10 5/8% Senior Secured Notes due 2016 are secured by a first-priority lien, the 11 1/2% Senior Secured Notes due 2013 are secured by a second-priority lien and the 18% Senior Secured Notes due 2017 are secured by a third-priority lien, in each case, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian (the issuer of the senior secured notes) and the guarantors, in the case of the 11 1/2% Senior Secured Notes due 2013 and the 18% Senior Secured Notes due 2017, to the extent such assets secure obligations under the 10 5/8% Senior Secured Notes due 2016. At October 31, 2009, the aggregate book value of the real property collateral securing these notes was approximately $780.7 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing these notes was $426.0 million as of October 31, 2009, which includes $135.2 of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

On July 21, 2009, we completed cash tender offers whereby we purchased (1) in a fixed price tender offer, approximately $17.8 million principal amount of 6% Senior Subordinated Notes due 2010 for approximately $17.5 million, plus accrued and unpaid interest, (2) in a modified “Dutch Auction,” a total of approximately $49.5 million principal amount of 8% Senior Notes due 2012, 8 7/8% Senior Subordinated Notes due 2012, and 7 3/4% Senior Subordinated Notes due 2013 for approximately $36.1 million, plus accrued and unpaid interest and (3) in a modified “Dutch Auction,” a total of approximately $51.9 million of 6 1/2% Senior Notes due 2014, 6 3/8% Senior Notes due 2014, 6 1/4% Senior Notes due 2015, 6 1/4% Senior Notes due 2016, 7 1/2% Senior Notes due 2016, and 8 5/8% Senior Notes due 2017 for approximately $26.9 million, plus accrued and unpaid interest. These tender offers resulted in a gain on extinguishment of debt of $37.0 million, net of the write-off of unamortized discounts and fees.

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

During the year ended October 31, 2009, we repurchased in open market transactions $11.3 million principal amount of 8% Senior Notes due 2012, $64.4 million principal amount of 6 1/2% Senior Notes due 2014, $40.6 million principal amount of 6 3/8% Senior Notes due 2014, $71.7 million principal amount of 6 1/4% Senior Notes due 2015, $88.9 million principal amount of 6 1/4% Senior Notes due 2016, $78.5 million principal amount of 7 1/2% Senior Notes due 2016, $41.8 million principal amount of 8 5/8% Senior Notes due 2017, $68.6 million principal amount of 6% Senior Subordinated Notes due 2010, $80.1 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $82.6 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $255.4 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $368.0 million for the year ended October 31, 2009, net of the write-off of unamortized discounts and fees.

At October 31, 2009, we had $797.2 million of outstanding senior secured notes ($783.1 million net of discount), comprised of $0.5 million 11 1/2% Senior Secured Notes due 2013, $11.7 million 18.0% Senior Secured Notes due 2017, and $785.0 million 10 5/8% Senior Secured Notes due 2016. We also had $824.3 million of outstanding senior notes ($822.3 million, net of discount), comprised of $35.5 million 8% Senior Notes due 2012, $81.4 million 6 1/2% Senior Notes due 2014, $83.7 million 6 3/8% Senior Notes due 2014, $82.3 million 6 1/4% Senior Notes due 2015, $173.2 million 6 1/4% Senior Notes due 2016, $172.3 million 7 1/2% Senior Notes due 2016, and $195.9 million 8 5/8% Senior Notes due

2017. In addition, we had $146.2 million of outstanding senior subordinated notes, comprised of $68.0 million 8 7/8% Senior Subordinated Notes due 2012, $64.6 million 7 3/4% Senior Subordinated Notes due 2013, and $13.6 million 6% Senior Subordinated Notes due 2010.

We and each of our subsidiaries are guarantors of the senior secured, senior, and senior subordinated notes, except for K. Hovnanian, the issuer of the notes, certain of our financial services subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures and our foreign subsidiary. The indentures governing the senior secured, senior, and senior subordinated notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, the issuer of the senior secured, senior, and senior subordinated notes, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase senior and senior subordinated notes (with respect to the senior secured first lien notes indenture), make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell, or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the senior secured, senior, and senior subordinated notes to declare those notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of October 31, 2009, we were in compliance with the covenants of the indentures governing our outstanding notes. Under the terms of the indentures, we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We may also continue to make debt purchases and/or exchanges from time to time, through tender offers, open market purchases, private transactions, or otherwise depending on market conditions and covenant restrictions.

Because of covenant restrictions in our bond indentures, we are currently unable to pay dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under our bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

During the second quarter of fiscal 2009, our credit ratings were downgraded by Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch"), as follows:

- S&P downgraded our corporate credit rating to CCC from B-,
- Moody's downgraded our corporate family rating to Caa1 from B3,
- Fitch downgraded our Issuer Default Rating ("IDR") to CCC from B- and
- S&P, Moody's and Fitch also downgraded our various senior secured notes, senior notes and senior subordinated notes.

On October 5, 2009, S&P raised our corporate credit rating to CCC+ from CCC and revised our outlook to developing from negative.

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

Total inventory decreased $983.2 million, excluding inventory not owned, during the year ended October 31, 2009. Total inventory, excluding inventory not owned, decreased in the Northeast $335.2 million, in the Mid-Atlantic $118.3 million, in the Midwest $17.9 million, in the Southeast $82.8 million, in the Southwest $121.8 million, and in the West $307.2 million. These decreases were due to decisions to delay or terminate new communities, as well as slow spending in current communities and due to inventory impairments recorded in these segments. During fiscal 2009, we incurred $614.1 million in write-downs primarily attributable to impairments as a result of a continued decline in sales pace, sales price and general market conditions. In addition, we wrote-off costs in the amount of $45.4 million during the year ended October 31, 2009, related to land options that expired or we terminated. See "Notes to Consolidated Financial Statements" - Note 13 for additional information. Substantially all homes under construction or completed and included in inventory at October 31, 2009 are expected to be closed during the next

12 months. Most inventory completed or under development was/is partially financed through our line of credit and debt and equity issuances.

