Risk Factors Comparison 2023-12-18 to 2022-12-19 Form: 10-K

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You should carefully consider the following risks in addition to the other information included in this Annual Report on Form 10- K, including the Consolidated Financial Statements and the notes thereto. Risk Relating to Our Business and Industry The homebuilding industry is significantly affected by changes in general and local economic conditions and real estate markets, 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: ● Interest rates; ● Employment levels and wage and job growth; ● Labor shortages and increasing labor and materials costs, including because of changes in immigration laws and trends in labor migration; ● Availability and affordability of financing for home buyers; ● Adverse changes in tax laws; ● Regulatory changes; ● Foreclosure rates; ● Inflation; ● Housing affordability, consumer confidence and spending; ● Housing demand in general and for our particular community locations and product designs, as well as consumer interest in purchasing a home compared to other housing alternatives; ● Population growth and demographic trends; and ● Availability of water supply in locations in which we operate. Turmoil in the financial markets can 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 seek 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. We have certain stand- alone letter of credit facilities and agreements pursuant to which letters of credit are issued. However, we may need additional letters of credit above the amounts provided under these facilities and letters of credit may not be issued under our current senior secured revolving credit facility. If we are unable to obtain such additional letters of credit as needed to operate our business, we would be adversely affected. In addition, geopolitical events, acts of war or terrorism, threats to national security, civil unrest, any outbreak or escalation of hostilities throughout the world **, tariffs and international trade sanctions,** and health pandemics may have a substantial impact on the economy, consumer confidence, the housing market, our associates and our customers **, and therefore our business and financial results** . The difficulties described above could cause us to take longer and incur more costs to build our homes. In addition, our insurance may not fully cover business interruptions or losses caused by weather conditions and man- made or natural disasters and 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. Some buyers may also cancel or not honor their home sales contracts altogether. 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 is vulnerable to raw material and labor shortages and has from time- to- time experienced such 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. Pricing for labor and raw materials can be affected by various national, regional, local, economic and political factors. For example, the federal government has previously imposed new or increased tariffs or duties on an array of imported materials and goods that are used in connection with the construction and delivery of our homes, including lumber, raising our costs for these items (or products made with them). Such government- imposed tariffs and trade regulations on imported building supplies, and retaliatory measures by other countries, may in the future have significant impacts on the cost to construct our homes and on our customers' budgets, including by causing disruptions or shortages in our supply chain. We have also experienced labor shortages, price fluctuations and increased labor costs, including as a result of inflation or wage increases, particularly over the past **two** ~~year~~ **years** due to historic inflation rates in the United States. The cost of labor may be adversely affected by changes in immigration laws and trends in labor migration. In addition, increased demand could increase material and labor costs. ~~Throughout~~ **During** fiscal ~~2022~~ **2023 , although there was improvement each quarter** , we **continued to** ~~experienced~~ **experience** construction delays due to shortages in the supply of **certain** materials, as well as labor and subcontractor shortages in ~~all of~~ our markets. These delays impact the timing of our expected home closings and may also result in cost increases that we may not be able to pass to our current or future customers. Sustained increases in construction costs may, over time, erode our margins, and impact our total contract or delivery volumes. ~~Due to significantly increased demand in June and July of 2020, we began increasing home prices which continued throughout the first half of fiscal 2022. During the second half of fiscal 2022 demand and home prices started to decrease as a result of rising mortgage rates. If we are limited in our ability to raise home prices and labor and house construction costs rise further, we could experience lower gross margins. Additionally, we experienced a significant increase in lumber prices during fiscal 2021 and into the first half of fiscal 2022 due to supply chain issues, but we have recently seen prices start to decrease.~~ Interest rates ~~have~~ increased substantially **in fiscal** ~~over the last year~~ **years 2022 and 2023** and may continue to increase. Because almost all of our customers require mortgage financing, increases in interest rates or the decreased availability of mortgage financing could considerably 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. ~~Over the past several years mortgage~~ **Mortgage** rates ~~have~~ **, up until recently, had** been historically low, which made the homes we sell more affordable. However, mortgage rates **have** more than doubled ~~in~~ **since early** fiscal year 2022, as a result of the Federal Reserve raising interest rates in an effort to curtail inflation. When interest rates increase, the cost ~~of owning~~ **to own** a home increases, which reduces the number of potential homebuyers who can obtain mortgage financing

and can result in a decline in the demand for our homes. We cannot predict whether interest rates will continue to rise, or the paces of the increases, but further increases would likely have a considerable impact on housing demand. Increases in interest rates (or the perception that interest rates will rise, including as a result of government actions), **have, and could continue to,** ~~increases~~ **increase** ~~in~~ the costs to obtain mortgages ~~or~~ **,** ~~decreases~~ **decrease** ~~in~~ **the** availability of mortgage financing have, and ~~could continue to,~~ lower demand for new homes because of the increased monthly mortgage costs and cash required to close on mortgages to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. This could prevent or limit our ability to attract new customers as well as our ability to fully realize our backlog because our sales contracts generally include a financing contingency. Financing contingencies permit the customer to cancel his / her 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. We believe that the availability of mortgage financing, including through federal government agencies or government- sponsored enterprises (such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHA / VA financing), is an