HOVNANIAN ENTERPRISES INC
Form 10-K/A
January 25, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 1)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended OCTOBER 31, 2010

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 þ

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 þ

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 þ 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). Yes o No o

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/A or any amendment to this Form 10-K/A. þ

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

Large Accelerated Filer o Accelerated Filer þ NonAccelerated Filer o Smaller Reporting Company 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 þ

State the aggregate market value of the voting and nonvoting common equity held by nonaffiliates 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, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was $362,745,140.

As of the close of business on January 18, 2011, there were outstanding 63,494,586 shares of the Registrant's Class A Common Stock and 14,564,421 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

None

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends Annual Report on Form 10-K of Hovnanian Enterprises, Inc. (the “Company”, “we”. “us” or “our”) for the fiscal year ended October 31, 2010, originally filed on December 22, 2010 (the “Original Filing”). We are filing this Amendment to include the information required by Part III and not included in the Original Filing in connection with our Registration Statement on Form S-3 (File No. 333-171349). The reference on the cover of the Original Filing to the incorporation by reference of our definitive proxy statement into Part III of the Original Filing is hereby deleted. The Company’s Annual Meeting of Shareholders (the “Annual Meeting”) remains scheduled for March 15, 2011.

This Amendment also includes an adjustment to assets for the Northeast and Mid-Atlantic segments as of October 31, 2010 shown in Note 10 of the Original Filing in the Notes to Consolidated Financial Statements to correct a misclassification between those two segments. We believe the correction is not material to our previously issued consolidated financial statements. The adjustment to assets for the Northeast and Mid-Atlantic segments has no impact on our consolidated balance sheets as of October 31, 2010 and 2009, or consolidated statements of operations and related income (loss) per common share amounts, consolidated statements of cash flows or consolidated statements of equity for the years ended October 31, 2010, 2009 and 2008. See Note 10 in the Notes to Consolidated Financial Statements in this Amendment for further information relating to this adjustment.

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing.

Part I

ITEM 1
BUSINESS

Business Overview

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, mid-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 291,000 homes, including 5,009 homes in fiscal 2010. 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 192 communities in 40 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 $34,000 (low income housing) to $1,660,000 with an average sales price, including options, of $281,000 nationwide in fiscal 2010.

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 20 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, and Pennsylvania

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

Midwest: Illinois, Kentucky, Minnesota, and Ohio

Southeast: Florida, Georgia, North Carolina, and South Carolina

Southwest: Arizona, and Texas

West: California

We employed approximately 1,629 full-time employees (which we refer to as associates) as of October 31, 2010.

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 web site address is www.khov.com. Information on our web site is not a part of this Form 10-K/A. We make available through our web site our annual report on Form 10-K/A, 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/A, 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 several years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges, and incurred losses before income taxes in fiscal 2007, 2008, 2009, and 2010. 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 have been weak over the past several years has been 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. However, in the first quarter of 2009, we began to see opportunities to purchase land at prices and terms that make economic sense in light of our sales prices and sales paces. As a result, we determined to either purchase or option certain new properties. In order to return to profitability, we will need to continue purchasing new land and that will generate good investment returns and drive greater operating efficiencies, as well as control expenses commensurate with our level of deliveries.

In addition to our current focus on maintaining strong liquidity and evaluating new investment opportunities, 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 benefit our business.

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 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 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 2009, it had 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 first 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 takedown schedules rather than with an obligation to take down the entire parcel upon receiving regulatory approval. If we are unable to negotiate flexible takedown schedules, we will at times buy parcels in a single bulk purchase. 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 and 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 2010, 2009, and 2008, rather than purchase additional lots in underperforming communities, we took advantage of this right and walked away from 3,102 lots, 6,474 lots, and 15,370 lots, respectively, out of 17,481 total lots, 17,817 total lots, and 31,834 total lots, respectively, under option, resulting in pretax charges of $13.2 million, $45.4 million, and $114.1 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, clubhouses, 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 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 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 buildup 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 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 web site, 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 Florida, Illinois, Maryland, New Jersey, North Carolina, Ohio, Virginia and Texas 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 10 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 Arizona, California, Delaware, Florida, Georgia, Illinois, Maryland, Minnesota, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Texas, Virginia, Washington, D.C. and West Virginia. 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, 2010, for the markets in which our mortgage subsidiaries originated loans, 13.0% of our homebuyers paid in cash and 82.0% of our noncash homebuyers obtained mortgages from one of our mortgage banking subsidiaries. The loans we originated in fiscal 2010 were 49.3% Federal Housing Administration/Veterans Affairs (FHA/VA), 45.2% prime, 4.6% United States Department of Agriculture, and 0.9% broker non-subprime.

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 more than 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 web site 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 buildings, including some that contain over 300 homes per building.

Current base prices for our homes in contract backlog at October 31, 2010, range from $74,000 (low income housing) to $1,104,000 in the Northeast, from $170,000 to $1,660,000 in the Mid-Atlantic, from $34,000 to $330,000 in the Midwest, from $100,000 to $492,000 in the Southeast, from $83,000 to $675,000 in the Southwest, and from $129,000 to $544,000 in the West. Closings generally occur and are typically reflected in revenues within 12 months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2010, is set forth below:

(Housing revenue in thousands)	Housing Revenues	Homes Delivered	Average Price
Northeast	$296,449	718	$412,882
Mid-Atlantic	280,132	753	372,021
Midwest	91,260	439	207,882
Southeast	92,712	384	241,438
Southwest	391,807	1,767	221,736
West	175,139	668	262,184
Consolidated total	$1,327,499	4,729	$280,715
Unconsolidated joint ventures	124,149	280	443,389
Total including unconsolidated joint ventures	$1,451,648	5,009	$289,808

The value of our net sales contracts, excluding unconsolidated joint ventures, decreased 21.7% to $1.1 billion for the year ended October 31, 2010, from $1.4 billion for the year ended October 31, 2009. This decrease was primarily the result of a 19.5% decrease in the number of homes contracted to 4,206 in 2010 from 5,227 in 2009. The decline in the number of homes contracted occurred despite an increase in open-for-sale communities of 13 communities, demonstrating further deterioration in the market during fiscal 2010. We contracted an average of 23.1 homes per community in 2010 compared to an average of 23.3 homes per community in 2009, demonstrating a further slowing in sales pace. We believe the decrease in sales pace is the result of continued high unemployment, tighter mortgage loan underwriting criteria, and continued weak consumer confidence.