The decreases discussed above excluded the decrease in consolidated inventory not owned of $66.0 million consisting of specific performance options, options with variable interest entities, and other options that were added to our

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balance sheet in accordance with ASC 470-40, “Debt - Product Financing Arrangements”, and ASC 840-40, “Leases - Sales-Leaseback Transactions”, and variable interest entities in accordance with ASC 810-10. See “Notes to Consolidated Financial Statements”- Note 18 for additional information on ASC 810-10. Specific performance options inventory increased $19.9 million for the year ended October 31, 2009. This increase was primarily due to the addition of specific performance lots in a community in the Northeast in the second quarter of fiscal 2009. Variable interest entity options inventory decreased $31.6 million as we continue to take down land or walk away from deals previously consolidated under ASC 810-10. Other options inventory decreased $54.3 million for the year ended October 31, 2009. Other options consist of inventory financed via a model home program and structured lot option agreements. Model home inventory decreased $35.7 million as a result of the fact that we have terminated the use of models in certain communities where the models were no longer needed and in conjunction therewith also terminated the option to purchase those models. Structured lot option inventory decreased $18.6 million. This decrease was primarily in the Southwest where we walked away from two large land purchase transactions during fiscal 2009.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. Our inventory representing “Land and land options held for future development or sale” at October 31, 2009, on the Consolidated Balance Sheets, decreased by $271.9 million compared to October 31, 2008. The decrease is due to significant impairments that were taken on land that had previously been mothballed slightly offset by “Sold and unsold homes and lots under development inventory” being reclassified to “Land and land options held for future development or sale inventory” when we decided to mothball (or stop development on) certain communities. We mothball communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we avoid spending money to improve land today and save the raw land until such times as the markets improve. As of October 31, 2009, we have mothballed land in 77 communities. The book value associated with these communities at October 31, 2009 was $295.3 million, net of an impairment balance of $547.4 million. We continually review communities to determine if mothballing is appropriate.

The following table summarizes home sites included in our total residential real estate. The decrease in total home sites available in 2009 compared to 2008 is partially attributable to terminating certain option agreements, as discussed herein, and is also related to delivering homes in existing communities and not replacing those with new communities.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2009:			
Northeast	6,751	457	6,294
Mid-Atlantic	4,026	385	3,641
Midwest	3,107	253	2,854
Southeast	1,418	135	1,283
Southwest	5,259	351	4,908
West	7,397	187	7,210
Consolidated total	27,958	1,768	26,190
Unconsolidated joint ventures	2,576	158	2,418
Total including unconsolidated joint ventures	30,534	1,926	28,608
Owned	16,477	1,507	14,970
Optioned	11,343	123	11,220
Construction to permanent financing lots	138	138	
Consolidated total	27,958	1,768	26,190
Lots controlled by unconsolidated joint ventures	2,576	158	2,418
Total including unconsolidated joint ventures	30,534	1,926	28,608
October 31, 2008:			
Northeast	8,975	495	8,480
Mid-Atlantic	6,306	385	5,921
Midwest	2,969	291	2,678
Southeast	4,480	163	4,317
Southwest	8,192	420	7,772
West	9,173	134	9,039
Consolidated total	40,095	1,888	38,207
Unconsolidated joint ventures	3,256	261	2,995
Total including unconsolidated joint ventures	43,351	2,149	41,202
Owned	23,439	1,557	21,882
Optioned	16,464	139	16,325
Construction to permanent financing lots	192	192	
Consolidated total	40,095	1,888	38,207
Lots controlled by unconsolidated joint ventures	3,256	261	2,995
Total including unconsolidated joint ventures	43,351	2,149	41,202

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

	October 31, 2009			October 31, 2008		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	103	14	117	186	33	219
Mid-Atlantic	69	25	94	182	19	201
Midwest	40	19	59	70	27	97
Southeast	50	1	51	181	20	201
Southwest	364	82	446	566	125	691
West	33	83	116	90	97	187
Total	659	224	883	1,275	321	1,596
Started or completed unsold homes and models per active	3.7	1.2	4.9	4.5	1.1	5.6

selling communities(1)

(1) Active selling communities, which are communities that are open for sale with 10 or more home sites available, were 179 at October 31, 2009, and 284 at October 31, 2008.

The decrease in total unsold homes compared to the prior year is primarily due to the decrease of 105 active communities from 284 at October 31, 2008 to 179 at October 31, 2009, as well as a continued focused effort to sell inventoried homes during fiscal 2009. In some instances, this required additional incentives to be given to homebuyers on completed unsold homes.

Investments in and advances to unconsolidated joint ventures decreased $29.8 million during the fiscal year ended October 31, 2009. The decrease is primarily due to the write-down of our investment in certain joint ventures in accordance with ASC 323-10, as well as distributions received from joint ventures and losses incurred by joint ventures. This is partially offset by increases resulting from additional investments in joint ventures. As of October 31, 2009, we have investments in nine homebuilding joint ventures and seven land development joint ventures. Other than guarantees limited only to completion of development, environmental indemnification and standard indemnification for fraud and misrepresentation including voluntary bankruptcy, we have no guarantees associated with unconsolidated joint ventures.

Receivables, deposits and notes decreased $34.3 million since October 31, 2008 to $44.4 million at October 31, 2009. The decrease is primarily due to the receipt of cash of $19.8 million from insurance carriers related to outstanding warranty claims, as well as the return of refundable deposits on land option transactions we terminated in fiscal 2009.

Property, plant and equipment decreased $18.9 million during the twelve months ended October 31, 2009 primarily due to depreciation and a small amount of disposals, which were offset by minor additions for leasehold improvements during the period.

Prepaid expenses and other assets were as follows as of:

(In thousands)	**October 31, 2009**	**October 31, 2008**	**Dollar Change**
Prepaid insurance	$5,118	$8,262	$(3,144)
Prepaid project costs	50,227	82,394	(32,167)
Senior residential rental properties	7,003	7,321	(318)
Other prepaids	25,832	49,167	(23,335)
Other assets	9,979	9,451	528
Total	$98,159	$156,595	$(58,436)

Prepaid insurance decreased due to the timing of payments for insurance premium costs. These costs are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs decreased for homes delivered and have not been replenished, as we have reduced the number of active selling communities given the current homebuilding environment. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Other prepaids decreased mainly due to the debt repurchases and tender offers during fiscal 2009, which resulted in the write-off of portions of the associated prepaid debt costs. This decrease is further impacted by the write-off of prepaid credit facility costs as a result of terminating our existing facility and establishing a new one.

At October 31, 2007, we had $32.7 million of goodwill. This amount resulted from Company acquisitions prior to fiscal 2002. As of October 31, 2008, we performed an annual assessment of this goodwill for impairment, and despite years of significant income generation in the markets with goodwill, primarily Texas in the Southwest segment and the Mid-Atlantic segment, the financial projections of these markets resulted in a full impairment of existing goodwill. As such, as of October 31, 2009 and 2008, the goodwill balance is zero. The impairment was written off in the line “Goodwill and intangible amortization and impairment” on the Consolidated Statement of Operations.

Financial Services - Mortgage loans held for sale or investment consist primarily of residential mortgages receivable held for sale of which $66.0 million and $87.5 million at October 31, 2009 and October 31, 2008, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. Also included are residential mortgages receivable held for investment of $3.5 million and $3.2 million at October 31, 2009 and October 31, 2008, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses. We have reserves for potential losses on mortgages we currently hold. The decrease in mortgage loans held for sale or investment from October 31, 2008 is directly related to a decrease in the volume of loans originated in the fourth quarter of fiscal 2009, compared to the fourth quarter of fiscal 2008.