important factor in marketing many of our homes. Any limitations or restrictions on the availability of mortgage financing (including due to any failure of lawmakers to agree on a budget or appropriation legislation to fund relevant programs or operations **or as a result of instability in the banking sector**) could reduce our sales. Further, if we are unable to originate mortgages for any reason going forward, our customers may experience significant mortgage loan funding issues, which could have a material impact on our homebuilding business and our Consolidated Financial Statements. Inflation may adversely affect us by increasing costs beyond what we can recover through price increases and by increasing mortgage rates for homebuyers. Inflation can adversely affect us by increasing costs of land, materials and labor, which we have experienced ~~in~~ **since** fiscal year 2022 due to historic inflation rates. In addition, as discussed above, **recent elevated levels of** inflation ~~is often~~ **have been** accompanied by higher interest rates that could cause a slowdown in the housing market. In an inflationary environment, such as the current economic environment, depending on **the** homebuilding industry and other economic conditions, we may be unable to raise home prices enough to keep up with the rate of inflation. Moreover, in an inflationary environment, our cost of capital, labor and materials can increase and the purchasing power of our cash resources can decline, which can have an adverse impact on our business or financial results. In an effort to counteract such inflationary pressures and maintain sales volumes in light of these challenges, we have offered increased sales incentives and have been **using** ~~purchasing bulk~~ mortgage **rate buydowns** ~~lock commitments to be used~~ for qualifying homebuyers, which ~~reduce~~ **reduces** our profit margins. These measures may not be successful and continued inflationary pressures could further impact our profitability. A significant downturn in the homebuilding industry could materially and adversely affect our business. The homebuilding industry experienced a significant and sustained downturn that began in 2007, during which the lowest volumes of housing starts were significantly below troughs in previous downturns. This downturn resulted in an industry- wide softening of demand for new homes due to 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, 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 2007 through 2011. Further, we had substantially increased our inventory through fiscal 2006, which required significant cash outlays and which increased our price and margin exposure as we worked through this inventory. If the homebuilding industry experiences another significant or sustained downturn, it would materially adversely affect our business and results of operations in future years. In particular, during the second half of fiscal 2022 **and into fiscal 2023** , housing demand weakened due to a sharp increase in mortgage rates, the substantial increase in home prices experienced over the past two years, significant inflation in the broader economy, stock market volatility, and other macro- economic conditions, which have adversely impacted buyer sentiment and behavior ~~. Additionally, U. S. single family home starts fell to the lowest level in more than two years in September 2022, which many predict will not recover in light of rising interest rates and recessionary fears. Therefore, the risks discussed above are more pronounced in the current economic environment~~ . Public health issues such as a major epidemic or pandemic could adversely affect our business or financial results. The U. S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public health and public perception of health risk. The World Health Organization **previously** declared COVID- 19 a pandemic, resulting in federal, state and local governments and private entities mandating various restrictions quarantines, curfews, " stay- at- home " or " shelter in place " orders and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. We responded in various ways to the governmental measures ~~in mid- March and early April of 2020~~ , including, among other measures, temporarily closing our sales offices, model homes and design studios to the general public, limiting our construction operations, and reducing the municipal and private services we rely on, which substantially tempered our sales pace. **The effects of** ~~Beginning in May 2020 and continuing through April 2021, our sales pace recovered and exceeded our pre-~~ COVID- 19 ~~sales pace. However, the effects of the pandemic combined with the improvement in economic conditions and the strong demand for new homes~~ caused multiple disruptions in our supply chain and ~~have~~ resulted in shortages in certain building materials and tightness in the labor market, which has caused our construction cycle **times** to lengthen **compared to prior to the** ~~. While government restrictions have eased throughout 2022 and people have largely resumed pre-~~ pandemic ~~activities, the effects of COVID- 19 continue to linger in the U. S. economy and our supply chain~~ . Future disruptions and governmental actions, due to COVID- 19 or a different epidemic or pandemic, combined with any associated economic and / or social instability or distress, may have an adverse impact on our results of operations, financial condition and cash flows. The homebuilding industry is significantly affected by changes in weather and other environmental conditions and resulting governmental regulations and increased focus by stakeholders on sustainability issues. Weather conditions and man- made or natural disasters such as

hurricanes, tornadoes, earthquakes, floods or prolonged precipitation, droughts, fires and other environmental conditions ~~can~~ **have harmed us in the past, and may** harm **us in the future,** the local homebuilding business. Additionally, the physical impacts of climate change may cause these occurrences to increase in frequency, severity and duration, which can delay home construction, increase costs by damaging inventories, reduce the availability of building materials, and adversely impact the demand for new homes in affected areas, as well as slow down or otherwise impair the ability of utilities and local governmental authorities to provide approvals and service to new housing communities. For example, wildfires in California and hurricanes in Texas and Florida in recent years have at various times caused utility company delays, slowing of our production process, ~~increased~~ **increasing** cost of operations and also **impacting** ~~have impacted~~ our sales and construction activity in affected markets during the related time periods. Additionally, other coastal areas where we operate face increased risks of adverse weather or natural disasters. In addition, there is a growing concern from advocacy groups and the general public that the emissions of greenhouse gases and other human activities have caused, or will cause, significant changes in weather patterns and temperatures and the frequency and severity of natural disasters. Government mandates, standards and regulations enacted in response to these projected climate changes impacts could result in