

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

For the twelve months ended OCTOBER 31, 2001

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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 (I. R. S. Employer
 incorporation or organization) Identification No.)

10 Highway 35, P.O. Box 500, Red Bank, N. J. 07701
 (Address of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act - None

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.
 (X) Yes () No

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

As of the close of business on January 4, 2002, there were outstanding
 20,607,178 shares of the Registrant's Class A Common Stock and
 7,471,640 shares of its Class B Common Stock. The approximate
 aggregate market value (based upon the closing price on the New York
 Stock Exchange) of these shares held by non-affiliates of the
 Registrant as of January 4, 2002 was \$254,417,000. (The value of a
 share of Class A Common Stock is used as the value for a share of
 Class B Common Stock as there is no established market for Class
 B Common Stock and it is convertible into Class A Common Stock on
 a share-for-share basis.)

Documents Incorporated by Reference:

Part III - Those portions of registrant's definitive proxy statement
 to be filed pursuant to Regulation 14A in connection with registrant's
 annual meeting of shareholders to be held on March 8, 2002 which are
 responsive to Items 10, 11, 12 and 13.

HOVNANIAN ENTERPRISES, INC.
 FORM 10-K
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PART I

ITEMS 1 AND 2 - BUSINESS AND PROPERTIES

BUSINESS OVERVIEW

We design, construct and market high quality single-family detached homes and attached condominium apartments and townhouses in planned residential developments in the Northeast (New Jersey, southern New York state, and eastern Pennsylvania), North Carolina, Metro D.C. (northern Virginia and Maryland), southern California, Texas, and the Mid South (Tennessee, Alabama, and Mississippi). We market our homes to first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. We offer a variety of homestyles in the United States at prices ranging from \$43,000 to \$950,000 with an average sales price in fiscal 2001 of \$255,000. We are currently offering homes for sale in 172 communities. Since the incorporation of our predecessor company in 1959, we have delivered in excess of 106,000 homes, including 6,791 homes in fiscal 2001. In addition, we provide financial services (mortgage loans and title insurance) to our homebuilding customers.

We employed approximately 1,945 full-time associates as of October 31, 2001. We were incorporated in New Jersey in 1967 and we reincorporated in Delaware in 1982.

BUSINESS STRATEGIES, OPERATING POLICIES AND PROCEDURES

Over the past few years, our strategies have included several initiatives to fundamentally transform our traditional practices used to design, build and sell homes and focus on "building better." We believe that the adoption and implementation of processes and systems successfully used in other manufacturing industries, such as rapid cycle times, vendor consolidation, vendor partnering and just-in-time material procurement, will dramatically improve our business and give us a clear advantage over our competitors. Our concentration in selected markets is a key factor that enables us to achieve powers and economies of scale and differentiate ourselves from most of our competitors. These performance enhancing strategies are designed to achieve operational excellence through the implementation of standardized and streamlined "best practice processes."

Strategic Initiatives - To improve our homebuilding gross profit margins, we have introduced a number of strategic initiatives, including: Partners In Excellence, Process Redesign and Training.

Partners In Excellence, our total quality management initiative, is intended to focus on improving the way operations are performed. It involves all of our associates through a systematic, team-oriented approach to improvement. It increases our profits by streamlining processes and by reducing costly errors. We were recognized for our efforts by receiving the 1997 Gold National Housing Quality Award from Professional Builder magazine and the NAHB Research Center.

Process Redesign is the fundamental rethinking and radical redesign of our processes to achieve dramatic improvements in

performance. Our Process Redesign efforts are currently focused on streamlining and standardizing all of our key business processes. In addition, we are working to streamline our processes and implement SAP's enterprise-wide "Enterprise Resource Package" computer software system throughout our organization.

Training is designed to provide our associates with the knowledge, attitudes, skill and habits necessary to succeed at their jobs. Our Training Department regularly conducts training classes in sales, construction, administration, and managerial skills. In addition, as Process Redesign develops new processes, the Training Department is responsible for educating our associates on the processes, procedures and operations.

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 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 the risk and generally allows us to obtain necessary development approvals before acquisition of the land, thereby enhancing the value of the options and the land eventually acquired.

Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In such instances, we generally are not able to recover any predevelopment costs.