Information on the value of net sales contracts by segment for the years ended October 31, 2010 and 2009 is set forth below:

(Value of net sales contracts in thousands)	2010	2009	Percentage of Change
Northeast	$193,826	$350,515	(44.7)%

Mid-Atlantic	236,095	281,194	(16.0)%
Midwest	72,347	95,764	(24.5)%
Southeast	76,799	103,173	(25.6)%
Southwest	393,943	377,292	4.4%
West	144,782	220,369	(34.3)%
Consolidated total	$1,117,792	$1,428,307	(21.7)%
Unconsolidated joint ventures	114,740	56,886	101.7%
Total including unconsolidated joint ventures	$1,232,532	$1,485,193	(17.0)%

The following table summarizes our active selling communities under development as of October 31, 2010. 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	15	5,595	4,308	236	1,051
Mid-Atlantic	30	4,832	2,477	262	2,093
Midwest	23	2,521	1,144	222	1,155
Southeast	18	2,894	2,031	82	781
Southwest	89	12,207	8,051	337	3,819
West	17	6,197	4,048	107	2,042
Total	192	34,246	22,059	1,246	10,941

(1) Includes 111 home sites under option.

(2) Of the total remaining homes available, 1,062 were under construction or completed (including 276 models and sales offices) and 5,092 were under option.

(3) Excludes three homes in backlog for communities in planning.

Backlog

At October 31, 2010 and 2009, including unconsolidated joint ventures, we had a backlog of signed contracts for 1,394 homes and 1,931 homes, respectively, with sales values aggregating $0.4 billion and $0.6 billion, respectively. The majority of our backlog at October 31, 2010 is expected to be completed and closed within the next 12 months. At November 30, 2010 and 2009, our backlog of signed contracts, including unconsolidated joint ventures, was 1,363 homes and 1,755 homes, respectively, with sales values aggregating $0.4 billion and $0.6 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 Midwest and 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 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, 2010, 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 32,200 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)	16	2,992	$137,085	$36,432
Owned	19	1,728		171,341
Total	35	4,720		207,773
Mid-Atlantic:				
Under option(1)	24	2,515	$184,458	5,568
Owned	13	1,846		39,045
Total	37	4,361		44,613
Midwest:				
Under option(1)	5	225	$4,800	885
Owned	4	203		3,051
Total	9	428		3,936
Southeast:				
Under option(1)	13	2,122	$55,116	1,374
Owned	13	1,077		13,222
Total	26	3,199		14,596
Southwest:				
Under option(1)	11	697	$33,222	454
Owned	7	508		8,516
Total	18	1,205		8,970
West:				
Under option(1)	2	625	$41,894	3,321
Owned	40	5,475		79,330
Total	42	6,100		82,651
Totals:				
Under option(1)	71	9,176	$456,575	48,034
Owned	96	10,837		314,505
Combined total	167	20,013		$362,539

(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, 2010, option fees and deposits aggregated approximately $18.6

million. As of October 31, 2010, we spent an additional $29.4 million in nonrefundable predevelopment costs on such properties.

(2) The book value of $362.5 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 $12.7 million for specific performance options, and $1.3 million for deposits on variable interest entity property 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 nonrecourse 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 current market conditions do 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 affect 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/A.

The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets, and weather and other environmental 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;
- Population growth; and
- Availability of water supply in locations in which we operate.

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 may 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, droughts, fires and other environmental conditions can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the effect of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an affect on materials and labor availability or pricing, but did affect 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 availability of mortgage financing, and large supplies of resale and new home inventories, among other factors. 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 in fiscal years 2007 through 2010 and may continue to materially adversely affect our business and results of operations in fiscal 2011. 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. Looking forward, if the housing market continues to deteriorate 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 several years, 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. 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.

In addition, an increase in the default rate on the mortgages we originate may adversely affect our ability to sell mortgages or the pricing we receive upon the sale of mortgages. Although substantially all of the mortgage loans we originate are sold in the secondary mortgage market on a servicing released, non-recourse basis, we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. As default rates rise, this may increase our potential exposure regarding mortgage loan sales because investors may seek to have us buy back or make whole investors for mortgages we previously sold. To date, we have not made significant payments related to our mortgage loans but because of the uncertainties inherent to these matters, actual future payments could differ significantly from our currently estimated amounts.

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. 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 in the fourth quarter of fiscal 2009 and the federal tax credit expired in April 2010. In addition, in fiscal 2010, the U.S. Department of Housing and Urban Development ("HUD") tightened FHA underwriting standards. Housing markets may further decline as these programs are modified or terminated.

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, 2010, including the debt of the subsidiaries that guarantee our debt, was $1,630.6 million ($1,616.3 million net of discount); and

- Our debt service payments for the 12-month period ended October 31, 2010, 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 nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter of credit facilities and agreements), were $165.7 million.

In addition, as of October 31, 2010, we had $89.5 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by $92.3 million of cash. Our fees for these letters of credit for the 12 months ended October 31, 2020, which are based on both the used and unused portion of the facilities and agreements, were $1.4 million. We also had substantial contractual commitments and contingent obligations, including approximately $359.1 million of performance bonds as of October 31, 2010. 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 undertake transactions within the restrictions 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, creating liens, 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.

The restrictions in our debt instruments could prohibit or restrict our activities such as undertaking capital raising or restructuring activities or entering into other transactions. In such a situation, we may be unable to amend the instrument or obtain a waiver. In addition, if we fail to make timely payments on this debt and other material indebtedness, our debt under these debt instruments could 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 Ratings lowered the Company’s issuer default rating to CCC from B-. On April 7, 2009, Moody’s Investor Services affirmed our corporate family rating of Caa1, with a negative outlook. On April 1, 2009, Standard & Poor's ("S&P") lowered our B- corporate credit rating to CCC, with a negative outlook. On September 14, 2010, S&P affirmed our corporate credit rating of CCC+ but revised our outlook from developing to 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 fall, 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 effect on our sales and revenues. Due to these factors, our quarterly operating results will likely 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 to offset increased costs.

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 2010, 2009, and 2008, 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 $13.2 million, $45.4 million and $114.1 million, respectively. Also, in 2010, 2009, and 2008, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of $122.5 million, $614.1 million, and $596.0 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, Maryland, New Jersey, Texas and Virginia 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, Maryland, New Jersey, Texas and Virginia 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, market conditions in California, Maryland, New Jersey and Virginia 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 its 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.

Starting in 2007, many lenders have been significantly tightening 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. In addition, in fiscal 2010, HUD tightened FHA underwriting standards. 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, 2010, we had invested an aggregate of $38.0 million in these joint ventures, including advances to these joint ventures of approximately $13.5 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 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.

For example, as previously reported in the Company's 10-Q for the quarters ended January 31, 2010, April 30, 2010, and July 31, 2010, the Company was engaged in discussions with the U. S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively the States). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we have paid a fine of $1.0 million collectively to the United States and the States named above and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations.

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 Alabama, Florida, Louisiana, Mississippi and Texas 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 currently identified 10 homes with Chinese Drywall that must be remediated, and we have been notified of 19 more homes that potentially have Chinese Drywall that may need remediation. These homes are located in our Florida and Houston markets. The estimated costs of the remediations of these homes are reserved. 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 in the future and our ability to pay dividends on equity. 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, the limited partnership established for members of Mr. Hovnanian's family and family trusts, 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 the Board 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 $904.9 million through the year ended October 31, 2010, 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 the Board 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's decision to adopt the shareholder rights plan. In addition, on December 5, 2008, our stockholders approved an amendment to our Amended Certificate of Incorporation (the “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 653,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West. Included in this amount is 88,000 square feet of abandoned lease space.