restrictions on land development in certain areas or increased energy, transportation and raw material costs that may adversely affect our financial condition and results of operations. These concerns have also resulted in increasing ~~governmental~~ -- **government, investor** and societal attention to environmental, social, and governance (" ESG") matters, including expanding mandatory and voluntary reporting, diligence, and disclosure on topics such as climate change, waste production, water usage, human capital, labor, and risk oversight, **and** could expand the nature, scope, and complexity of matters that we are required to control, assess, and report. These and other rapidly changing laws, regulations, policies and related interpretations, as well as increased enforcement actions by various governmental and regulatory agencies, may create challenges for the Company, including **with respect to** our compliance and ethics programs, may alter the environment in which we do business **,** and may increase the ongoing costs of compliance, which could adversely impact our results of operations and cash flows. Our business is seasonal in nature and our quarterly operating results fluctuate. Our quarterly operating results generally fluctuate by season. The construction of a customer' s home typically begins after signing the agreement of sale and can take six to nine months or more to complete. Weather- related problems, typically in the fall, 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 homebuilding industry is highly competitive for land that is suitable for residential development and 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 overbidding on land and lots, geographical or topographical constraints and restrictive governmental regulation. Should suitable land opportunities become less available, our ability to implement our strategies and operational actions would be limited and 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~~ **on** us having sufficient liquidity to fund such purchases. We may be at a disadvantage in competing for land compared to others who have more substantial cash resources. We rely on subcontractors to construct our homes and may incur costs or losses if these subcontractors fail to properly construct our homes or manage and pay their employees, or if products supplied to us by subcontractors are defective. We engage subcontractors to perform the actual construction of our homes and, in some cases, to select and obtain building materials. Therefore, the timing and quality of our construction depends on the availability, skill, and cost of our subcontractors. Despite our quality control efforts, we may discover that our subcontractors failed to properly construct our homes or may use defective materials, which, if widely used in our business, could result in the need to perform extensive repairs to large numbers of homes. The occurrence of such events could require us to repair the homes in accordance with our standards and as required by law. The cost of complying with our warranty obligations may be significant if we are unable to recover the cost of repairs from subcontractors, materials suppliers and insurers. In addition, the cost of satisfying our legal obligations in these instances may be significant, and we may be unable to recover the cost of repair from subcontractors and insurers. We also can suffer damage to our reputation, and may be exposed to possible liability, if subcontractors fail to comply with applicable laws, including laws involving actions or matters that are not within our control. When we learn about possibly improper practices by subcontractors, we attempt to cause the subcontractors to discontinue them and may terminate the use of such subcontractors. However, attempts at mitigation may not avoid claims against us relating to actions of or matters relating to our subcontractors that are out of our control. For example, although we do not have the ability to control what these independent subcontractors pay their own employees, or their own subcontractors, or the work rules they impose on such personnel, federal and state governmental agencies, including the U. S. National Labor Relations Board, have sought, and may in the future seek, to hold contracting parties like us responsible for subcontractors' violations of wage and hour laws, or workers' compensation, collective bargaining and / or other employment- related obligations related to subcontractors' workforces. Governmental agency determinations or attempts by others to make us responsible for subcontractors' labor practices or obligations, could create substantial adverse exposure for us in these types of situations even though not within our control. 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. We incur many costs even before we begin to build homes in a community. Depending on the stage of development of a land parcel when we acquire it, these may include costs of preparing land, finishing and entitling lots, installing roads, sewers, water systems and other utilities, taxes and other costs related to ownership of the land on which

we plan to build homes. 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 **, including the costs of holding QMI homes,** 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 Item 7 " Management' s Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies. " ~~If market conditions significantly worsen, additional inventory impairments and land option write- offs will likely be necessary.~~ We conduct a significant portion of our business in Arizona, California, Delaware, Florida, New Jersey, ~~Ohio~~ **South Carolina** , Texas and Virginia, and accordingly, regional factors affecting home sales and activities in these markets may have a large impact on our results of operations. We presently conduct a significant portion of our business in Arizona, California, Delaware, Florida, New Jersey, ~~Ohio~~ **South Carolina** , Texas and Virginia, which subjects us to risks associated with the regional and local economies of these 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. These markets may also depend, to a degree, on certain sectors of the economy, and any declines in those sectors may impact home sales and activities in that region. For example, to the extent the oil and gas industries, which can be very volatile, are negatively impacted by declining commodity prices, climate change, legislation or other factors, it could result in reduced employment, or other negative economic consequences, which in turn could adversely impact our home sales and activities in Texas. Furthermore, precarious economic and budget situations at the state government level may adversely affect the market for our homes in the affected areas. Weather- related or other events impacting these markets could also negatively affect these markets as well as the other markets in which we operate. 