Income taxes receivable decreased $189.2 million from October 31, 2008 to a liability of $62.4 million. The net receivable of $126.8 million at October 31, 2008 included a current receivable of $145.2 million that was received during the first quarter of fiscal 2009. At October 31, 2009, the income tax payable balance of $62.4 million related primarily to tax reserves for Federal and State taxes in accordance with ASC 740-10 “Income Taxes”.

Accounts payable and other liabilities are as follows as of:

(In thousands)	October 31, 2009	October 31, 2008	Dollar Change
Accounts payable	$99,175	$167,407	$(68,232)
Reserves	136,481	133,423	3,058
Accrued expenses	54,169	59,394	(5,225)
Accrued compensation	17,237	27,211	(9,974)
Other liabilities	18,660	33,260	(14,600)
Total	$325,722	$420,695	$(94,973)

The decrease in accounts payable was primarily due to the lower volume of deliveries in the fourth quarter of 2009 compared to the prior year. The increase in the reserves is attributable to additional accruals needed for closed communities in our West segment, due to a change in estimates related to the costs for transitioning homeowners associations from the Company to the homeowners and final work to be performed in order to have municipalities provide final bond release. The decrease in accrued expenses is primarily due to payments made for land options that were terminated and accrued in the fourth quarter of fiscal 2008 but paid in the first quarter of 2009. This decrease was partially offset by an increase of $18.7 million of an accrual for abandoned lease space on a rental property. The decrease in accrued compensation was primarily due to the payout of our fiscal year 2008 bonuses during the first quarter of 2009 and reduced accruals under our bonus plans in fiscal 2009. The decrease in other liabilities is primarily related to the payment of a note that was paid during the first quarter of fiscal 2009 and a decrease in deferred profit related to sold and leased back model homes.

Nonrecourse Land Mortgages decreased $0.8 million from October 31, 2008, to zero at October 31, 2009. The decrease is primarily due to purchase money mortgages for a property in our Mid-Atlantic segment that were paid during fiscal 2009.

Customer deposits decreased $9.9 million from October 31, 2008, to $18.8 million at October 31, 2009. The decrease is primarily due to lower contracts in backlog, lower average purchase prices of homes in backlog and certain programs that permit for lower deposits.

Mortgage warehouse line of credit under our secured Master Repurchase Agreement decreased $28.9 million from $84.8 million at October 31, 2008, to $55.9 million at October 31, 2009. The decrease is directly correlated to the decrease in mortgage loans held for sale from October 31, 2008 to October 31, 2009.

Liabilities from inventory not owned and minority interest from inventory not owned decreased $70.7 million and increased $7.7 million, respectively, from $135.1 million and $24.9 million, respectively, at October 31, 2008, to $64.4 million and $32.6 million at October 31, 2009, respectively. The net change in these amounts is due to the decrease in the number of variable interest entities consolidated under ASC 810-10 (See “Notes to Consolidated Financial Statements - Note 18”), combined with a significant decrease in debt for one entity previously consolidated, which resulted in a corresponding increase in minority interest from inventory not owned.

Accrued interest decreased $46.4 million from $72.5 million at October 31, 2008, to $26.1 million at October 31, 2009. The decrease is partially attributed to the fact that the majority of our semi-annual interest payments for our senior secured, senior and senior subordinated notes are due and paid in the first and second quarter of the year. Accrued interest is also impacted by the reduction of our debt as a result of the repurchases of our senior secured, senior and senior subordinated notes during fiscal 2009. Also significantly contributing to the decrease is the repurchase of all but $0.5 million of the second lien senior secured notes in October 2009, for which five months of interest was accrued at October 31, 2008 and zero at October 31, 2009. At October 31, 2009, only one month of interest was accrued for the first lien senior secured notes issued in October 2009.

Results of Operations

Total Revenues

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

	Year Ended		
	October 31,	**October 31,**	**October 31,**
(Dollars in thousands)	**2009**	**2008**	**2007**
Homebuilding:			
Sale of homes	$(1,655,384)	$(1,403,522)	$(1,322,012)
Land sales	(30,526)	(50,179)	(32,434)
Other revenues	(9,242)	(13,137)	18,539
Financial services	(16,669)	(23,972)	(13,407)
Total change	$(1,711,821)	$(1,490,810)	$(1,349,314)
Total revenues percent change	(51.7)%	(31.1)%	(22.0)%

Homebuilding

Compared to the same prior period, homebuilding revenues decreased $1,655.4 million, or 52.1%, for the year ended October 31, 2009, decreased $1,403.5 million, or 30.6%, for the year ended October 31, 2008 and decreased $1,322.0 million or 22.4%, for the year ended October 31, 2007. Decreased revenues in 2009, 2008 and 2007 are primarily due to the number of home deliveries also declining 49.3%, 22.0%, and 24.4%, respectively, as well as weakening market conditions and increased competition in most of our markets. Average price per home also decreased to $283,937 for 2009 from $300,449 in 2008 and $300,449 for 2008 from $337,760 in 2007, as a result of price declines and geographic community mix of our deliveries. Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on land sales and other revenues, see the section titled “Land Sales and Other Revenues” below.

Information on homes delivered by segment is set forth below:

(Housing Revenue in thousands)	Year Ended October 31, 2009	October 31, 2008	October 31, 2007
Northeast:			
Housing revenues	$357,745	$679,488	$935,476
Homes delivered	823	1,412	1,999
Average price	$434,684	$481,224	$467,972
Mid-Atlantic:			
Housing revenues	$296,286	$509,009	$885,599
Homes delivered	788	1,248	1,926
Average price	$375,997	$407,860	$459,813
Midwest:			
Housing revenues	$116,990	$209,759	$226,804
Homes delivered	520	965	1,043
Average price	$224,981	$217,367	$217,453
Southeast (1):			
Housing revenues	$113,034	$624,106	$745,240
Homes delivered	489	2,572	2,771
Average price	$231,153	$242,654	$268,943
Southwest:			
Housing revenues	$408,746	$603,513	$828,574
Homes delivered	1,867	2,616	3,643
Average price	$218,932	$230,701	$227,443
West:			
Housing revenues	$229,668	$551,978	$959,682
Homes delivered	875	1,764	2,182
Average price	$262,478	$312,913	$439,818
Consolidated total:			
Housing revenues	$1,522,469	$3,177,853	$4,581,375
Homes delivered	5,362	10,577	13,564
Average price	$283,937	$300,449	$337,760
Unconsolidated joint ventures:			
Housing revenues	$113,016	$262,605	$535,051
Homes delivered	297	704	1,364
Average price	$380,525	$373,018	$392,266
Total including unconsolidated joint ventures:			
Housing revenues	$1,635,485	$3,440,458	$5,116,426
Homes delivered	5,659	11,281	14,928
Average price	$289,006	$304,978	$342,740

(1) Includes 1,345 homes delivered at our Ft. Myers, Florida division in the first quarter of fiscal 2008.