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.

As previously reported in the Company’s 10-Q for the quarters ended January 31, 2010, April 30, 2010 and July 31, 2010, the Company was engaged in discussions with the U. S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively the States). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we have paid a fine of $1.0 million collectively to the United States and the States and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations.

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:

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 Court dismissed additional portions of the second amended complaint on April 28, 2010. We have had negotiations with the plaintiffs recently to settle this case. Based on these negotiations we have accrued an immaterial amount for the potential settlement based on our assessment of the outcome. However, our assessment of the potential outcome may differ from the ultimate resolution of this matter.

ITEM 4
(Removed and reserved)

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 544 stockholders of record at December 17, 2010. There is no established public trading market for our Class B Common Stock, which was held by 260 stockholders of record at December 17, 2010. 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, 2010 and 2009:

	Oct. 31, 2010		Oct. 31, 2009	
Quarter	High	Low	High	Low
First	$4.40	$3.54	$4.99	$1.61
Second	$7.23	$3.55	$2.93	$0.58
Third	$7.99	$3.47	$3.25	$1.81
Fourth	$4.65	$3.42	$5.61	$3.42

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, the Board 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 the Company or any affiliated purchaser during the fiscal fourth quarter of 2010. 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/A. 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/A.

	Year Ended				
Summary Consolidated Statements of Operations Data (In thousands, Except Per Share Data)	October 31, 2010	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006
Revenues	$1,371,842	$1,596,290	$3,308,111	$4,798,921	$6,148,235
Expenses	1,557,428	1,972,978	3,692,556	4,797,767	5,539,489
Inventory impairment loss and land option write-offs	135,699	659,475	710,120	457,773	336,204
Goodwill and intangible amortization and impairment	-	-	36,883	162,124	54,821
Gain on extinguishment of debt	25,047	410,185	-	-	-
Income (loss) from unconsolidated joint ventures	956	(46,041)	(36,600)	(28,223)	15,385
(Loss) income before income taxes	(295,282)	(672,019)	(1,168,048)	(646,966)	233,106
State and federal (benefit) income tax provision	(297,870)	44,693	(43,458)	(19,847)	83,573
Net income (loss)	2,588	(716,712)	(1,124,590)	(627,119)	149,533
Less: preferred stock dividends	-	-	-	10,674	10,675
Net income (loss) available to common stockholders	$2,588	$(716,712)	$(1,124,590)	$(637,793)	$138,858
Per share data:					
Basic:					
Income (loss) per common share	$0.03	$(9.16)	$(16.04)	$(10.11)	$2.21
Weighted-average number of common shares outstanding	78,691	78,238	70,131	63,079	62,822
Assuming dilution:					
Income (loss) per common share	$0.03	$(9.16)	$(16.04)	$(10.11)	$2.14
Weighted-average number of common shares outstanding	79,683	78,238	70,131	63,079	64,838

Summary Consolidated Balance Sheet Data (In thousands)	October 31, 2010	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006
Total assets	$1,817,560	$2,024,577	$3,637,322	$4,540,548	$5,480,035
	$98,613	$77,364	$107,913	$410,298	$319,943

Mortgages, term loans, revolving credit agreements, and notes payable					
Senior secured notes, senior notes, and senior subordinated notes	$1,616,347	$1,751,701	$2,505,805	$1,910,600	$2,049,778
Stockholders' (deficit) equity	$(338,568)	$(349,598)	$330,264	$1,321,803	$1,942,163

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 that portion of operating lease rental expense (33%) deemed to be representative of interest, 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,				
	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges	(a)	(a)	(a)	(a)	1.8
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	(b)	(b)	1.7

(a) Earnings for the years ended October 31, 2010, 2009, 2008 and 2007 were insufficient to cover fixed charges for such period by $273.8 million, $628.3 million, $1,153.5 million and $684.6 million, respectively.

(b) Earnings for the years ended October 31, 2010, 2009, 2008 and 2007 were insufficient to cover fixed charges and preferred stock dividends for such period by $273.8 million, $628.3 million, $1,153.5 and $695.6 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 2010, 2009 and 2008. In fiscal 2007 and 2006, 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, the U.S. housing market has been impacted by declining 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 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 nonprime mortgage products, and over the past few years, many lenders have significantly tightened their underwriting standards. The overall economy has weakened significantly and fears of further prolonged economic weakness are still present due to high unemployment levels, further deterioration in consumer confidence and the reduction in extensions of credit and consumer spending. As a result, we experienced significant decreases in our revenues and gross margins during 2007, 2008, and 2009 compared with prior years. During 2010, the homebuilding market exhibited a large degree of choppiness. Signs of this choppiness can be seen in key measures, such as our gross margin, cancellation rates and total deliveries each quarter in 2010. We continued to see declines in deliveries and revenues during fiscal 2010, however, our gross margin percentage increased to 16.8% for the year ended October 31, 2010 from 9.2% for the year ended October 31, 2009, and our contract cancellation rates of 23.0% and 24.0% in the third and fourth quarters of fiscal 2010 is consistent with more normalized levels, as seen in fiscal 2003 and 2004. However, our cancellation rate as a percentage of backlog was 25.0% for the fourth quarter which is the highest it has been in the last six quarters. Active selling communities increased by 7.3% compared with the same period a year ago and net contracts per active selling community decreased slightly to 23.1 for the year ended October 31, 2010 compared to 23.3 in the same period in the prior year. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels, the expiration of the federal homebuyers' tax credit on April 30, 2010 and the threat of more foreclosures continue to hinder a recovery in the housing market.

We have exposure to additional impairments of our inventories, which, as of October 31, 2010, have a book value of $1.0 billion, net of $895.9 million of impairments recorded on 169 of our communities. We also have $74.8 million invested in 14,379 lots under option, including cash and letters of credit option deposits of $36.3 million as of October 31, 2010. 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, 2010, we have total investments in, and advances to, unconsolidated joint ventures of $38.0 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 other than temporary declines, 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, 2010. 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 were fully written off as of October 31, 2008.