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 the Company' s business, financial condition and results of operations could be materially adversely affected. Increases in cancellations of agreements of sale could have an adverse effect on our business. Our backlog reflects agreements of sale with our home buyers for homes that have not yet been delivered. We have received a deposit from our home buyer for each home, which is reflected in our backlog, and we generally have the right to retain the deposit if the home buyer does not complete the purchase. In some situations, however, a home buyer may cancel the agreement of sale and receive a complete or partial refund of the deposit for reasons ~~such as~~ **related to** state and local law, an inability to obtain mortgage financing at prevailing interest rates (including financing arranged or provided by us), an inability to sell their current home, or our inability to complete and deliver the new home within the specified time. At October 31, ~~2022~~ **2023** , including unconsolidated joint ventures, we had a backlog of signed contracts for ~~4~~ **2** , ~~710~~ **246** homes with a sales value aggregating $ 1. ~~9~~ **3** billion. If mortgage financing becomes less accessible, or if economic conditions deteriorate, more home buyers may cancel their agreements of sale with us, which could have an adverse effect on our business and results of operations. Increases in the after- tax costs of owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results. Significant expenses of owning a home, including mortgage interest expenses and real estate taxes, have historically been deductible expenses for an individual' s federal, and in some cases state, income taxes, subject to limitations under tax law and policy. The " Tax Cuts and Jobs Act " which was signed into law in December 2017 includes provisions which impose significant limitations with respect to these income tax deductions. For instance, through the end of 2025, the annual deduction for real estate taxes and state and local income taxes (or sales taxes in lieu of income taxes) is now generally limited to $ 10, 000. Furthermore, through the end of 2025, the deduction for mortgage interest is generally only available with respect to the first $ 750, 000 of a new mortgage and there is no longer a federal deduction for interest on home equity loans. In addition, if the federal government or a state government further changes its income tax laws to further eliminate or substantially limit these income tax deductions, the after- tax cost of owning a new home would further increase for many of our potential customers. The loss or reduction of these homeowner tax deductions that have historically been available has and could further reduce the perceived affordability of homeownership, and therefore the demand for and sales price of new homes, including ours, particularly in states with higher state income taxes or home prices, such as in California and New Jersey. In addition, increases in property tax rates or fees on developers by local governmental authorities, as experienced in response to reduced federal and state funding or to fund local initiatives, such as funding schools or road improvements, or increases in insurance premiums can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes, and can have an adverse impact on our business and financial results. Further, existing and prospective regulatory and societal focus on and responses to climate change intended to reduce potential climate change impacts may increase the upfront costs of purchasing a home, costs to maintain the home and its systems, energy and utility costs and the cost to obtain homeowner and various hazard and flood insurance, or limit homeowners' ability to obtain these insurance policies altogether. Although these items have not materially impacted our business to date, they could adversely affect our business in the future. Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. Our financial services segment originates mortgages, primarily for our homebuilding customers. Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. While we believe our reserves are adequate for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution

of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed our expectations, additional expense may be incurred. We may have significant liabilities in respect of such claims in the future, which could exceed our reserves, and the impact of such claims on our results of operations could be material. Further, 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. 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 or more established relationships with suppliers and subcontractors in the markets in which we operate. In addition, we compete with other housing alternatives, such as existing homes and rental housing. In the homebuilding industry, we compete primarily on the basis of reputation, price, location, design, quality, service and amenities. Our financial services segment competes with other mortgage providers, primarily on the basis of fees, interest rates and other features of mortgage loan products. The competitive conditions in the homebuilding industry together with current market conditions have caused, and could continue to result in, difficulty in acquiring suitable land at acceptable prices; increased selling incentives; lower sales; delays in construction; or impairment of our ability to implement our strategies and operational actions. Any of these problems could increase costs and / or lower profit margins. 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 and outages and utility rate fluctuations continue. Furthermore, power shortages and outages 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. Information technology failures and data security breaches could harm our business. We use information technology (" IT"), digital telecommunications and other computer resources to conduct important operational activities and to maintain our business records. In addition, we rely on the systems of third parties, such as third- party vendors. Our computer systems, including our backup systems, and those of the third parties on whose systems we rely, are subject to damage or interruption from computer and telecommunications failures, computer viruses, power outages, security breaches (including through phishing attempts, data- theft and cyber- attack), ransomware attacks, usage errors by our associates **or other business partners or outside service providers,** and catastrophic events, such as fires, floods, hurricanes and tornadoes **. Cyber- attacks and other security threats could originate from a wide variety of external sources, including cyber- criminals, nation- state hackers, hacktivists and other outside parties. Cyber- attacks and other security threats could also originate from the malicious or accidental acts of insiders, such as employees, and other business partners and outside service providers** . As part of our normal business activities, we collect and store certain personal identifying and confidential information relating to our homebuyers, employees, vendors and suppliers, and maintain operational and financial information related to our business. We may share some of this confidential information with our vendors. We rely on our vendors and third- party service providers to maintain effective cybersecurity measures to keep our information secure. If our computer systems and our backup systems, or those of the third parties on whose systems we rely, are breached, compromised or damaged, or otherwise cease to function properly, we could suffer interruptions in our operations or the misappropriation of