Our development activities include site planning and engineering, obtaining environmental and other regulatory approvals and constructing roads, sewer, water and drainage facilities, and for our residential developments, recreational facilities and other amenities. These activities are performed by our staff, together with independent architects, consultants and contractors. Our staff also carries out long-term planning of communities.

Design - Our residential communities are generally located in suburban areas near major highways. The communities are designed as neighborhoods that fit existing land characteristics. We strive to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures and colors. Recreational amenities such as swimming pools, tennis courts, club houses and tot lots are often 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 employ subcontractors for the installation of site improvements and construction of homes. 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 a computerized monitoring system. 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. A majority of our single family detached homes are constructed after the signing of a contract and mortgage approval has been obtained.

Materials and Subcontractors - We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we contract with subcontractors to construct our homes. Hovnanian has reduced construction and administrative costs by consolidating the number of vendors serving our Northeast market and by executing national purchasing contracts with select vendors. Hovnanian plans to implement this strategy throughout all of our markets. In recent years, Hovnanian has experienced no significant construction delays due to shortages of materials or labor. Hovnanian cannot predict, however, 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 data bases. We make use of newspaper, radio, magazine, our website, billboard, video and direct mail advertising, special promotional events, illustrated brochures, full-sized and scale model homes in our comprehensive marketing

program. In addition, we have opened home design galleries in our Northeast region, Virginia, Maryland, Texas, North Carolina, and California, which have increased option sales and profitability in these markets. We plan to open similar galleries in each of our markets.

Customer Service and Quality Control - Associates responsible for customer service participate in 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. In some of our markets, we are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical and plumbing systems and a ten-year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing - We sell our homes to customers who generally finance their purchases through mortgages. During the year ended October 31, 2001, over 57% of our non-cash customers obtained mortgages originated by our wholly-owned mortgage banking subsidiaries. Mortgages originated by our wholly-owned mortgage banking subsidiaries are sold in the secondary market.

RESIDENTIAL DEVELOPMENT ACTIVITIES

Our residential development activities include evaluating and purchasing properties, master planning, obtaining governmental approvals and constructing, marketing and selling homes. A residential development generally includes a number of residential buildings containing from two to twenty-four individual homes per building and/or single family detached homes, together with amenities such as recreational buildings, swimming pools, tennis courts and open areas.

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

- Through our presence in multiple geographic markets, our goal is to reduce the effects that housing industry cycles, seasonality and local conditions in any one area may have on our business. In addition, we plan to achieve a significant market presence in each of our markets in order to obtain powers and economies of scale.
- 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 structure these options in most cases with flexible takedown schedules rather than with an obligation to takedown the entire parcel upon approval. Additionally, we purchase improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows us to minimize the economic costs and risks of carrying a large land inventory, while maintaining our ability to commence new developments during favorable market periods.
- - We generally begin construction on an attached condominium or townhouse building only after entering into contracts for the sale of at least 50% of the homes in that building. A majority of our single family detached homes are started after a contract is signed and mortgage approvals obtained. This limits the build-up of inventory of unsold homes and the costs of maintaining and carrying that inventory.
- We offer a broad product array to provide housing to a wide range of customers. Our customers consist of first-time buyers, first- and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters.
- We offer a wide range of customer options to satisfy individual customer tastes. We have large regional home design galleries in New Jersey, Virginia, Maryland, North Carolina, Texas, and California.

Current base prices for our homes in contract backlog at October 31, 2001 (exclusive of upgrades and options) range from \$43,000 to \$950,000 in our Northeast Region, from \$245,000 to \$344,000 in Metro D.C., from \$148,000 to \$216,000 in North Carolina, from \$124,000 to \$195,000 in the Mid South, from \$123,000 to \$680,000 in Texas, and from \$194,000 to \$877,000 in California. Closings generally occur and are typically reflected in revenues from two to nine months after sales contracts are signed.