As the market for new homes declined, we adjusted our approach to land acquisition and construction practices and shortened our land pipeline, reduced production volumes, and balanced 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 our total number of speculative homes put into production over the past several years. Recently, however, we have begun to see more opportunities to purchase land at prices that make economic sense in light of the current sales prices and sales paces and have been pursuing such land acquisitions. New land purchases at pricing that will generate good investment returns and drive greater operating efficiencies are needed to return to profitability. During fiscal 2010, we increased our controlled lots by 4,235 and we opened 81 new communities. During fiscal 2010, we purchased approximately 3,400 lots within 119 newly identified communities (defined as communities controlled subsequent to January 31, 2009). In addition, we optioned approximately 3,300 lots in 37 newly identified communities during the fourth quarter of 2010. In the third quarter of fiscal 2010 compared to the second quarter of fiscal 2010, we had an increase in active selling communities in consecutive quarters. This was the first consecutive quarter increase in active selling community count since the second quarter of fiscal 2007. Continuing this trend, we had an increase in active selling communities in the fourth quarter of fiscal 2010 compared to the third quarter of fiscal 2010. We have also continued to closely evaluate and make reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses $83.4 million from $321.6 million in fiscal 2009 to $238.2 million in fiscal 2010 due in large part to a 76.3% reduction in head count at the end of fiscal 2010 from our peak in June 2006. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the year ended October 31, 2010, homebuilding selling, general and administrative costs declined 25.6% to $178.3 million compared to the year ended October 31, 2009.

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:

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 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 recognize 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. Fair value of the servicing rights is determined based on values in the Company's servicing sales contracts.

Substantially all of the mortgage loans originated are sold within a short period in the secondary mortgage market on a servicing released, nonrecourse basis although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or make whole investors for mortgages we have sold. To date, we have not made significant payments associated with our loans and we have reserves for potential losses. Included in mortgage loans held for sale at October 31, 2010 is $1.1 million of mortgage loans, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. These loans are serviced by a third party until such time that they can be liquidated via alternative mortgage markets, foreclosure or repayment.

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 costs 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.

We have decided to mothball (or stop development on) certain communities where we have determined the current market conditions do 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, 2010, the book value of the 58 mothballed communities was $174.4 million, net of impairment charges of $580.2 million. We regularly review communities to determine if mothballing is appropriate or to re-activate previously mothballed communities as we did with 16 communities in the twelve months ended October 31, 2010.

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.

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 its 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 virtually 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 fair value basis.

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 in comparison to the total costs written off.

Inventories held for sale, which are land parcels where we have decided not to build homes, represented $54.9 million of our total inventories at October 31, 2010, and are reported at the lower of carrying amount or fair value less costs to sell. In determining whether land held for sale is impaired, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which 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.

Insurance Deductible Reserves - For homes delivered in fiscal 2010 and 2009, our deductible under our general liability insurance is $20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in 2010 is $0.1 million up to a $5 million limit. For bodily injury claims in 2009, our deductible was $20 million. Our aggregate retention in 2010 and 2009 is $21 million for construction defect and warranty claims, and $20 million for bodily injury claims. We do not have a deductible on our worker's compensation insurance in fiscal 2010. For fiscal 2009, our worker's compensation insurance deductible was $0.5 million per occurrence. Reserves for estimated losses for fiscal 2010 and 2009 have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty data and other industry 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 worker's 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.

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". The evaluation of whether or not we are the primary beneficiary can require significant judgment. Similarly, 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 below its carrying amount 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 2010.

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.

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/A. There have been no accounting pronouncements that have been issued but not yet implemented that we believe will materially impact our financial statements.

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.

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities and the issuance of new debt and equity securities. In light of the challenging homebuilding market conditions experienced over the past few years, which are continuing as reflected in our 14.1% decline in revenues during the twelve months ended October 31, 2010, compared to the same period of 2009, we had been operating with a primary focus to generate cash flows from operations through reductions in assets. The generation of cash flow, together with debt repurchases and exchanges at prices below par, has allowed us to reduce net debt (debt less cash) over the past two years. However, recently we have begun to see more opportunities to purchase land at prices that make economic sense given current home sales prices and sales paces. As such, in 2010 we have acquired new land at higher levels than in the previous few years. As a result, our net debt increased slightly in the third and fourth quarters of fiscal 2010 compared to the first half of fiscal 2010.

Our cash uses during the 12 months ended October 31, 2010 and 2009 were for operating expenses, land purchases, land deposits, construction spending, state income taxes, interest and debt principal payments and repurchases. We provided for our cash requirements from available cash on hand, housing and land sales, financial service revenues, a federal tax refund and other revenues. We believe that these sources of cash will be sufficient through fiscal 2011 to finance our working capital requirements and other needs, despite continued declines in total revenues, the termination of our revolving credit facility in fiscal 2009 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. Due to a change in tax legislation that became effective on November 6, 2009, allowing a carryback of our 2009 net operating loss five years to previously profitable years, we were able to file for a $291.3 million federal income tax refund and we received $274.1 million of that refund during our second quarter of fiscal 2010 and received the remaining amount in the first quarter of fiscal 2011.

Our homebuilding cash balance at October 31, 2010 decreased by $60.8 million from October 31, 2009. This decrease was impacted by $111.5 million for principal payments upon debt maturity and debt repurchases, and $287.9 million for new land purchases, offset by increases of $274.1 million from the federal income tax refund, $42.9 million of cash previously reported as restricted cash which is no longer required to collateralize our letter of credit agreements and facilities, and increases in cash from operating activities.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) 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 noncash 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, 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 increases, but for cash flow purposes net income is 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 was happening since the last half of fiscal 2007 through part of fiscal 2009, allowing us to generate positive cash flow from operations during this period. In the latter part of fiscal 2009 and continuing in fiscal 2010, we began to grow our community count again and as a result of the new land purchases and land development we used cash in operations. Looking forward, given the depressed housing market, it will become more difficult to generate positive cash flow from operations until we return to profitability. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity while also taking steps to return to profitability, including through land acquisition. 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, 2010, 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). We did not buy back any shares under this program during fiscal 2010, 2009 or 2008.

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 2010, 2009 and 2008, we did not make any dividend payments as a result of covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, 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. 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 $89.5 million and $130.3 million of letters of credit outstanding as of October 31, 2010 and October 31, 2009, respectively, which is reflected in "Restricted cash" on the Consolidated Balance Sheet. 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, 2010 and October 31, 2009, the amount of cash collateral in these segregated accounts was $92.3 million and $135.2 million, respectively.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”), 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 Citibank, N.A. (“Citibank Master Repurchase Agreement”) is a short-term borrowing facility that provides up to $50 million through April 5, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable upon the sale of each mortgage loan to a permanent investor at LIBOR plus 4.00%. As of October 31, 2010, the aggregate principal amount of all borrowings under the Citibank Master Repurchase Agreement was $41.5 million.

In addition to the Citibank Master Repurchase Agreement discussed above, on July 19, 2010, K. Hovnanian Mortgage executed a secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. (“Chase Master Repurchase Agreement”) which is a short-term borrowing facility that provides up to $25 million through July 18, 2011. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at LIBOR floor of 2.00% plus applicable margin ranging from 2.50% to 3.00% based on the takeout investor and type of loan. This agreement was amended on October 13, 2010 to temporarily increase the commitment to $50 million until December 16, 2010 (the interest rate remained the same). As of October 31, 2010, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was $32.1 million.