The decrease in housing revenues during the years ended October 31, 2009 and October 31, 2008 was primarily due to the continued weak market conditions in most of our markets. Housing revenues in 2009 decreased in all of our homebuilding segments combined by 52.1%, and average sales prices decreased 5.5%. In our homebuilding segments, homes delivered decreased 41.7%, 36.9%, 46.1%, 81.0%, 28.6% and 50.4% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively. Also contributing to the decrease in homes delivered is the decrease of 105 active communities from 284 at October 31, 2008 to 179 at October 31, 2009.

Housing revenues in 2008 decreased in all of our homebuilding segments combined by 30.6%, and average sales prices decreased 11.0%. In our homebuilding segments, homes delivered decreased 29.4%, 35.2%, 7.5%, 7.2%, 28.2% and 19.2% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Another reason for reduced sales was H.R. 3221, enacted into law in 2008, which includes the "American Housing Rescue and Foreclosure Prevention Act of 2008." Among other provisions, this law eliminated seller-funded down payment assistance on FHA insured loans approved on or after October 1, 2008. Of our total home closings utilizing K. Hovnanian Mortgage for the mortgage loans in fiscal 2008 and the first quarter of fiscal 2009, approximately 21% and 3%, respectively, were funded with mortgage loans whereby the homebuyer used a seller-financed down payment assistance program. These programs were ended during the first quarter of fiscal 2009, which resulted in none of our homebuyers utilizing them after the first quarter of fiscal 2009. This issue was partially mitigated by federal government purchases of FHA/VA loans and the increase in loan limits for these types of loans.

Unaudited quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2009, 2008 and 2007 are set forth below:

(In thousands)	Quarter Ended October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009
Housing revenues:				
Northeast	$102,996	$84,761	$83,752	$86,236
Mid-Atlantic	80,773	75,631	70,887	68,995
Midwest	36,305	29,925	23,887	26,872
Southeast	23,032	23,152	32,834	34,015
Southwest	103,109	105,518	113,514	86,605
West	68,364	48,154	56,824	56,329
Consolidated total	$414,579	$367,141	$381,698	$359,052
Sales contracts (net of cancellations):				
Northeast	$96,424	$84,093	$104,653	$65,345
Mid-Atlantic	66,375	85,352	87,208	42,259
Midwest	18,019	25,411	33,498	18,836
Southeast	24,377	27,660	31,073	20,063
Southwest	97,797	109,027	109,971	60,497
West	65,592	55,053	69,205	30,519
Consolidated total	$368,584	$386,596	$435,608	$237,519

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

(In thousands)	Quarter Ended October 31, 2007	July 31, 2007	April 30, 2007	January 31, 2007
Housing revenues:				

Northeast	$298,039	$238,299	$185,852	$213,286
Mid-Atlantic	258,178	215,363	189,370	222,688
Midwest	81,138	65,563	41,524	38,579
Southeast	155,560	164,111	207,844	217,725
Southwest	255,670	196,681	200,053	176,170
West	259,634	199,209	233,371	267,468
Consolidated total	$1,308,219	$1,079,226	$1,058,014	$1,135,916
Sales contracts (net of cancellations):				
Northeast	$218,424	$206,103	$202,884	$175,048
Mid-Atlantic	119,188	126,269	239,485	192,639
Midwest	71,678	52,386	68,735	55,945
Southeast	76,451	88,253	107,345	40,021
Southwest	168,440	201,579	222,119	166,202
West	165,023	145,295	248,815	274,853
Consolidated total	$819,204	$819,885	$1,089,383	$904,708

Our reported level of sales contracts (net of cancellations) has been impacted by a slowdown in the pace of sales in all of the Company's segments, due to weakening market conditions and tighter mortgage loan underwriting criteria, as well as lower community count. However, contracts per our community in 2009 are 23.3 compared to fiscal 2008 of 17.7. Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures.

Quarter	**2009**	**2008**	**2007**	**2006**	**2005**
First	31%	38%	36%	30%	27%
Second	24%	29%	32%	32%	21%
Third	23%	32%	35%	33%	24%
Fourth	24%	42%	40%	35%	25%

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

Quarter	**2009**	**2008**	**2007**	**2006**	**2005**
First	22%	16%	17%	11%	15%
Second	31%	24%	19%	15%	17%
Third	23%	20%	18%	14%	15%
Fourth	20%	30%	26%	16%	12%

Historically, most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks after the signing of the contract. Cancellations also occur as a result of a buyer's failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, starting in fiscal year 2007 and continuing since then, we have been experiencing higher than normal numbers of cancellations later in the construction process. These cancellations are related primarily to falling prices, sometimes due to new discounts offered by us or other builders, leading the buyer to lose confidence in their contract price and due to tighter mortgage underwriting criteria leading to some customers' inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. While our cancellation rate based on gross sales contracts for fiscal year 2009 is lower than it has been for several years, and closer to more normalized levels, it is difficult to predict if this trend will continue. However, for this same period, the cancellation rate as a percentage of beginning backlog remains higher than historical periods.

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

(Dollars In thousands)	October 31, 2009	October 31, 2008	October 31, 2007
Northeast:			
Total contract backlog	$196,262	$215,604	$503,445
Number of homes	457	497	975
Mid-Atlantic:			
Total contract backlog	$150,819	$165,871	$358,778
Number of homes	386	385	753
Midwest:			
Total contract backlog	$46,418	$61,108	$153,171
Number of homes	253	291	759
Southeast:			
Total contract backlog	$35,970	$45,657	$614,575
Number of homes	135	163	2,151
Southwest:			
Total contract backlog	$77,418	$100,305	$174,206
Number of homes	351	420	751
West:			
Total contract backlog	$52,666	$57,642	$205,716
Number of homes	190	151	549
Totals:			
Total consolidated contract backlog	$559,553	$646,187	$2,009,891
Number of homes	1,772	1,907	5,938

The decline in our backlog for the years ended October 31, 2009 and October 31, 2008 is a direct result of a falloff in our contract pace. Our net contracts for the full years of fiscal 2009 and 2008, excluding unconsolidated joint ventures, declined 20.1% and 40.5%, respectively. In the month of November 2009, excluding unconsolidated joint ventures, we signed an additional 294 net contracts amounting to $87.7 million in contract value.