proprietary, personal identifying or confidential information, including information about our business partners and home buyers. Our or our vendors' and third- party service providers' failure to maintain the security of the data we are required to protect could result in damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also in deterioration in customers' confidence in us and other competitive disadvantages. Data protection and privacy laws have been enacted by the U. S. federal and state governments, including the California ~~Consumer Privacy Act (and its successor the California~~ Privacy Rights Act ~~which will go into effect in January 2023)~~ and the Virginia Consumer Data Protection Act ~~, which will become effective in January 2023~~ , and the regulatory regime continues to evolve and is increasingly demanding. Many states have passed or are considering privacy and security legislation and there are ongoing discussions regarding a ~~national~~ **federal** privacy law. Variations in requirements across other states could present compliance challenges, as well as ~~significant~~ **increased** costs related to compliance. Privacy, security, and compliance concerns have continued to increase as technology has evolved. ~~Further, there has been a surge in widespread cyber- attacks during and since the COVID- 19 pandemic, and the use of remote work environments and virtual platforms may increase our risk of cyber- attack or data security breaches.~~ We maintain cybersecurity insurance coverage **, which may not fully cover the costs related to cyber or other security threats or disruptions,** and have implemented systems and processes intended to secure our information technology systems and prevent unauthorized access to or loss of sensitive, confidential and personal data, including through the use of encryption and authentication technologies **as well as prevent the diversion or theft of company funds through various forms of social engineering** . Additionally, we have increased our monitoring capabilities to enhance early detection and rapid response to potential security anomalies. These measures, which require ongoing monitoring and updating as technologies change and efforts to overcome security measures **are continually evolving and have** become increasingly sophisticated, are costly and may not be effective in preventing or mitigating significant negative occurrences or irregularities in our systems or those of third parties on whose systems we rely **. In addition, cyber- attacks or other security breaches may persist undetected over extended periods of time and may not be mitigated in a timely manner to minimize the impact of a cyber- attack or other security breach** . While, to date, we have not had a significant cybersecurity breach or attack that has a material impact on our business or results of operations, our efforts to maintain the security and integrity of our IT networks and related systems may not be effective and attempted security breaches or disruptions could be successful or damaging. Negative publicity could adversely affect our reputation and our business, financial results and stock price. Our

reputation and brand are critical to our success. Unfavorable media related to our industry, company, brand, personnel, operations, business performance, or prospects may impact our stock price and the performance of our business, regardless of its accuracy or inaccuracy. The speed at which negative publicity is disseminated has increased dramatically through the use of electronic communication, including social media outlets, websites, " tweets, " and blogs. Our success in maintaining and expanding our brand image depends on our ability to adapt to this rapidly changing media environment. Adverse publicity or negative commentary from any media outlets could damage our reputation and reduce the demand for our homes, which would adversely affect our business. Global economic and political instability and conflicts , such as the conflict between Russia and Ukraine, could adversely affect our business, financial condition or results of operations. Our business could be adversely affected by unstable economic and political conditions within the United States and **, instability in** foreign jurisdictions and geopolitical conflicts , such as the conflict between Russia and Ukraine . While we do not have any customer or direct supplier relationships in either **any of the foreign** country **countries** , **or regions involved in** the current military conflict **conflicts** , and **any** related sanctions, as well as export controls or actions that may be initiated by nations (e. g., potential cyberattacks, disruption of energy flows, etc.) and other potential uncertainties could adversely affect our supply chain by causing shortages or increases in costs for materials necessary to construct homes and / or increases to the price of gasoline and other fuels. In addition, such events could cause higher interest rates, inflation or general economic uncertainty, which could negatively impact our business partners, employees or customers, or otherwise adversely impact our business. Risks Related to Our Debt and Liquidity Our high leverage may restrict our ability to operate, prevent us from fulfilling our obligations, and adversely affect our financial condition. We have a significant amount of debt. ● Our debt (excluding nonrecourse secured debt and debt of our financial subsidiaries), as of October 31, 2022 **2023** , including the debt of the subsidiaries that guarantee our debt, was $ 1, 154 **070** . 9 **3** million ($ 1, 146 **051** . 5 million net of discount **discounts** and **,** premiums and debt issuance costs). Additionally, we have a $ 125. 0 million senior secured revolving credit facility, which was fully available for borrowing as of October 31, 2022 **2023** . ● Our debt service payments for the year ended October 31, 2022 **2023** , were $ 216 **858** . 4 **3** million, which represented interest incurred and payments on the principal of our debt and do not include principal and interest on nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter **letters** of credit and other credit facilities and agreements. As of October 31, 2022 **2023** , we had **an aggregate of** $ 6 **4** . 0 **9** million in aggregate outstanding face amount of letters of credit issued under various letter **letters** of credit and other credit facilities and agreements, certain of which were collateralized by $ 6 **5** . 1 million of cash. Our fees for these letters of credit for the year ended October 31, 2022 **2023** , which are based on both the used and unused portion of the facilities and agreements, were $ 0. 1 million. We also had substantial contractual commitments and contingent obligations, including $ 234 **187** . 9 **3** million of performance bonds as of October 31, 2022 **2023** . See Item 7 " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations. " Our strategy has been to reduce our overall debt levels and while we have reduced our debt obligations by approximately $ 281 million over the past two years, as a result of recent declines in market conditions, we have paused on our debt retirement initiatives and are increasing our focus on preserving liquidity. 