Both the Citibank Master Repurchase Agreement and the Chase Master Repurchase Agreement require K. Hovnanian Mortgage 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 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 facilities, 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 two agreements, we do not consider any of these covenants to be substantive or material. As of October 31, 2010, we believe we were in compliance with the covenants of the Citibank Master Repurchase Agreement and the Chase Master Repurchase Agreement.

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 10 5/8% Senior Secured Notes due October 15, 2016. 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 second 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. The notes are secured, subject to permitted liens and other exceptions, by a third-priority lien on substantially all the assets owned by us, K. Hovnanian and the guarantors to the extent such assets secure obligations under our first-priority and second-priority secured notes. The notes are redeemable in whole or in part at our option at 102% of principal commencing May 1, 2011, 101% of principal commencing November 1, 2011 and 100% of principal commencing November 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 a price equal to 118.0% of principal. These third lien notes were the subject of a tender offer discussed below.

On October 20, 2009, K. Hovnanian 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 11 1/2% 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, 2010, the aggregate book value of the real property collateral securing these notes was approximately $759.5 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 $300.0 million as of October 31, 2010, which includes $92.3 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 three months ended January 31, 2010, the remaining $13.6 million of our 6% Senior Subordinated Notes due 2010 matured and was paid. During the year ended October 31, 2010, we repurchased in open market transactions $27.0 million principal amount of 6 1/2% Senior Notes due 2014, $54.5 million principal amount of 6 3/8% Senior Notes due 2014, $29.5 million principal amount of 6 1/4% Senior Notes due 2015, $1.4 million principal amount of 8 7/8% Senior Subordinated Notes due 2012, and $11.1 million principal amount of 7 3/4% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was $97.9 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $25.0 million for the year ended October 31, 2010, net of the write-off of unamortized discounts and fees. The gains from the exchanges and repurchases are included in the Consolidated Statement of Operations as “Gain on extinguishment of debt”.

At October 31, 2010, we had $797.2 million of outstanding senior secured notes ($784.6 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 $713.2 million of outstanding senior notes ($711.6 million, net of discount), comprised of $35.5 million 8% Senior Notes due 2012, $54.4 million 6 1/2% Senior Notes due 2014, $29.2 million 6 3/8% Senior Notes due 2014, $52.7 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 $120.2 million of outstanding senior subordinated notes, comprised of $66.7 million 8 7/8% Senior Subordinated Notes due 2012, and $53.5 million 7 3/4% Senior Subordinated Notes due 2013.

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 (See Note 21 to the Consolidated Financial Statements). 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 nonrecourse 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, 2010, we believe 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 also continue to evaluate our capital structure and may continue to make debt purchases and/or exchanges from time to time, through tender offers, open market purchases, private transactions, or otherwise, or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured, senior and senior subordinated notes, is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and nonrecourse indebtedness. As a result of this restriction, we are currently restricted from paying 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 September 14, 2010, S&P affirmed the corporate credit rating of CCC+ but revised our outlook to negative from developing.

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 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 and the revision to S&P's outlook in 2010 have not impacted management's operating plans, or our financial condition, results of operations or liquidity.

Total inventory decreased $63.2 million, excluding inventory not owned, during the year ended October 31, 2010. Total inventory, excluding inventory not owned, for fiscal 2010 decreased in the Northeast $117.7 million, in the Mid-Atlantic $6.0 million, in the Midwest $1.1 million, which decreases were offset by increases in the Southeast $4.6 million, in the Southwest $25.7 million, and in the West $31.3 million. During fiscal 2010, we incurred $122.5 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 $13.2 million during fiscal 2010, related to land options that expired or that we terminated. See "Notes to Consolidated Financial Statements" – Note 13 for additional information. Despite these write-downs and inventory reductions due to deliveries, total inventory only decreased $63.2 million, excluding inventory not owned, because we purchased $287.9 million of land during fiscal 2010. We have recently been able to identify new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. Substantially all homes under construction or completed and included in inventory at October 31, 2010 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 total inventory decreases discussed above excluded the decrease in consolidated inventory not owned of $44.7 million consisting of specific performance options, options with variable interest entities, and other options that were added to our 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 decreased $9.5 million for the year ended October 31, 2010. This decrease was primarily due to the fact that certain lots previously recorded as a future obligation in the Northeast were taken down during the first quarter of fiscal 2010. Variable interest entity options inventory decreased $12.7 million as we continue to take down land or walk away from deals previously consolidated under ASC 810-10. Other options inventory decreased $22.5 million for the year ended October 31, 2010. Other options consist of inventory financed via a model home program and structured lot option agreements. Model home inventory financed through the model lease program decreased $19.6 million because we have terminated the use of models in certain communities where models were no longer needed and in conjunction therewith also terminated the option to purchase those models. Structured lot option inventory decreased $2.9 million. This decrease was primarily in the Mid-Atlantic where we walked away from a land purchase transaction during the first quarter of fiscal 2010.

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, 2010, on the Consolidated Balance Sheets, decreased by $23.7 million compared to October 31, 2009. The decrease is due to additional impairments taken in the Northeast and the West in fiscal 2010, offset by an increase due to the acquisition of new land in the Southeast, Southwest and West segments as land prices became more attractive during fiscal 2010. Included in "Land and land options held for future development or sale inventory" are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain 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, 2010, we have mothballed land in 58 communities. The book value associated with these communities at October 31, 2010 was $174.4 million, net of impairment charges of $580.2 million. We continually review communities to determine if mothballing is appropriate or to re-activate previously mothballed communities as we did with 16 communities in the twelve months ended October 31, 2010.

The following table summarizes home sites included in our total residential real estate. The increase in total home sites available in 2010 compared to 2009 is attributable to the new communities that have been controlled via option or purchased during 2010, partially offset by delivering homes in existing communities.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2010:			
Northeast	6,007	236	5,771
Mid-Atlantic	6,716	262	6,454
Midwest	1,805	222	1,583
Southeast	4,062	82	3,980
Southwest	5,361	337	5,024
West	8,249	110	8,139
Consolidated total	32,200	1,249	30,951
Unconsolidated joint ventures	2,072	145	1,927
Total including unconsolidated joint ventures	34,272	1,394	32,878
Owned	17,676	993	16,683
Optioned	14,379	111	14,268
Construction to permanent financing lots	145	145	-
Consolidated total	32,200	1,249	30,951
Lots controlled by unconsolidated joint ventures	2,072	145	1,927
Total including unconsolidated joint ventures	34,272	1,394	32,878

October 31, 2009:

Northeast	6,751	457	6,294
Mid-Atlantic	4,026	386	3,640
Midwest	3,107	253	2,854
Southeast	1,418	135	1,283
Southwest	5,259	351	4,908
West	7,397	190	7,207
Consolidated total	27,958	1,772	26,186
Unconsolidated joint ventures	2,576	159	2,417
Total including unconsolidated joint ventures	30,534	1,931	28,603
Owned	16,477	1,511	14,966
Optioned	11,343	123	11,220
Construction to permanent financing lots	138	138	-
Consolidated total	27,958	1,772	26,186
Lots controlled by unconsolidated joint ventures	2,576	159	2,417
Total including unconsolidated joint ventures	30,534	1,931	28,603

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

	October 31, 2010			October 31, 2009		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	109	15	124	103	14	117
Mid-Atlantic	72	26	98	69	25	94
Midwest	44	27	71	40	19	59
Southeast	80	20	100	50	1	51
Southwest	421	107	528	364	82	446
West	60	81	141	33	83	116
Total	786	276	1,062	659	224	883
Started or completed unsold homes and models per active selling communities(1)	4.1	1.4	5.5	3.7	1.2	4.9

(1) Active selling communities, which are communities that are open for sale with 10 or more home sites available, were 192 at October 31, 2010, and 179 at October 31, 2009.