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

(Dollars In thousands)	Year Ended October 31, 2009	October 31, 2008	October 31, 2007
Sale of homes	$1,522,469	$3,177,853	$4,581,375
Cost of sales, net of impairment reversals and excluding interest expense	1,382,234	2,965,886	3,890,474
Homebuilding gross margin, before cost of sales interest expense and land charges	140,235	211,967	690,901
Cost of sales interest expense, excluding land sales interest expense	97,332	136,439	130,825
Homebuilding gross margin, after cost of sales interest expense, before land charges	42,903	75,528	560,076
Land charges	659,475	710,120	457,773
Homebuilding gross margin, after cost of sales interest expense and land charges	$(616,572)	$(634,592)	$102,303
Gross margin percentage, before cost of sales interest expense and land charges	9.2%	6.7%	15.1%
Gross margin percentage, after cost of sales interest expense, before land charges	2.8%	2.4%	12.2%

Gross margin percentage after cost of sales interest expense and land charges	(40.5)%	(20.0)%	2.2%

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

	Year Ended October 31, 2009	October 31, 2008	October 31, 2007
Sale of homes	100%	100.0%	100.0%
Cost of sales, net of impairment reversals and excluding interest:			
Housing, land and development costs	75.9%	82.1%	74.3%
Commissions	3.3%	2.7%	2.8%
Financing concessions	2.4%	1.7%	1.4%
Overheads	9.2%	6.8%	6.4%
Total cost of sales, before interest expense and land charges	90.8%	93.3%	84.9%
Gross margin percentage, before cost of sales interest expense and land charges	9.2%	6.7%	15.1%
Cost of sales interest	6.4%	4.3%	2.9%
Gross margin percentage, after cost of sales interest expense and before land charges	2.8%	2.4%	12.2%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margins, before interest expense and land impairment and option write off charges increased to 9.2% for the year ended October 31, 2009 compared to 6.7% for the same period last year. The declining pace of sales in our markets in 2007, 2008, and 2009 has led to intense competition in many of our specific community locations. In order to attempt to maintain a reasonable pace of absorption, we have increased incentives, reduced lot location premiums, as well as lowered some base prices, all of which have impacted our margins significantly and resulted in significant inventory impairments. However, the rate of the decline has slowed in most of our segments and in a few locations we have been able to raise prices without adversely impacting sales pace. In addition, we are delivering the final homes in some older communities where margins are lower and seeing the first deliveries in new communities where we have acquired the land at more reasonable prices. Also, we have recorded impairment reversals as homes previously impaired are delivered. This has resulted in the modest improvement in our gross margins before cost of sales interest and land charges.

Reflected as inventory impairment loss and land option write-offs in cost of sales (“land charges”), we have written-off or written-down certain inventories totaling $659.5 million, $710.1 million, and $457.8 million during the years ended October 31, 2009, 2008, and 2007, respectively, to their estimated fair value. See “Notes to Consolidated Financial Statements - Note 13” for an additional discussion. During the years ended October 31, 2009, 2008, and 2007, we wrote-off residential land options and approval and engineering costs amounting to $45.4 million, $114.1 million, and $126.0 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option and approval and engineering costs are written-off when a community’s pro forma profitability is not projected to produce adequate returns on the investment commensurate with the risk and we believe it is probable we will cancel the option. Such write-offs were located in all of our segments. The impairments amounting to $614.1 million, $596.0 million, and $331.8 million for the years ending October 31, 2009, 2008 and 2007, respectively, were incurred because of continued downward pressure on prices in order to maintain sales pace in many of our markets. In 2009, the majority of the impairments were in the Northeast and West segments. Impairments in the Northeast were due to increased weakness in the market, primarily in the suburbs of Manhattan. In the West, where we have to compete with significant competition from foreclosures, we have had to continue to reduce prices in order to maintain sales pace. This is especially true in some of the more fringe markets in our West segment.

Below is a break-down of our lot option walk-aways and impairments by segment for fiscal 2009. In 2009, in total, we walked away from 36.3% of all the lots we controlled under option contracts. The remaining 63.7% of our option lots are in communities that remain economically feasible, including a substantial number that were successfully renegotiated over the past year.

The following table represents lot option walk-aways by segment for the year ended October 31, 2009:

(In millions)	Dollar Amount of Walk Away	Number of Walk-Away Lots	% of Walk-Away Lots	Total Option Lots at October 31, 2009(1)	Walk-Away Lots as a % of Total Lots
Northeast	$14.1	1,467	22.7%	4,848	30.3%
Mid-Atlantic	10.7	2,021	31.2%	3,403	59.4%
Midwest	1.4	222	3.4%	2,778	8.0%
Southeast	4.3	1,310	20.2%	1,438	91.1%
Southwest	14.3	1,296	20.0%	4,251	30.5%
West	0.6	158	2.5%	1,099	14.4%
Total	$45.4	6,474	100%	17,817	36.3%

(1) Includes lots optioned that the Company walked-away from in the year ended October 31, 2009.

The following table represents impairments by segment for the year ended October 31, 2009:

(In millions)	Dollar Amount of Impairment	% of Impairments	Pre-Impairment Value	% of Pre-Impairment Value
Northeast	$244.7	39.8%	$502.6	48.7%
Mid-Atlantic	48.5	7.9%	148.1	32.8%
Midwest	6.5	1.1%	19.5	33.3%
Southeast	40.5	6.6%	116.5	34.8%
Southwest	36.8	6.0%	90.2	40.8%
West	237.1	38.6%	450.8	52.6%
Total	$614.1	100%	$1,327.7	46.3%

Homebuilding selling, general, and administrative expenses decreased to $239.6 million for the year ended October 31, 2009, and decreased to $377.1 million for the year ended October 31, 2008 from $539.4 million for the year ended October 31, 2007. This decrease in expenses is the result of reduced costs through headcount reduction, other cost saving measures and a decreased number of communities. Despite the decreases in expenses, the amount of homebuilding selling, general and administrative expenses as a percentage of revenue has increased, due to reduced home deliveries.

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:

(In thousands)	Year Ended October 31, 2009	October 31, 2008	October 31, 2007
Land and lot sales	$27,250	$57,776	$107,955
Cost of sales, net of impairment reversals and excluding interest	15,853	45,016	87,179

Land and lot sales gross margin, excluding interest	11,397	12,760	20,776
Land sales interest expense	8,482	9,522	1,132
Land and lot sales gross margin, including interest	$2,915	$3,238	$19,644

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Profits from land sales for the year ended October 31, 2009 were less than for the year ended October 31, 2008. Although we budget land sales, they are often dependent upon receiving approvals and entitlements, the timing of which can be uncertain. As a result, projecting the amount and timing of land sales is difficult.

Other revenues decreased $9.2 million and $13.1 million for the years ended October 31, 2009 and October 31, 2008, respectively. Other revenues include income from contract cancellations, where the deposit has been forfeited due to contract terminations, interest income, cash discounts and miscellaneous one-time receipts. In fiscal 2009, the primary reason for the decrease was a reduction in interest income due to lower excess cash in interest bearing accounts as well as lower interest rates in 2009 compared to 2008. In addition, as cancellation rates have come down during the year, income from forfeited customer deposits has declined. For fiscal 2007, Other revenues also included $19.1 million related to the termination of our Credit Agreement and Agreement for Letter of Credit with Citicorp USA, Inc. which was the primary reason for the decrease from fiscal 2008 to 2007.