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, including land investments; ● Require us to pay higher interest rates upon refinancing debt if interest rates rise or due to the concentration of debt maturities or our overall leverage levels; ● 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; ● Limit our ability to implement our strategies and operational actions; ● Require us to consider selling some of our assets or debt or equity securities, possibly on unfavorable terms, to satisfy obligations; 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 or debt 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. We are largely 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. Cash provided by operating activities in fiscal **2023 and** 2022 and 2021 was $ **435. 3 million and $** 89. 5 million and $ 210. 2 million, respectively. Depending on the levels of our land purchases, we could generate positive or negative cash flow in future years. If there is a sustained decline in market conditions in the homebuilding industry over the next several years, our cash flows could be insufficient to fund our obligations and support land purchases, and if we cannot buy additional land, we would ultimately be unable to generate future revenues from the sale of houses . In addition, we will 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, sell assets, seek additional capital or restructure our indebtedness. These alternative measures may not be successful or, if successful, made on desirable terms and may not permit us to meet our debt service obligations. We have also entered into certain cash collateralized letters 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. If our available cash and capital resources are insufficient to meet our debt service and other obligations, we could face 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 permitted under the terms of our debt instruments to be used to service indebtedness or may not be adequate to meet any debt service obligations then due. For additional information about capital resources and liquidity, see Item 7 " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity. " Our cash flows, liquidity and consolidated financial statements could be materially and adversely affected if we are unable to obtain letters of credit. Our homebuilding operations often require us to obtain letters of credit. We have certain stand- alone letter of credit facilities and agreements pursuant to which letters of credit are issued. However, letters of credit may not be issued under our current senior secured revolving credit facility, and we may need additional letters of credit above the amounts provided under these stand- alone facilities and agreements. If we are unable to obtain such additional letters of credit as needed to operate our business, we would be adversely affected. 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 debt or equity securities or borrowing additional money, for the future growth and development of our business. The terms and / or availability of additional capital is uncertain. Moreover, the agreements governing our outstanding debt instruments 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 senior secured revolving credit facility and our senior secured notes may make it more difficult to raise additional financing in the future. 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. Negative rating actions by credit agencies, including downgrades, may make it more difficult and costly for us to access capital. Therefore, any downgrade by any of the principal credit agencies may exacerbate these difficulties. There can be no assurances that our credit ratings will not be downgraded in the future, whether as a result of deteriorating general economic conditions, a protracted downturn in the housing industry, failure to successfully implement our operating strategy, the adverse impact on our results of operations or liquidity position of any of the above, or otherwise. Restrictive covenants in our debt instruments may restrict our and certain of our subsidiaries' 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 and our credit facilities impose certain restrictions on our and certain of our subsidiaries' operations and activities. The most significant restrictions relate to debt incurrence, creation of liens, repayment of certain indebtedness prior to its respective stated maturity, sales of assets (including in certain land banking transactions), cash distributions, (including paying dividends on common and preferred stock), capital stock repurchases ~~/ exchanges~~ , and investments by us and certain of our subsidiaries (including in joint ventures). Because of these restrictions, we could be prohibited from paying dividends on our common and preferred stock. The restrictions in our debt instruments could prohibit or restrict our and certain of our subsidiaries' activities, such as undertaking capital raising or restructuring activities or entering into other transactions. In addition, if we fail to comply with these restrictions or to make timely payments on this debt and other material indebtedness, an event of default could occur and our debt under these debt instruments could become due and payable prior to maturity. Any such event of default could lead to cross defaults under certain of our other debt **instruments** or negatively impact other **debt- related** covenants. In any of these situations, we may be unable to amend the applicable debt instrument or obtain a waiver without significant additional cost, or at all, and we may be unable to obtain alternative financing. Any such 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 and credit facilities, we have the ability, subject to our debt covenants, to incur additional amounts of debt, including secured 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 debt instruments (and may be secured) and, therefore, are not subject to limits in our debt covenants. Regulatory and Legal Risks Homebuilders are subject to a number of federal, local, state, and foreign laws and regulations concerning the development of land and homebuilding, sales and customer financing processes and the 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 laws and regulations that affect the development of land and homebuilding, sales and customer financing processes, including laws and regulations relating to zoning, density, accessibility, anti- discrimination, building standards and mortgage financing. These laws and regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding. In addition, some state and local governments in markets where we operate have approved, and others may approve, slow- growth or no- growth initiatives that could negatively impact the availability of land and building opportunities within those areas. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets and / or could require the satisfaction of additional administrative and regulatory requirements, which could result in slowing the progress or increasing the costs of our homebuilding operations in these markets. Any of the above 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, including those regulating the emission or discharge of materials into the environment, the management of storm water runoff at construction sites, the handling, use, storage and disposal of hazardous substances, impacts to wetlands and other sensitive environments, and the remediation of contamination at properties that we have owned or developed or currently own or are developing (" environmental laws "). The particular environmental laws that apply to a site may vary greatly according to the community site, for example, due to the community, the environmental conditions at or near