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

Year Ended		
October 31, 2001	October 31, 2000	October 31, 1999

(Housing Revenue in Thousands)

Northeast Region:			
Housing Revenues.....	\$ 570,647	\$ 561,422	\$560,586
Homes Delivered.....	1,860	1,939	2,063
Average Price.....	\$ 306,799	\$ 289,542	\$271,733
North Carolina:			
Housing Revenues.....	\$ 255,390	\$ 126,596	\$145,153
Homes Delivered.....	1,449	653	756
Average Price.....	\$ 176,253	\$ 193,868	\$192,001
Metro D.C.:			
Housing Revenues.....	\$ 310,815	\$ 66,137	\$ 45,493
Homes Delivered.....	1,294	263	198
Average Price.....	\$ 240,197	\$ 251,471	\$229,762
California:			
Housing Revenues.....	\$ 280,582	\$ 143,729	\$105,941
Homes Delivered.....	760	480	514
Average Price.....	\$ 369,187	\$ 299,435	\$206,110
Texas:			
Housing Revenues.....	\$ 215,045	\$ 186,294	\$ 13,184
Homes Delivered.....	1,003	914	66
Average Price.....	214,402	\$ 203,823	\$199,757
Mid South:			
Housing Revenues.....	\$ 44,372	--	--
Homes Delivered.....	290	--	--
Average Price.....	153,007	--	--
Other:			
Housing Revenues.....	\$ 16,866	\$ 21,288	\$ 38,196
Homes Delivered.....	135	118	171
Average Price.....	\$ 124,933	\$ 180,407	\$223,368
Combined Total:			
Housing Revenues.....	\$1,693,717	\$1,105,466	\$908,553
Homes Delivered.....	6,791	4,367	3,768
Average Price.....	\$ 249,406	\$ 253,141	\$241,123

The value of our net sales contracts increased 46.9% to \$1,619,000 for the year ended October 31, 2001 from \$1,102,000 for the year ended October 31, 2000. This increase was the net result of a 48.0% increase in the number of homes contracted to 6,722 in 2001 from 4,542 in 2000. By United States market, on a dollar basis, Metro D. C. increased 292.7%, North Carolina increased 117.1%, Texas increased 9.4%, and California increased 61.2%. The increase in Metro D. C. and North Carolina was primarily due to the merger with Washington Homes, Inc. The increase in Texas was due to slight increases in sales and average home prices. The increase in California was primarily the result of increased sales. These increases were slightly offset by a 2.0% decrease in sales in the Northeast Region due to fewer active selling communities.

The following table summarizes our active communities under development as of October 31, 2001. The contracted not delivered and remaining home sites available in our active communities under development are included in the 36,805 total home lots under the total residential real estate chart in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Commun- ities	Approved Lots	Homes Delivered	(1) Contracted Not Delivered	(2) Remaining Home Sites Available
	-----	-----	-----	-----	-----
Northeast Region.....	23	8,599	3,038	1,136	4,425
North Carolina.....	54	7,963	3,699	534	3,730
Metro D.C.....	34	5,959	3,337	779	1,843
California.....	8	2,696	1,197	172	1,327
Texas.....	35	4,040	2,252	263	1,525
Mid South.....	18	2,057	778	122	1,157
Other.....	--	147	130	3	14
	-----	-----	-----	-----	-----
Total	172	31,461	14,431	3,009	14,021
	=====	=====	=====	=====	=====

(1) Includes 484 lots under option.

(2) Of the total home sites available, 801 were under construction or completed (including 164 models and sales offices), 9,628 were under option, and 157 were financed through purchase money mortgages.

The following table summarizes our total started or completed unsold homes as of October 31, 2001:

	Unsold Homes -----	Models -----	Total -----
Northeast Region.....	69	48	117
North Carolina.....	205	41	246
Metro D.C.....	27	27	54
California.....	60	11	71
Texas.....	215	15	230
Mid South.....	54	22	76
Other.....	7	--	7
	-----	-----	-----
Total	637	164	801
	=====	=====	=====

BACKLOG

At October 31, 2001 and October 31, 2000, we had a backlog of signed contracts for 3,033 homes and 2,096 homes, respectively, with sales values aggregating \$773,074,000 and \$538,546,000, respectively. Substantially all of our backlog at October 31, 2001 is expected to be completed and closed within the next twelve months. At November 30, 2001 and 2000, our backlog of signed contracts was 3,025 homes and 2,190 homes, respectively, with sales values aggregating \$770,930,000 and \$572,452,000, respectively.

Sales of our homes typically are made pursuant to a standard sales contract and 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 Region and Metro D. C. we typically obtain an additional 5% to 10% down payment due 30 to 60 days after signing. The contract may include a financing contingency, which permits the customer to cancel his obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution.