Homebuilding Operations by Segment

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

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

	Years Ended October 31,				
	2009	Variance 2009 Compared to 2008	2008	Variance 2008 Compared to 2007	2007
Northeast					
Homebuilding revenue	$364,876	$(339,847)	$704,723	$(254,110)	$958,833
Loss before income taxes	$(341,147)	$(226,731)	$(114,416)	$(95,599)	$(18,817)
Homes delivered	823	(589)	1,412	(587)	1,999
Average sales price	$434,684	$(46,540)	$481,224	$13,252	$467,972
Contract cancellation rate	23%	(7)%	30%	4%	26%
Mid-Atlantic					
Homebuilding revenue	$297,706	$(216,013)	$513,719	$(399,994)	$913,713
(Loss) income before income taxes	$(85,817)	$56,432	$(142,249)	$(217,073)	$74,824
Homes delivered	788	(460)	1,248	(678)	1,926
Average sales price	$375,997	$(31,863)	$407,860	$(51,953)	$459,813
Contract cancellation rate	34%	(8)%	42%	1%	41%
Midwest					
Homebuilding revenue	$117,308	$(94,279)	$211,587	$(16,288)	$227,875
Loss before income taxes	$(24,390)	$13,025	$(37,415)	$42,792	$(80,207)
Homes delivered	520	(445)	965	(78)	1,043
Average sales price	$224,981	$7,614	$217,367	$(86)	$217,453
Contract cancellation rate	24%	(10)%	34%	7%	27%
Southeast					
Homebuilding revenue	$119,779	$(512,271)	$632,050	$(146,454)	$778,504
Loss before income taxes	$(67,891)	$78,515	$(146,406)	$122,096	$(268,502)
Homes delivered	489	(2,083)	2,572	(199)	2,771
Average sales price	$231,153	$(11,501)	$242,654	$(26,289)	$268,943
Contract cancellation rate	22%	(27)%	49%	(3)%	52%
Southwest					
Homebuilding revenue	$422,808	$(187,237)	$610,045	$(231,020)	$841,065
(Loss) income before income taxes	$(60,777)	$40,693	$(101,470)	$(127,181)	$25,711
Homes delivered	1,867	(749)	2,616	(1,027)	3,643
Average sales price	$218,932	$(11,769)	$230,701	$3,258	$227,443
Contract cancellation rate	26%	(4)%	30%	0%	30%
West					
Homebuilding revenue	$234,740	$(342,488)	$577,228	$(405,904)	$983,132
Loss before income taxes	$(304,539)	$220,162	$(524,701)	$(187,487)	$(337,214)
Homes delivered	875	(889)	1,764	(418)	2,182
Average sales price	$262,478	$(50,435)	$312,913	$(126,905)	$439,818
Contract cancellation rate	18%	(13)%	31%	(8)%	39%

Homebuilding Results by Segment

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

Homebuilding revenues decreased 26.5% in 2008 compared to 2007 primarily due to a 29.4% decrease in homes delivered offset by a 2.8% increase in average selling price as the mix of communities that had deliveries in 2008 was different than 2007. Loss before income taxes increased $95.6 million to a loss of $114.4 million, which is mainly due to a significant reduction in gross margin percentage before interest expense as the markets in this segment had become much more competitive and a $7.8 million increase in inventory impairment loss and land option write-offs in 2008.

Mid-Atlantic - Homebuilding revenues decreased 42% in 2009 compared to 2008 primarily due to a 36.9% decrease in homes delivered and a 7.8% decrease in average selling price due to increased incentives and the mix of communities that delivered in 2009 compared to 2008. Loss before income taxes decreased $56.4 million to a loss of $85.8 million, of which $24.6 million is from the decrease in inventory impairment loss and land option write-offs in 2009. Additionally, there was a $15.1 million goodwill impairment charge recorded in 2008, which did not recur in 2009. The segment also had a small increase in gross margin percentage before interest expense.

Homebuilding revenues decreased 43.8% in 2008 compared to 2007 primarily due to a 35.2% decrease in homes delivered and a 11.3% decrease in average selling price due to increased incentives and the mix of communities that delivered in 2008 compared to 2007. Income before income taxes decreased $217.1 million to a loss of $142.2 million, of which $64.3 million was from the increase in inventory impairment loss and land option write-offs in 2008. Additionally, there was a $15.1 million goodwill impairment charge recorded in 2008. The segment also had a significant reduction in gross margin percentage before interest expense as the markets in this segment had become much more competitive.

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

Homebuilding revenues decreased 7.1% in 2008 compared to 2007 primarily due to a 7.5% decrease in homes delivered, while average selling prices remained flat. The decrease in deliveries was the result of a more competitive and slowing housing market. Loss before income taxes decreased $42.8 million to a loss of $37.4 million. This was due to only $8.4 million of inventory impairment loss and land option write-offs in 2008, compared to $28.1 million in 2007 and no intangible impairment in 2008 compared to $14.6 million in 2007.

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

Homebuilding revenues decreased 18.8% in 2008 compared to 2007 primarily due to a 7.2% decrease in homes delivered and a 9.8% decrease in average selling price. The primary reason for the decrease in deliveries and average selling price is the continuing declining market conditions in Florida and in the mix of communities delivering homes. Loss before income taxes decreased $122.1 million to a loss of $146.4 million, due mainly to $85.6 million of inventory impairment losses and land option write-offs in 2008 compared to $113.3 million in 2007 and $2.4 million of intangible impairments in 2008 compared to $108.6 million in 2007.

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

Homebuilding revenues decreased 27.5% in 2008 compared to 2007 primarily due to a 28.2% decrease in homes delivered offset by 1.4% increase in average selling price. The reduction of deliveries resulted from a decline in the activity in the Arizona market, as that market has been impacted by tighter mortgage lending requirements, thus eliminating certain potential homebuyers. The increase in average selling price is due to the mix of communities that had deliveries in 2008 compared to 2007. Income before income taxes decreased $127.2 million to a loss of $101.5 million in 2008 mainly due to a $75.5 million increase in inventory impairment losses and land option write-offs in 2008, a goodwill impairment of $14.9 million and a significant reduction in gross margin percentage before interest expense.

West - Homebuilding revenues decreased 59.3% in 2009 compared to 2008 primarily due to a 50.4% decrease in homes delivered and a 16.1% decrease in average selling price. The decrease in deliveries was the result of the continued slowing of the housing market in California and reduced active communities as nearly half of our mothballed communities are in the West. Loss before income taxes decreased $220.2 million to a loss of $304.5 million in 2009 partially due to a $138.9 million decrease in inventory impairment losses and land option write offs. In addition, gross margin before interest expense increased in 2009, as we are starting to see signs of price stabilization in this market and the benefit of impairment reserve reversals as homes are delivered.