the site, and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance, remediation and / or other costs, and can prohibit or severely restrict development and homebuilding activity. In addition, noncompliance with these laws and regulations could result in fines and penalties, obligations to remediate or take corrective action, permit revocations or other sanctions; and contamination or other environmental conditions at or in the vicinity of our developments may result in claims against us for personal injury, property damage or other losses. We anticipate that increasingly stringent requirements will continue to be imposed on developers and homebuilders in the future. In addition, some of these laws and regulations that significantly affect how certain properties may be developed are contentious, attract intense political attention, and may be subject to significant changes over time. For example, regulations governing wetlands permitting under the federal Clean Water Act have been the subject of extensive rulemakings for many years, resulting in several major joint rulemakings by the Environmental Protection Agency (" EPA") and the U. S. Army Corps of Engineers that have expanded and contracted the scope of wetlands subject to regulation; and such rulemakings have been the subject of many legal challenges, some of which remain pending. It is unclear how these and related developments, including at the state or local level, ultimately may affect the scope of regulated wetlands where we operate. Although we cannot reliably predict the extent of any effect these developments regarding wetlands, or any other requirements that may take effect, may have on us, 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, our ability to obtain or renew permits or approvals and 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. ~~In March 2013, we received a letter from the EPA requesting information about our involvement in a housing redevelopment project in Newark, New Jersey that a Company entity undertook during the 1990s. We understand that the development is in the vicinity of a former lead smelter and that tests on soil samples from properties within the development conducted by the EPA showed elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re- development project. We responded to the EPA' s request. In August 2013, we were notified that the EPA considers us a potentially responsible party (" PRP ") with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and / or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution. The EPA requested additional information in April 2014 and again in March 2017 and the Company responded to the information requests. On May 2, 2018, the EPA sent a letter to the Company entity demanding reimbursement for 100 % of the EPA' s costs to clean- up the site in the amount of $ 2. 7 million. The Company responded to the EPA' s demand letter on June 15, 2018 setting forth the Company' s defenses and expressing its willingness to enter into settlement negotiations. Two other PRPs identified by the EPA began negotiations with the EPA and preliminary negotiations with the Company regarding the site. The EPA then requested that the three PRPs present a joint settlement offer to the EPA. In June 2022, the Company and one of the other PRPs reached an agreement with the EPA for a total settlement of $ 1. 5 million (plus accrued interest), with the Company contributing approximately $ 0. 8 million to the settlement, slightly below the amount we had previously accrued. The consent decree entered into by the settling parties was submitted to the United States District Court for the District of New Jersey (where the EPA had filed a complaint seeking reimbursement of response costs) on June 14, 2022 and was signed and filed by such Court on August 9, 2022.~~ Legal claims not resolved in our favor, such as product liability litigation and warranty claims may be costly. As discussed in Item 3 – " Legal Proceedings, " in the ordinary course of business we are involved in litigation from time- to- time, including with homeowner associations, home buyers and other persons with whom we have relationships. For example, as a homebuilder, we are subject to construction defect and home warranty claims, including moisture intrusion and related claims, arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. With regard to certain general liability exposures such as product liability claims, construction defect claims and related claims, assessment of claims and the related liability and reserve estimation process is highly judgmental and 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. Furthermore, after claims are asserted for construction defects, it can be difficult to determine the extent to which assertions of such claims will expand geographically. For example, the Company has been a party to litigation in New Jersey concerning alleged defects in construction (see Note 18 to ~~our~~ **the** Consolidated Financial Statements ~~for the year ended October 31, 2022~~ **included elsewhere in this Annual Report on Form 10- K**). 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, if the costs associated with such claims significantly exceed the amount of our insurance coverage, or if our insurers do not pay on claims under our policies (whether because of dispute, inability, or otherwise), 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. Our insurance companies have the right to review our claims and claims history, and do so from time to time, and could decline to pay on such claims if such reviews determine the claims did not meet the terms for coverage. Additionally, we may need to significantly increase our construction defect and home warranty reserves as a result of insurance not being available for any of the reasons discussed above, such claims or the results of our annual actuarial study. Tax increases and changes in tax rules may adversely affect our financial results **.** As a company conducting business with physical operations throughout North America, we are exposed, both directly and indirectly, to the effects of changes in U. S., state and local tax rules. Taxes for financial reporting purposes and cash tax liabilities in the future may be adversely affected by changes in such tax rules. Such changes may put us at a competitive disadvantage compared to some of our major competitors, to the extent we are unable to pass the tax costs through