RESIDENTIAL LAND INVENTORY

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, 2001, exclusive of communities under development described under "Business and Properties -- Residential Development Activities," is summarized in the following table. The proposed developable lots in communities under development are included in the 36,805 total home lots under the total residential real estate chart in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Number of Proposed Communities	Proposed Developable Lots	Total Land Option Price	Book Value(1)(2)
	-----	-----	-----	-----
(In Thousands)				
Northeast Region:				
Under Option.....	60	9,603	\$ 354,246	53,193
Owned.....	6	711		31,757
	-----	-----		-----
Total.....	66	10,314		84,950
	-----	-----		-----
North Carolina:				
Under Option.....	29	2,312	\$ 72,619	4,430
	-----	-----		-----
Metro D.C.:				
Under Option.....	22	2,614	\$ 115,104	7,993
Owned.....	14	2,332		36,767
	-----	-----		-----
Total.....	36	4,946		44,760
	-----	-----		-----
California:				
Under Option.....	5	171	\$ 36,370	4,662
	-----	-----		-----
Texas:				
Under Option.....	13	1,040	\$ 38,962	1,999
	-----	-----		-----
Other:				
Owned.....	2	992		1,496
	-----	-----		-----
Totals:				
Under Option.....	129	15,740		72,277
Owned.....	22	4,035		70,020
	-----	-----		-----

- (1) Properties under option also includes costs incurred on properties not under option but which are under investigation. For properties under option, we paid, as of October 31, 2001, option fees and deposits aggregating approximately \$33,739,000. As of October 31, 2001, we spent an additional \$38,538,000 in non-refundable predevelopment costs on such properties.
- (2) The book value of \$142,297,000 is identified on the balance sheet as "Inventories - land, land options, and cost of projects in planning", and does not include inventory in Poland amounting to \$4,668,000.

In our Northeast Region, our objective is to control a supply of land sufficient to meet anticipated building requirements for at least three to five years. We typically option parcels of unimproved land for development.

In North Carolina, Metro D.C., and the Mid South, a portion of the land we acquired was from land developers on a lot takedown basis. In Texas, we primarily acquire improved lots from land developers. Under a typical agreement with the lot developer, we purchase a minimal number of lots. The balance of the lots to be purchased are covered under an option agreement or a non-recourse purchase agreement. Due to the dwindling supply of improved lots in these markets, we are currently optioning parcels of unimproved land for development.

In California, historically we have focused our development efforts in the southern portion of the state. Where possible, we plan to option developed or partially developed lots. With a limited supply of developed lots in California, we are currently optioning parcels of unimproved land for development.

CUSTOMER FINANCING

At our communities, on-site personnel facilitate sales by offering to arrange financing for prospective customers through our mortgage subsidiaries. We believe that the ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

Our business consists of providing our customers with competitive financing and coordinating and expediting the loan origination transaction through the steps of loan application, loan approval and closing. We originate loans in New Jersey, New York, Pennsylvania, Maryland, Virginia, North Carolina, Mississippi, Alabama, Tennessee, Texas, and California.

Like other mortgage bankers, we customarily sell nearly all of the loans that we originate. Additionally, we sell virtually all of the loan servicing rights to loans we originate. Loans are sold either individually or in pools to GNMA, FNMA, or FHLMC or against forward commitments to institutional investors, including banks, mortgage banking firms, and savings and loan associations.

We plan to grow our mortgage banking operations. Our objective is to increase the capture rate of non-cash homebuyers from the 57% rate achieved in fiscal 2001 to 70% over the next several years.

COMPETITION

Our residential business is highly competitive. We compete with numerous real estate developers in each of the geographic areas in which we operate. Our competition range from small local builders to larger regional and national builders and developers, some of which have greater sales and financial resources than us. 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

General. 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.

Environmental. We are also subject to a variety of local, state and federal statutes, ordinances, rules 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 and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas.

Fair Housing Act. In July 1985, New Jersey adopted the Fair Housing Act which established an administrative agency to adopt criteria by which municipalities will determine and provide for their fair share of low and moderate income housing. This agency adopted such criteria in May 1986. Its implementation thus far has caused some delay in approvals for some of our New Jersey communities and may result in a reduction in the number of homes planned for some properties.