Homebuilding revenues decreased 41.3% in 2008 compared to 2007 primarily due to a 19.2% decrease in homes delivered and a 28.9% decrease in average selling price. This reduced revenue was further compounded by a significant reduction in gross margin percentage before interest expense. The decrease in deliveries and the reduced gross margin was the result of the more competitive and slowing housing market in California throughout 2007 and more so in 2008. As a result of the above and a $152.1 million increase in inventory impairment losses and land option write-offs in 2008, loss before income taxes increased $187.5 million to a loss of $524.7 million in 2008.

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. We use mandatory investor commitments and forward sales of mortgage-backed securities (“MBS”) to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. In an effort to reduce our exposure to the marketability and disposal of non-agency and non-governmental loans, including Alt-A (FICO scores below 680 and depending on credit criteria) and sub-prime loans (FICO scores below 580 and depending on credit criteria), we require our Financial Services segment to either presell or broker all of these loans, on an individual loan basis as soon as they are committed to by the customer. However, because of the recent tightening by mortgage lenders, none of the loans we originated during fiscal 2009 were Alt-A or sub-prime as compared to 7.7% of our originated loans being Alt-A loans and 0.3% of our originated loans being sub-prime loans for the same period last year. As Alt-A and sub-prime originations declined, we have seen an increase in our level of Federal Housing Administration and Veterans Administration (“FHA/VA”) loan origination. For the year ended October 31, 2009 and 2008, FHA/VA loans represented 45.9% and 35.5%, respectively, of our total loans. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

During the years ended October 31, 2009, 2008, and 2007, financial services provided a $6.3 million, $16.7 million, and $27.9 million pretax profit, respectively. In 2009 financial services revenue decreased $16.7 million to $35.6 million due to a decrease in the number of mortgage settlements and a decrease in the average loan amount. Also, in 2009, we recorded expense of $3.2 million for abandoned lease space, which contributed to the decrease in pretax profit of $10.4 million from October 31, 2008 to October 31, 2009. Revenues from October 31, 2007 to October 31, 2008 decreased $24.0 million to $52.2 million consistent with our reduction in mortgage settlements. In the market areas served by our wholly owned mortgage banking subsidiaries, approximately 82%, 75%, and 71% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2009, 2008, and 2007, respectively. Servicing rights on new mortgages originated by us will be sold with the loans.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety.

Corporate general and administrative expenses declined $0.9

million for the year ended October 31, 2009 compared to the year ended October 31, 2008, and $3.0 million for the year ended October 31, 2008 compared to the year ended October 31, 2007. The reduction in expenses is due to reduced salaries resulting from headcount reduction, reduced bonuses and other overhead cost savings. The slight reduction from 2008 to 2009 was after an expense of $14.7 million for the cancellation of stock options. During fiscal 2009, the Chief Executive Officer, Chief Financial Officer, each of the non-executive members of the Board of Directors and other senior executives of the Company consented to the cancellation of certain of their options (with the full understanding that the Company made no commitment to provide them with any other form of consideration in respect of the cancelled options) in order to reduce a portion of the equity reserve "overhang" under the Company's equity compensation plans represented by the number of shares of the Company's common stock remaining available for future issuance under such plans (including shares that may be issued upon the exercise or vesting of outstanding options and other rights). The $14.7 million charge to operations is offset by a credit to paid in capital. Excluding this option cancellation expense, corporate, general and administrative expenses decreased $15.6 million for the year ended October 31, 2009 compared to October 31, 2008.

Other Interest

Other interest increased $64.3 million to $94.7 million for the year ended October 31, 2009. For fiscal 2008, other interest increased $20.6 million to $30.4 million. Beginning in the third quarter of fiscal 2008, our assets that qualify for interest capitalization (inventory under development) no longer exceeded our debt, and therefore a portion of interest not covered by qualifying assets must be directly expensed. As our inventory balances have continued to decrease, the amount of interest required to be directly expensed has increased.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior rental residential property operations, rent expense for commercial office space, amortization of prepaid bond fees, minority interest relating to consolidated joint ventures, and corporate owned life insurance. Other operations increased $13.7 million to $23.5 million for the year ended October 31, 2009, and increased $5.0 million to $9.8 million for the year ended October 31, 2008. The increase in other operations from October 31, 2008 to October 31, 2009 is primarily due to a $18.7 million accrual for abandoned commercial lease space. This expense was offset by income of $5.1 million due to the reversal of an accrual related to litigation in the fourth quarter of fiscal 2009, when it was determined that payment was no longer probable. The increase in other operations from October 31, 2007 to October 31, 2008, is attributed to the $2.1 million in legal and settlement costs in 2008, related to the dismissal of certain litigation, as well as an increase in rent expense from a new commercial rental property.

Goodwill and Intangible Amortization and Impairments

We amortized our finite-lived intangibles over their expected useful life, ranging from one to four years. At the end of fiscal year 2008, we wrote off all of our remaining intangible assets. As a result, there was no expense in fiscal 2009. In fiscal 2008, this expense includes the impairment of the remaining $2.7 million balance of finite-lived intangibles and $32.7 million of goodwill. Goodwill and Intangible amortization and impairments decreased $125.2 million for the year ended October 31, 2008, when compared to 2007. The decrease for the year ended October 31, 2008 was primarily the result of reduced intangible amortization in 2008 as a result of the extensive write-offs during the fourth quarter of 2007, partially offset by the impairments recorded in 2008.

Gain on Extinguishment of Debt

During the year ended October 31, 2009, we repurchased in the open market a total of $628.5 million principal amount of various issues of our unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of $255.4 million, plus accrued and unpaid interest. We recognized a gain of $368.0 million net of the write-off of unamortized discounts and fees, related to these purchases which represents the difference between the principal amounts of the notes and the purchase price. In addition, on December 3, 2008, we exchanged a total of $71.4 million principal amount of various issues of our unsecured senior notes due 2012 through 2017 for $29.3 million in senior secured 18% notes due 2017. This exchange resulted in a recognized gain of $41.3 million. During the year ended October 31, 2009, we completed cash tender offers whereby we purchased an aggregate of approximately $861.7 million principal amount of various issues of our secured and unsecured senior and senior subordinated notes due 2010 through 2017 for an aggregate purchase price of approximately $833.6 million, plus accrued unpaid interest. As a result of the tender offers we recognized a gain of $37.0 million in the third quarter of fiscal 2009, net of the write-off of unamortized discounts and fees and a loss of $36.4 million in the fourth quarter of fiscal 2009. The fourth quarter loss was offset by gains from open market repurchases resulting in a net loss of $17.6 million in the fourth quarter of fiscal 2009. We may continue to make additional debt purchases and/or exchanges through tender offers, open market purchases, private transactions or otherwise from time to time depending on market conditions and covenant restrictions.