The increase in total unsold homes compared to the prior year is partially due to the increase of 13 active communities from 179 at October 31, 2009 to 192 at October 31, 2010, as well as an increase in cancellations after the expiration of the homebuyer tax credit in the third quarter of fiscal 2010, and a slower sales pace.

Investments in and advances to unconsolidated joint ventures decreased $3.3 million during the fiscal year ended October 31, 2010. The decrease is primarily due to distributions received from joint ventures during fiscal 2010. This is partially offset by increases resulting from additional investments in joint ventures. As of October 31, 2010, we have investments in eight homebuilding joint ventures and five 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 increased $16.6 million since October 31, 2009 to $61.0 million at October 31, 2010. The increase is primarily due to a note receivable that is secured by land, as well as an increase in receivables for home closings as a result of cash in transit from various title companies at the end of the respective periods.

Property, plant and equipment decreased $11.2 million during the twelve months ended October 31, 2010 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, 2010	October 31, 2009	Dollar Change
Prepaid insurance	$1,346	$5,118	$(3,772)
Prepaid project costs	41,605	50,227	(8,622)
Senior residential rental properties	8,076	7,003	1,073
Other prepaids	23,264	25,832	(2,568)
Other assets	9,637	9,979	(342)
Total	$83,928	$98,159	$(14,231)

Prepaid insurance decreased due to the timing of payments for insurance premium costs and related amortization of these costs, as they are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs decreased for homes delivered faster than by spending on new communities. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Other prepaids decreased mainly due to the amortization of the remaining prepaid debt costs. Also contributing to the decrease were debt repurchases during fiscal 2010, which resulted in the write-off of portions of the associated prepaid debt costs.

Financial Services - Mortgage loans held for sale consist primarily of residential mortgages receivable held for sale of which $85.2 million and $66.0 million at October 31, 2010 and October 31, 2009, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. Also included are residential mortgages receivable held for sale of $1.1 million and $3.5 million at October 31, 2010 and October 31, 2009, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur losses with respect to mortgages that were previously sold that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses. The increase in mortgage loans held for sale from October 31, 2009 is a result of an increase in the time it has taken for loan purchasers to process and settle the loans, which we believe is due to more rigorous pre-funding reviews implemented by the industry.

Nonrecourse land mortgages were $4.3 million at October 31, 2010 and zero at October 31, 2009. The increase is due to two new purchase money mortgages for properties in our Southwest and West segments during fiscal 2010.

Accounts payable and other liabilities are as follows as of:

(In thousands)	October 31, 2010	October 31, 2009	Dollar Change
Accounts payable	$84,948	$99,175	$(14,227)
Reserves	149,413	136,481	12,932
Accrued expenses	44,758	54,169	(9,411)
Accrued compensation	24,494	17,237	7,257
Other liabilities	16,136	18,660	(2,524)
Total	$319,749	$325,722	$(5,973)

The decrease in accounts payable was primarily due to the 16.6% lower volume of deliveries in the fourth quarter of 2010 compared to the prior year. The increase in the reserves is the result of an accrual for a letter of credit related to an option walk-away that will be funded in fiscal 2011 and also for increased legal reserves related to post-development completion in the Northeast and West. The decrease in accrued expenses is due to the amortization of abandoned lease space accruals, along with a decrease for property taxes accrued at October 31, 2010 compared to October 31, 2009. The increase in accrued compensation is due to increased bonus payments for associates in certain markets that generated profits in fiscal 2010, along with severance accruals in the Northeast and Mid-Atlantic markets, and also a change from quarterly to annual bonus payments in one of our markets in the Southwest, where a full year's bonus is accrued at October 31, 2010 compared to only one quarter's bonus at October 31, 2009. The decrease in other liabilities is primarily due to the payoff of a note in the first quarter of fiscal 2010 associated with a community in the Northeast.

Customer deposits decreased to $9.5 million at October 31, 2010 from $18.8 million at October 31, 2009. The decrease was primarily due to lower contracts in backlog and the impact of the use of a third party escrow agent to hold deposits in the Northeast.

Mortgage warehouse line of credit under our secured Master Repurchase Agreements increased $17.7 million from $55.9 million at October 31, 2009, to $73.6 million at October 31, 2010. The increase is directly correlated to the increase in mortgage loans held for sale from October 31, 2009 to October 31, 2010.

Liabilities from inventory not owned decreased $43.7 million to $53.2 million at October 31, 2010 from $96.9 million at October 31, 2009 because inventory not owned decreased as discussed previously.

Results of Operations

Total Revenues

Compared to the prior period, revenues decreased as follows:

	Year Ended		
(Dollars in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Homebuilding:			
Sale of homes	$(194,970)	$(1,655,384)	$(1,403,522)
Land sales	(20,430)	(30,526)	(50,179)
Other revenues	(5,471)	(9,242)	(13,137)
Financial services	(3,577)	(16,669)	(23,972)
Total change	$(224,448)	$(1,711,821)	$(1,490,810)
Total revenues percent change	(14.1)%	(51.7)%	(31.1)%

Homebuilding

Compared to the same prior period, homebuilding revenues decreased $195.0 million, or 12.8%, for the year ended October 31, 2010, decreased $1,655.4 million, or 52.1%, for the year ended October 31, 2009 and decreased $1,403.5 million or 30.6%, for the year ended October 31, 2008. Decreased revenues in 2010, 2009 and 2008 are primarily due to the number of home deliveries also declining 11.8%, 49.3%, and 22.0%, respectively, resulting from weakening market conditions and increased competition in most of our markets. Average price per home also decreased to $280,715 for 2010 from $283,937 in 2009 and from $300,449 in 2008, 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:

	Year Ended		
(Housing Revenue in thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Northeast:			
Housing revenues	$296,449	$357,745	$679,488
Homes delivered	718	823	1,412
Average price	$412,882	$434,684	$481,224
Mid-Atlantic:			
Housing revenues	$280,132	$296,286	$509,009
Homes delivered	753	788	1,248
Average price	$372,021	$375,997	$407,860
Midwest:			
Housing revenues	$91,260	$116,990	$209,759
Homes delivered	439	520	965
Average price	$207,882	$224,981	$217,367
Southeast (1):			
Housing revenues	$92,712	$113,034	$624,106
Homes delivered	384	489	2,572
Average price	$241,438	$231,153	$242,654
Southwest:			
Housing revenues	$391,807	$408,746	$603,513
Homes delivered	1,767	1,867	2,616
Average price	$221,736	$218,932	$230,701
West:			
Housing revenues	$175,139	$229,668	$551,978
Homes delivered	668	875	1,764
Average price	$262,184	$262,478	$312,913
Consolidated total:			
Housing revenues	$1,327,499	$1,522,469	$3,177,853
Homes delivered	4,729	5,362	10,577
Average price	$280,715	$283,937	$300,449
Unconsolidated joint ventures:			
Housing revenues	$124,149	$113,016	$262,605
Homes delivered	280	297	704
Average price	$443,389	$380,525	$373,018
Total including unconsolidated joint ventures:			
Housing revenues	$1,451,648	$1,635,485	$3,440,458
Homes delivered	5,009	5,659	11,281
Average price	$289,808	$289,006	$304,978

(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, 2010 and October 31, 2009 was primarily due to the continued weak market conditions in most of our markets. Housing revenues and average sales prices in 2010 decreased in all of our homebuilding segments combined by 12.8% and 1.1%, respectively. In our homebuilding segments, homes delivered decreased 12.8%, 4.4%, 15.6%, 21.5%, 5.4% and 23.7% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Housing revenues and average sales prices in 2009 decreased in all of our homebuilding segments combined by 52.1% and 5.5%, respectively. In our homebuilding segments, homes delivered decreased 41.7%, 36.9%, 41.6%, 81.0%, 28.6% and 50.4% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Another reason for reduced sales in 2009 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.

Quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2010, 2009 and 2008 are set forth below:

	Quarter Ended			
(In thousands)	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010
Housing revenues:				
Northeast	$79,040	$91,740	$56,955	$68,714
Mid-Atlantic	73,654	72,767	67,634	66,076
Midwest	29,177	22,650	16,029	23,404
Southeast	17,472	28,522	22,041	24,677
Southwest	103,190	103,065	103,428	82,124
West	37,043	49,333	44,406	44,358
Consolidated total	$339,576	$368,077	$310,493	$309,353
Sales contracts (net of cancellations):				
Northeast	$42,925	$43,314	$52,208	$55,379
Mid-Atlantic	64,597	50,845	73,704	46,949
Midwest	12,111	16,526	27,289	16,421
Southeast	18,965	15,264	25,334	17,236
Southwest	111,760	88,360	114,166	79,656
West	31,571	33,313	43,857	36,041
Consolidated total	$281,929	$247,622	$336,558	$251,682

	Quarter Ended			
(In thousands)	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

	Quarter Ended			
(In thousands)	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

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. Contracts per average active selling community in 2010 were 23.1 compared to fiscal 2009 of 23.3, demonstrating a decrease in sales pace. 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	2010	2009	2008	2007	2006
First	21%	31%	38%	36%	30%
Second	17%	24%	29%	32%	32%
Third	23%	23%	32%	35%	33%
Fourth	24%	24%	42%	40%	35%

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	2010	2009	2008	2007	2006
First	13%	22%	16%	17%	11%
Second	17%	31%	24%	19%	15%
Third	15%	23%	20%	18%	14%
Fourth	25%	20%	30%	26%	16%

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, beginning in fiscal year 2007, 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 and 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 since the second quarter of fiscal 2009 has been 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 the fourth quarter of fiscal 2010, the cancellation rate as a percentage of beginning backlog increased compared to other fiscal 2010 periods and is 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, 2010	October 31, 2009	October 31, 2008
Northeast:			
Total contract backlog	$94,363	$196,262	$215,604
Number of homes	236	457	497
Mid-Atlantic:			
Total contract backlog	$106,589	$150,819	$165,871
Number of homes	262	386	385
Midwest:			
Total contract backlog	$34,188	$46,418	$61,108
Number of homes	222	253	291
Southeast:			
Total contract backlog	$20,212	$35,970	$45,657
Number of homes	82	135	163
Southwest:			
Total contract backlog	$88,123	$77,418	$100,305
Number of homes	337	351	420
West:			
Total contract backlog	$27,304	$52,666	$57,642
Number of homes	110	190	151
Totals:			
Total consolidated contract backlog	$370,779	$559,553	$646,187
Number of homes	1,249	1,772	1,907

The decline in our backlog for the years ended October 31, 2010 and October 31, 2009 is a direct result of a fall-off in our contract pace. Our net contracts for the full years of fiscal 2010 and 2009, excluding unconsolidated joint ventures, declined 19.5% and 20.1%, respectively. In the month of November 2010, excluding unconsolidated joint ventures, we signed an additional 235 net contracts amounting to $66.7 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 tables below). A breakout of such expenses for consolidated housing sales and housing gross margin is set forth below:

		Year Ended	
(Dollars In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Sale of homes	$1,327,499	$1,522,469	$3,177,853
Cost of sales, net of impairment reversals and excluding interest expense	1,103,872	1,382,234	2,965,886
	223,627	140,235	211,967

Homebuilding gross margin, before cost of sales interest expense and land charges			
Cost of sales interest expense, excluding land sales interest expense	79,095	97,332	136,439
Homebuilding gross margin, after cost of sales interest expense, before land charges	144,532	42,903	75,528
Land charges	135,699	659,475	710,120
Homebuilding gross margin, after cost of sales interest expense and land charges	$8,833	$(616,572)	$(634,592)
Gross margin percentage, before cost of sales interest expense and land charges	16.8%	9.2%	6.7%
Gross margin percentage, after cost of sales interest expense, before land charges	10.9%	2.8%	2.4%
Gross margin percentage after cost of sales interest expense and land charges	0.7%	(40.5)%	(20.0)%

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

	Year Ended		
	October 31, 2010	October 31, 2009	October 31, 2008
Sale of homes	100%	100.0%	100.0%
Cost of sales, net of impairment reversals and excluding interest:			
Housing, land and development costs	69.9%	75.9%	82.1%
Commissions	3.3%	3.3%	2.7%
Financing concessions	2.2%	2.4%	1.7%
Overheads	7.8%	9.2%	6.8%
Total cost of sales, before interest expense and land charges	83.2%	90.8%	93.3%
Gross margin percentage, before cost of sales interest expense and land charges	16.8%	9.2%	6.7%
Cost of sales interest	5.9%	6.4%	4.3%
Gross margin percentage, after cost of sales interest expense and before land charges	10.9%	2.8%	2.4%

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 16.8% for the year ended October 31, 2010 compared to 9.2% for the same period last year. The declining pace of sales in our markets in 2008, 2009, and 2010 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, during fiscal 2009 we delivered the final homes in some older communities where margins were lower and in fiscal 2010 we have increased the number of deliveries from new communities where we have acquired the land at more reasonable prices, resulting in higher gross margins. Also, we have recorded impairment reversals as homes previously impaired are delivered. This has resulted in the 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 $135.7 million, $659.5 million, and $710.1 million during the years ended October 31, 2010, 2009, and 2008, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 13" for an additional discussion. During the years ended October 31, 2010, 2009, and 2008, we wrote-off residential land options and approval and engineering costs amounting to $13.2 million, $45.4 million, and $114.1 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option, 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 inventory impairments amounting to $122.5 million, $614.1 million, and $596.0 million for the years ending October 31, 2010, 2009 and 2008, respectively, were incurred because of continued downward pressure on prices in order to maintain sales pace in many of our markets. In 2010, the majority of the impairments were in the Northeast and West segments. Impairments in the Northeast were primarily due to communities now classified as held for sale and thus adjusted to fair value. In the West, where we have 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. Inventory impairments were lower than they have been in several years, as we have begun to see some stabilization in prices and sales pace in some of our segments. It is difficult to predict if this trend will continue, and should it become necessary to further lower prices, or should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments.