Both prior to the enactment of the Fair Housing Act and in its implementation thus far, municipal approvals in some of the New Jersey municipalities in which we own land or land options required us to set aside up to 22% of the approved homes for sale at prices affordable to persons of low and moderate income. In order to comply with such requirements, we must sell these homes at a loss. We attempt to reduce some of these losses through increased density, certain cost saving construction measures and reduced land prices from the sellers of property. Such losses are absorbed by the market priced homes in the same developments.

State Planning Act. Pursuant to the 1985 State Planning Act, the New Jersey State Planning Commission has adopted a State Development and Redevelopment Plan ("State Plan"). The State Plan, if fully implemented, would designate large portions of the state as unavailable for development or as available for development only at low densities, and other portions of the state for more intense development. State government agencies would be required to make permitting decisions in accordance with the State Plan, if it is fully implemented. The state government agencies have not yet adopted policies and regulations to fully implement the State Plan. The Governor has issued an Executive Order to all state agencies requiring compliance with the State Plan. It is unclear what effect this Executive Order may have on our ability to develop our land.

The California Environmental Quality Act (CEQA) requires that every community comply with the CEQA. Compliance with CEQA may result in delay in obtaining the necessary approvals for commencement of the community, a reduction in the density permitted in the community, additional costs in developing the community, or denial of the permits necessary to construct the community.

Conclusion. Despite our past ability to obtain necessary permits and approvals for our communities, it can be anticipated that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict the effect of these requirements, they could result in time-consuming and expensive compliance programs and substantial expenditures for pollution and water quality control, which could have a material adverse effect on us. 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.

Company Offices. We own our corporate headquarters, a four-story, 24,000 square feet office building located in Red Bank, New Jersey and 19,992 square feet in a Middletown, New Jersey condominium office building. We lease office space consisting of 106,549 square feet in various New Jersey and Pennsylvania locations, 59,216 square feet in the Metro D. C. area, 51,094 square feet in various North Carolina locations, 11,448 square feet in various Mid South locations, 13,505 square feet in West Palm Beach, Florida, 17,359 square feet in southern California, and 25,025 square feet in various Texas locations.

ITEM 3 - LEGAL PROCEEDINGS

We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the year ended October 31, 2001, matters were submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Our Class A Common Stock is traded on the New York Stock Exchange and was held by 620 shareholders of record at January 4, 2002. There is no established public trading market for our Class B Common Stock, which was held by 450 shareholders of record at January 4, 2002. 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, 2001, 2000, and 1999:

Quarter	Class A Common Stock					
	Oct. 31, 2001		Oct. 31, 2000		Oct. 31, 1999	
	High	Low	High	Low	High	Low
First.....	\$ 9.99	\$ 7.19	\$ 6.88	\$ 5.25	\$ 9.25	\$ 7.75
Second.....	\$18.75	\$ 8.75	\$ 6.62	\$ 5.44	\$ 8.94	\$ 6.81
Third.....	\$19.34	\$13.00	\$ 6.38	\$ 5.44	\$ 9.50	\$ 7.88
Fourth.....	\$15.00	\$ 9.71	\$ 7.94	\$ 5.88	\$ 8.88	\$ 6.00

On August 7, 1999 and October 1, 1999 we acquired two homebuilding companies. As part of the purchase price 1,845,359 shares of unregistered Class A Common Stock were issued to the sellers. At October 31, 2001, 241,651 of these shares are being held in escrow (and thus not reported as issued and outstanding). There were no underwriters associated with these transactions. These shares were issued in private transactions in reliance upon Section 4(2) of the Securities Act of 1933.

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, approximately \$66,013,000 was free of such restrictions at October 31, 2001. We have never paid a cash dividend nor do we currently intend to pay dividends.

ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected financial data and should be read in conjunction with the financial statements included elsewhere in this Form 10-K. Per common share data and weighted average number of common shares outstanding reflect all stock splits.