to our customers. ~~The Biden administration has announced in 2022 and 2021, and in certain cases has enacted, a number of tax proposals to fund new government investments in infrastructure, healthcare, and education, among other things. Certain of these proposals involve an increase in the domestic corporate tax rate, which if implemented could have a material impact on our future results of operations and cash flows. On August 16, 2022, the Inflation Reduction Act of 2022 (" IRA ") was signed into law, with tax provisions primarily focused on implementing a 15 % minimum tax on global adjusted financial statement income and a 1 % excise tax on share repurchases. The IRA also creates a number of potentially beneficial tax credits to incentivize investments in certain technologies and industries. Certain provisions of the IRA will become effective beginning in fiscal 2023. While we do not believe the IRA will have a material negative impact on our business, the effects of the measures are unknown at this time.~~ Risks Related to Our Organization and Structure 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, ~~2022~~ **2023** , we had invested an aggregate of $ ~~74~~ **97** . 9 million in these unconsolidated joint ventures, including outstanding net advances to these unconsolidated joint ventures of $ 1. ~~6~~ **4** million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities; however, we may be limited in pursuing all such desirable opportunities because the indentures governing our outstanding debt securities and our credit facilities impose certain restrictions, among others, on investments by us and certain of our subsidiaries (including in joint ventures). 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 if market conditions become more challenging, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms. In addition, we lack a controlling interest in these joint ventures and, therefore, are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions, or take any other action without the vote of at least one of our venture partners. Therefore, absent partner agreement, we will be unable to liquidate our joint venture investments to generate cash. The Hovnanian family is able to exercise significant influence over us. The combined ownership of members of the Hovnanian family, including Ara K. Hovnanian, our ~~chairman~~ **Chairman** of the ~~board~~ **Board** , ~~president~~ **President** , and ~~chief~~ **Chief** ~~executive~~ **Executive** ~~officer~~ **Officer** , through personal holdings, the limited partnership and the limited liability company established for members of Mr. Hovnanian' s family and family trusts of Class A and Class B common stock, enables them to exert significant control over us, including power to control the election of the Board of Directors and to approve matters presented to our stockholders. Such holdings represented approximately ~~58~~ **59** % of the votes that could be cast by the holders of our outstanding Class A and Class B common stock combined as of October 31, ~~2022~~ **2023** . 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 past impairments and our financial performance **in prior years** , we generated a federal net operating loss carryforward of $ ~~925~~ **688** . 3 million through the year ended October 31, ~~2022~~ **2023** , and we may generate net operating loss carryforwards in future years. Section 382 of the United States Internal Revenue Code of 1986, as amended (the " 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 shifts 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 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. A limitation imposed under Section 382 on our ability to utilize our net operating loss carryforwards could have a negative impact on our financial position and results of operations. The value of our deferred tax assets is also dependent upon the tax rates expected to be in effect at the time the taxable income is expected to be generated. A decrease in enacted corporate tax rates in our major jurisdictions, especially the U. S. federal corporate rate, would decrease the value of our deferred tax assets, which could be material. Our Board of Directors has adopted, and our shareholders have approved, a shareholder rights plan (the " Rights Plan ") designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards and built- in losses under Section 382 of the Code. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4. 9 % or more of our outstanding Class A common stock (any such person an " Acquiring Person "), without the approval of the Company' s Board of Directors. Subject to the terms, provisions and conditions of the Rights Plan, if and when they become exercisable, each right would entitle its holder to purchase from the Company one ten- thousandth of a share of the Company' s Series B Junior Preferred Stock for a specified purchase price (the " purchase price "). The rights will not be exercisable until the earlier of (i) 10 business days after a public announcement by us that a person or group has become an Acquiring Person and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group for 4. 9 % of the Class A common stock (the " distribution date "). If issued, each fractional share of Series B Junior Preferred Stock would give the stockholder approximately the same dividend, voting and liquidation rights as does one share of the Company' s Class A common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder of the Company, including without limitation any dividend, voting or liquidation rights. After the distribution date, each holder of a right, other than rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and

payment of the purchase price, that number of shares of Class A common stock or Class B common stock, as the case may be, having a market value of two times the purchase price. After the distribution date, our Board of Directors may exchange the rights (other than rights owned by an Acquiring Person which will have become void), in whole or in part, at an exchange ratio of one share of common stock, or a fractional share of Series B Junior Preferred Stock (or of a share of a similar class or series of Hovnanian' s preferred stock having similar rights, preferences and privileges) of equivalent value, per right (subject to adjustment). In addition, our Restated Certificate of Incorporation restricts certain transfers of our common stock in order to preserve the tax treatment of our net operating loss carryforwards and built- in losses under Section 382 of the Code. Subject to certain exceptions pertaining to pre- existing 5 % stockholders and Class B stockholders, the transfer restrictions in our Restated Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of the Company' s stock that result from the transfer of interests in other entities that own the Company' s stock) if the effect would be to: (i) increase the direct or indirect ownership of the Company' s stock by any person (or public group) from less than 5 % to 5 % or more of the Company' s stock; (ii) increase the percentage of the Company' s stock owned directly or indirectly by a person (or public group) owning or deemed to own 5 % or more of the Company' s stock; or (iii) create a new " public group " (as defined in the applicable U. S. Treasury regulations). We could be adversely impacted by the loss of key management personnel or if we fail to attract qualified personnel. To a significant degree, our future success depends on the efforts of our senior management, many of whom have been with the Company for a significant number of years, and our ability to attract qualified personnel. Our operations could be adversely affected if key members of our senior management leave the Company or if we cannot attract qualified personnel to manage growth in our business.