(Loss) Income From Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures consists of our share of the losses or earnings of the joint venture. The loss increased $9.4 million to a loss of $46.0 million for the year ended October 31, 2009. The increased loss in 2009 is mainly due to the write down of our investment in one of our joint ventures where the full investment was determined to be impaired, as well as our share of the losses from inventory impairments from two other joint ventures. These losses were offset by the fact that we are no longer recording any loss related to a fourth joint venture because we wrote off our investment in that joint venture in the fourth quarter of fiscal 2008, and have no further funding commitments to this entity. Our loss in 2008 increased $8.4 million to a loss of $36.6 million for the year ended October 31, 2008. The increase in the loss in 2008 is mainly due to our share of the losses from operations on our unconsolidated joint ventures, as well as the write-off of our investment we had in two homebuilding joint ventures.

Total Taxes

Total tax provision (benefit) as a percentage of the loss before taxes was (6.7)% for the 12 months ended October 31, 2009. The rate was negative because we recorded an additional $312.1 million charge to our current and deferred tax asset valuation allowance in the twelve months ended October 31, 2009, completely offsetting the tax benefit from loss before taxes and we recorded additional Federal and State tax reserves during the year in accordance with ASC 740, as discussed in Note 12 to the Consolidated Financial Statements and further below.

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 or carried forward to future years to recover the deferred tax assets. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. Given the continued downturn in the homebuilding industry during 2007, 2008 and 2009, resulting in additional inventory and intangible impairments, we are now in a three-year cumulative loss position. According to ASC 740, a three-year cumulative loss is significant negative evidence in considering whether deferred tax assets are realizable, and in this circumstance, the Company does not rely on projections of future taxable income to support the recovery of deferred tax assets. Therefore, during the fourth quarter of 2007, we recorded a valuation allowance of $265.9 million against our deferred tax assets. Our valuation allowance for current and deferred taxes increased $312.1 million and $409.6 million during the 12 months ended October 31, 2009 and 2008, to $987.6 million at October 31, 2009. Our current and deferred tax assets at October 31, 2007 and October 31, 2008, for which there was no valuation allowance, related to amounts that were realized through reversals of existing taxable temporary differences or through carrybacks to the 2005 and 2006 years.

On November 6, 2009, President Obama signed the Worker, Homeownership, and Business Assistance Act of 2009, under which, the Company is able to carryback its 2009 net operating loss five years to previously profitable years that were not available to the Company for carryback prior to the new tax legislation. We will record the impact of the carryback, estimated to be between $275 million and $295 million, in the first quarter of fiscal 2010 and expect to receive a federal income tax cash refund in the second quarter of fiscal 2010.

Off-Balance Sheet Financing

In the ordinary course of business, we enter into land and lot option purchase contracts in order to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. At October 31, 2009, we had $26.7 million in option deposits in cash and letters of credit to purchase land and lots with a total purchase price of $472.6 million. Our liability is generally limited to forfeiture of the nonrefundable deposits, letters of credit and other nonrefundable amounts incurred. We have no material third-party guarantees. However, $28.2 million of the $472.6 million in land and lot option purchase contracts contain specific performance clauses which require us to purchase the land or lots upon satisfaction of certain requirements by both the sellers and the Company. Therefore, this specific performance obligation of $28.2 million, which is the purchase price for these lots net of cash deposits already paid, is recorded on the balance sheet in "Liabilities from inventory not owned."

Pursuant to ASC 810, "Consolidation" ("ASC 810"), we consolidated $45.4 million of inventory not owned at October 31, 2009, representing the fair value of the optioned property. Additionally, to reflect the fair value of the inventory consolidated under ASC 810, we eliminated $6.1 million of its related cash deposits for lot option contracts, which are included in "Consolidated inventory not owned." Since we do not own an equity interest in any of the unaffiliated variable interest entities ("VIE") that we must consolidate pursuant to ASC 810, we generally have little or no control or influence over the operations of these entities or their owners. When our requests for financial information are denied by the land sellers, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair value of the assets of the consolidated entities have been based on the remaining contractual purchase price of the land or lots we are purchasing. In these cases, it is assumed that the entities have no debt obligations and the only asset recorded is the land or lots we have the option to buy with a related offset to minority interest for the assumed third party investment in the variable interest entity. At October 31, 2009, the balance reported in Minority interest from inventory not owned was $32.6 million. At October 31, 2009, we had cash deposits and letters of credit totaling $6.1 million, representing our current maximum exposure associated with the consolidation of lot option contracts. Creditors of these VIEs, if any, have no recourse against us. In addition, see Note 19 to the consolidated financial statements for disclosure related to our investment in unconsolidated joint ventures.

Contractual Obligations

The following summarizes our aggregate contractual commitments at October 31, 2009:

	Payments Due by Period (3)				
		Less than			**More than**
(In thousands)	**Total**	**1 year**	**1-3 years**	**3-5 years**	**5 years**
Long term debt(1)	$2,756,655	$171,995	$415,253	$674,869	$1,494,538
Operating leases	66,528	16,605	25,974	12,417	11,532
Purchase obligations(2)	28,245	17,868	10,377		
Total	$2,851,428	$206,468	$451,604	$687,286	$1,506,070

1. *Represents our Senior Secured, Senior, and Senior Subordinated Notes, Other Notes Payable and related interest payments for the life of the debt of $967.5 million. Interest on variable rate obligations is based on rates effective as of October 31, 2009.*
2. *Represents obligations under option contracts with specific performance provisions, net of cash deposits.*
3. *Total contractual obligations exclude our accrual for uncertain tax positions recorded for financial reporting purposes as of October 31, 2009 because we were unable to make reasonable estimates as to the period of cash settlement with the respective taxing authorities.*

We had outstanding letters of credit and performance bonds of approximately $130.3 million and $446.0 million, respectively, at October 31, 2009, related principally to our obligations to local governments to construct roads and other improvements in various developments. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Inflation

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

Inflation has a lesser short-term effect, because we generally negotiate fixed price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 59.5% of our homebuilding cost of sales.

Safe Harbor Statement

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

- Changes in general and local economic and industry and business conditions;
- Adverse weather conditions and natural disasters;
- Changes in market conditions and seasonality of the Company’s business;
- Changes in home prices and sales activity in the markets where the Company builds homes;
- Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, and the environment;
- Fluctuations in interest rates and the availability of mortgage financing;
- Shortages in, and price fluctuations of, raw materials and labor;
- The availability and cost of suitable land and improved lots;
- Levels of competition;
- Availability of financing to the Company;
- Utility shortages and outages or rate fluctuations;
- Levels of indebtedness and restrictions on the Company’s operations and activities imposed by the agreements governing the Company’s outstanding indebtedness;
- Operations through joint ventures with third parties;
- Product liability litigation and warranty claims;
- Successful identification and integration of acquisitions;
- Significant influence of the Company’s controlling stockholders; and