Summary Consolidated Income Statement Data	Year Ended				
	October 31, 2001	October 31, 2000	October 31, 1999	October 31, 1998	October 31, 1997
	(In Thousands Except Per Share Data)				
Revenues.....	\$1,741,963	\$1,135,559	\$946,414	\$937,729	\$770,379
Expenses.....	1,635,609	1,083,741	895,797	896,437	782,503
Income(loss) before income taxes and extraordinary loss.	\$ 106,354	51,818	50,617	41,292	(12,124)
State and Federal income taxes.	42,668	18,655	19,674	15,141	(5,154)
Extraordinary loss.....			(868)	(748)	--
Net income (loss).....	\$ 63,686	\$ 33,163	\$ 30,075	\$ 25,403	\$ (6,970)
Per Share Data:					
Basic:					
Income (loss) before extraordinary loss.....	\$ 2.38	\$ 1.51	\$ 1.45	\$ 1.20	\$ (0.31)
Extraordinary loss.....			(.04)	(0.03)	--
Net income (loss).....	\$ 2.38	\$ 1.51	\$ 1.41	\$ 1.17	\$ (0.31)
Weighted average number of common shares outstanding..	26,810	21,933	21,404	21,781	22,409
Assuming Dilution:					
Income (loss) before extraordinary loss.....	\$ 2.29	\$ 1.50	\$ 1.43	\$ 1.19	\$ (0.31)

Extraordinary loss.....			(.04)	(0.03)	
Net income (loss).....	\$ 2.29	\$ 1.50	\$ 1.39	\$ 1.16	\$ (0.31)
Weighted average number of common shares outstanding..	27,792	22,043	21,612	22,016	22,506
Summary Consolidated Balance Sheet Data	October 31, 2001	October 31, 2000	October 31, 1999	October 31, 1998	October 31, 1997
Total assets.....	\$1,064,258	\$ 873,541	\$712,861	\$589,102	\$637,082
Mortgages and notes payable....	\$ 111,795	\$ 78,206	\$110,228	\$150,282	\$184,519
Senior notes, participating senior subordinated debentures and subordinated notes.....	\$ 396,544	\$ 396,430	\$250,000	\$145,449	\$190,000
Stockholders' equity.....	\$ 375,646	\$ 263,359	\$236,426	\$201,392	\$178,762

Note: See Item 7 "Results of Operations" for impact of our 1999 and 2001 acquisitions in our operating results.

RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

For purposes of computing the ratios of earnings to fixed charges and earnings to combined fixed charges and preferred dividends, earnings consist of earnings (loss) from continuing operations before income taxes, minority interest, extraordinary items and cumulative effect of accounting changes, plus fixed charges (interest charges and preferred share dividend requirements of subsidiaries, adjusted to a pretax basis), less interest capitalized, less preferred share dividend requirements of subsidiaries adjusted to a pretax basis and less undistributed earnings of affiliates whose debt is not guaranteed by us.

The following table sets forth the ratios of earnings to fixed charges and earnings to combined fixed charges and preferred dividends for the periods indicated:

	Years Ended October 31,				
	2001	2000	1999	1998	1997
Ratio of earnings to fixed charges.....	3.1	2.2	3.0	2.5	(a)
Ratio of earnings to combined fixed charges and preferred stock dividends.....	3.1	2.2	3.0	2.5	(a)

(a) No ratio is presented for the year ended October 31, 1997 as the earnings for such period were insufficient to cover fixed charges by \$9,197,000.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

Our cash uses during the twelve months ended October 31, 2001 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, and the merger with Washington Homes, Inc. We provided for our cash requirements from housing and land sales, the revolving credit facility, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

Our net income historically does not approximate cash flow from operating activities. The difference between net income and cash flow from operating activities is primarily caused by changes in inventory levels, mortgage loans and liabilities, and non-cash charges relating to depreciation, impairment losses and goodwill amortization. When we are expanding our operations, which was the case in fiscal 2001 and 2000, inventory levels increase causing cash flow from operating activities to decrease. Liabilities also increase as inventory levels increase. The increase in liabilities partially offsets the negative effect on cash flow from operations caused by the increase in inventory levels. As our mortgage warehouse loan asset increases, cash flow from operations decreases. Conversely, as such loans decrease, cash flow from operations increases. Depreciation and impairment losses always increase cash flow from operating activities since they are non-cash charges to operations. We expect to be in an

expansion made in fiscal 2002. As a result, we expect cash flow from operations to be less than net income in fiscal 2002.

On December 31, 2000, our stock repurchase program to purchase up to 4 million shares of Class A Common Stock expired. As of December 31, 2000, 3,391,047 shares had been purchased under this program. On July 3, 2001, our Board of Directors authorized a revision to our stock repurchase program to purchase up to 2 million shares of Class A Common Stock. As of October 31, 2001, 458,700 have been purchased under this program.