Below is a break-down of our lot option walk-aways and impairments by segment for fiscal 2010. In 2010, in total, we walked away from 17.7% of all the lots we controlled under option contracts. The remaining 82.3% of our option lots are in communities that remain economically feasible, including a substantial number that were successfully renegotiated in the past few years.

The following table represents lot option walk-aways by segment for the year ended October 31, 2010:

(In millions)	Dollar Amount of Walk Away	Number of Walk-Away Lots	% of Walk-Away Lots	Total Option Lots(1)	Walk-Away Lots as a % of Total Option Lots
Northeast	$4.5	681	21.9%	3,717	18.3%
Mid-Atlantic	8.9	784	25.3%	4,643	16.9%
Midwest	0.0	709	22.9%	1,543	45.9%
Southeast	(0.6)	13	0.4%	2,552	0.5%
Southwest	0.3	638	20.6%	3,604	17.7%
West	0.1	277	8.9%	1,422	19.5%
Total	$13.2	3,102	100.0%	17,481	17.7%

(1) Includes lots optioned at October 31, 2010 and lots optioned that the Company walked-away from in the year ended October 31, 2010.

The following table represents impairments by segment for the year ended October 31, 2010:

(In millions)	Dollar	% of	Pre-	% of Pre-

	Amount of Impairment	Impairments	Impairment Value	Impairment Value
Northeast	$72.2	59.0%	$156.5	46.1%
Mid-Atlantic	3.4	2.7%	7.1	47.9%
Midwest	4.6	3.8%	8.2	56.1%
Southeast	2.2	1.8%	8.0	27.5%
Southwest	0.9	0.7%	10.8	8.3%
West	39.2	32.0%	62.8	62.4%
Total	$122.5	100.0%	$253.4	48.3%

Homebuilding selling, general, and administrative ("SGA") expenses decreased to $178.3 million for the year ended October 31, 2010, and decreased to $239.6 million for the year ended October 31, 2009 from $377.1 million for the year ended October 31, 2008. These decreases in SGA expenses are the result of reduced costs through headcount reduction, administrative consolidation and other cost saving measures.

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:

	Year Ended		
(In thousands)	October 31, 2010	October 31, 2009	October 31, 2008
Land and lot sales	$6,820	$27,250	$57,776
Cost of sales, net of impairment reversals and excluding interest	177	15,853	45,016
Land and lot sales gross margin, excluding interest	6,643	11,397	12,760
Land sales interest expense	5,345	8,482	9,522
Land and lot sales gross margin, including interest	$1,298	$2,915	$3,238

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, 2010 were less than for the year ended October 31, 2009. 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. There were several larger land sales in the prior year compared to only a few in the current year, which resulted in the significant decrease of land sales revenue.

Land sales and other revenues decreased $25.9 million and $39.8 million for the years ended October 31, 2010 and October 31, 2009, respectively. Other revenues include income from contract cancellations, where the deposit has been forfeited due to contract terminations, interest income, cash discounts, buyer walk-aways and miscellaneous one-time receipts. In fiscal 2010, the primary reason for the decrease in other revenue by $5.5 million was a reduction in interest income due to lower excess cash in interest bearing accounts as well as lower interest rates in 2010 compared to 2009. In addition, as cancellation rates have come down during the year, income from forfeited customer deposits has declined.

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,				
	2010	Variance 2010 Compared to 2009	2009	Variance 2009 Compared to 2008	2008
Northeast					
Homebuilding revenue	$298,713	$(66,163)	$364,876	$(339,847)	$704,723
Loss before income taxes	$(92,605)	$248,542	$(341,147)	$(226,731)	$(114,416)
Homes delivered	718	(105)	823	(589)	1,412
Average sales price	$412,882	$(21,802)	$434,684	$(46,540)	$481,224
Contract cancellation rate	23%	0%	23%	(7)%	30%
Mid-Atlantic					
Homebuilding revenue	$282,052	$(15,654)	$297,706	$(216,013)	$513,719
Loss before income taxes	$(4,762)	$81,055	$(85,817)	$56,432	$(142,249)
Homes delivered	753	(35)	788	(460)	1,248
Average sales price	$372,021	$(3,976)	$375,997	$(31,863)	$407,860
Contract cancellation rate	26%	(8)%	34%	(8)%	42%
Midwest					
Homebuilding revenue	$93,358	$(23,950)	$117,308	$(94,279)	$211,587
Loss before income taxes	$(13,226)	$11,164	$(24,390)	$13,025	$(37,415)
Homes delivered	439	(81)	520	(445)	965
Average sales price	$207,882	$(17,099)	$224,981	$7,614	$217,367
Contract cancellation rate	20%	(4)%	24%	(10)%	34%
Southeast					
Homebuilding revenue	$93,493	$(26,286)	$119,779	$(512,271)	$632,050
Loss before income taxes	$(11,219)	$56,672	$(67,891)	$78,515	$(146,406)
Homes delivered	384	(105)	489	(2,083)	2,572
Average sales price	$241,438	$10,285	$231,153	$(11,501)	$242,654
Contract cancellation rate	14%	(8)%	22%	(27)%	49%
Southwest					
Homebuilding revenue	$393,639	$(29,169)	$422,808	$(187,237)	$610,045
Income (loss) before income taxes	$23,192	$83,969	$(60,777)	$40,693	$(101,470)
Homes delivered	1,767	(100)	1,867	(749)	2,616
Average sales price	$221,736	$2,804	$218,932	$(11,769)	$230,701
Contract cancellation rate	21%	(5)%	26%	(4)%	30%
West					
Homebuilding revenue	$178,480	$(56,260)	$234,740	$(342,488)	$577,228
Loss before income taxes	$(61,769)	$242,770	$(304,539)	$220,162	$(524,701)
Homes delivered	668	(207)	875	(889)	1,764
Average sales price	$262,184	$(294)	$262,478	$(50,435)	$312,913
Contract cancellation rate	18%	0%			