Our homebuilding bank borrowings are made pursuant to a revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of up to \$440,000,000 through July 2004. Interest is payable monthly and at various rates of either the prime rate plus .40% or Libor plus 1.85%. We believe that we will be able either to extend the Agreement beyond July 2004 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. As of October 31, 2001, borrowings under the Agreement were zero.

The subordinated indebtedness issued by us and outstanding as of October 31, 2001 was \$99,747,000 9 3/4% Subordinated Notes due June 2005. In April 2001, we retired \$253,000 of these Subordinated Notes. On October 2, 2000, we issued \$150,000,000 10 1/2% Senior Notes due October 2007. The proceeds were used to repay outstanding debt under our "Revolving Credit Facility". On May 4, 1999, we issued \$150,000,000 9 1/8% Senior Notes due April 2009. We believe that we will be able either to repay the subordinated indebtedness and senior notes at their respective maturity dates through cash flows generated from operations or through subsequent debt issuances.

Our mortgage banking subsidiary borrows under a \$110,000,000 bank warehousing arrangement which expires in July 2002. Interest is payable monthly at the Federal Funds Rate plus 1.125%. We believe that we will be able either to extend this agreement beyond July 2002 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. Other finance subsidiaries formerly borrowed from a multi-builder owned financial corporation and a builder owned financial corporation to finance mortgage backed securities but in fiscal 1988 decided to cease further borrowing from multi-builder and builder owned financial corporations. These non-recourse borrowings have been generally secured by mortgage loans originated by one of our subsidiaries. As of October 31, 2001, the aggregate outstanding principal amount of such borrowings was \$100,704,000.

Total inventory increased \$125,131,000 from October 31, 2000 to October 31, 2001. This increase was primarily due to the merger with Washington Homes, Inc. and significant land purchases in the Northeast Region. In addition, inventory increased in most of our other markets except in California where inventory decreased due to strong home deliveries. Substantially, all homes under construction or completed and included in inventory at October 31, 2001 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our revolving credit facility, senior notes, and subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of a small option fee and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced.

The following table summarizes housing lots included in our total residential real estate:

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
	-----	-----	-----
October 31, 2001:			
Northeast Region.....	15,875	1,136	14,739
North Carolina.....	6,576	534	6,042
Metro D. C.....	7,568	779	6,789
California.....	1,670	172	1,498
Texas.....	2,828	263	2,565
Mid South.....	1,279	122	1,157
Other.....	1,009	3	1,006
	-----	-----	-----
Total.....	36,805	3,009	33,796
	=====	=====	=====
Owned.....	10,970	2,525	8,445
Optioned.....	25,835	484	25,351
	-----	-----	-----
Total.....	36,805	3,009	33,796

October 31, 2000:

Northeast Region.....	15,957	1,149	14,808
North Carolina.....	2,731	215	2,516
Metro D. C.....	5,583	215	5,368
California.....	2,591	151	2,440
Texas.....	2,380	282	2,098
Other.....	2,560	84	2,476
Total.....	31,802	2,096	29,706
Owned.....	10,012	1,963	8,049
Optioned.....	21,790	133	21,657
Total.....	31,802	2,096	29,706

We expect to fund future acquisitions of home lots contracted not delivered and remaining lots available principally through cash flows from operations and through our revolving credit agreement.

The following table summarizes our started or completed unsold homes in active, substantially completed and suspended communities:

	October 31, 2001			October 31, 2000		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	69	48	117	133	48	181
North Carolina.....	205	41	246	102	31	133
Metro D.C.....	27	27	54	6	7	13
California.....	60	11	71	136	32	168
Texas.....	215	15	230	238	8	246
Mid South.....	54	22	76	--	--	--
Other.....	7	--	7	58	--	58
Total	637	164	801	673	126	799

Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$105,174,000 and \$61,549,000 at October 31, 2001 and October 31, 2000, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale are being held as an investment. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

RESULTS OF OPERATIONS

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York state, and eastern Pennsylvania), North Carolina, Metro D. C. (northern Virginia and Maryland), southern California, Texas, and the Mid South (Tennessee, Alabama, and Mississippi). In addition, we provide financial services to our homebuilding customers.

Total Revenues

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
	(Dollars in Thousands)		
Homebuilding:			
Sale of homes.....	\$ 588,251	\$ 196,913	\$ 12,909
Land sales and other revenues....	6,049	(6,334)	1,692
Financial services.....	12,104	(1,434)	977
Other Operations.....			(6,893)
Total change.....	\$ 606,404	\$ 189,145	\$ 8,685
Percent change.....	53.4%	20.0%	1.0%

Compared to the same prior period, housing revenues increased \$588.3 million or 53.2% for the year ended October 31, 2001, increased \$196.9 million or 21.7% for the year ended October 31, 2000, and increased \$12.9 million or 1.4% for the year ended October 31, 1999. Housing revenues are recorded at the time each home is delivered and title and possession have been transferred to the buyer.

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
(Dollars in Thousands)			
Northeast Region:			
Housing Revenues.....	\$ 570,647	\$ 561,422	\$560,586
Homes Delivered.....	1,860	1,939	2,063
North Carolina:			
Housing Revenues.....	\$ 255,390	\$ 126,596	\$145,153
Homes Delivered.....	1,449	653	756
Metro D.C.:			
Housing Revenues.....	\$ 310,815	\$ 66,137	\$ 45,493
Homes Delivered.....	1,294	263	198
California:			
Housing Revenues.....	\$ 280,582	\$ 143,729	\$ 105,941
Homes Delivered.....	760	480	514
Texas:			
Housing Revenues.....	\$ 215,045	\$ 186,294	\$ 13,184
Homes Delivered.....	1,003	914	66
Mid South:			
Housing Revenues.....	\$ 44,372	--	--
Homes Delivered.....	290	--	--
Other:			
Housing Revenues.....	\$ 16,866	\$ 21,288	\$ 38,196
Homes Delivered.....	135	118	171
Totals:			
Housing Revenues.....	\$1,693,717	\$1,105,466	\$ 908,553
Homes Delivered.....	6,791	4,367	3,768

The increase in housing revenues was primarily due to the merger with Washington Homes, Inc. (comprising a portion of the North Carolina and Metro D.C. markets and all of the Mid South market), increased deliveries in California and Texas, and an increase in average sales prices in the Northeast Region, California, and Texas markets. Continued strong housing demand in our major markets enables us to increase home prices and home sales.

Unaudited quarterly housing revenues and net sales contracts using base sales prices by market area for the years ending October 31, 2001, 2000, and 1999 are set forth below:

	Quarter Ended			
	October 31, 2001	July 31, 2001	April 30, 2001	January 31, 2001
(In Thousands)				
Housing Revenues:				
Northeast Region.....	\$163,955	\$156,366	\$126,700	\$123,626
North Carolina.....	77,248	85,887	60,457	31,798
Metro D.C.....	89,472	109,535	74,263	36,691
California.....	109,099	61,830	65,339	44,314
Texas.....	68,441	62,360	46,434	37,810
Mid South.....	10,675	18,774	11,846	3,077
Other.....	830	2,539	8,262	6,089
Total.....	\$519,720	\$497,291	\$393,301	\$283,405
Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$109,585	\$119,073	\$155,693	\$125,433
North Carolina.....	55,041	59,873	109,483	41,651
Metro D. C.....	75,384	77,253	138,957	32,009
California.....	38,350	66,794	88,620	65,547
Texas.....	45,299	63,640	64,343	37,177
Mid South.....	11,801	12,394	20,299	3,806
Other.....	287	279	442	857
Total.....	\$335,747	\$399,306	\$577,837	\$306,480

	Quarter Ended			
	October 31, 2000	July 31, 2000	April 30, 2000	January 31, 2000
	(In Thousands)			
Housing Revenues:				
Northeast Region.....	\$188,770	\$131,668	\$113,732	\$127,252
North Carolina.....	35,016	33,319	30,891	27,370
Metro D.C.....	18,932	13,901	17,459	15,845
California.....	39,725	48,055	30,313	25,636
Texas.....	52,188	47,318	37,573	49,215
Other.....	7,658	3,743	5,087	4,800
Total.....	\$342,289	\$278,004	\$235,055	\$250,118

Sales Contracts (Net of Cancellations):				
Northeast Region.....	\$121,179	\$115,649	\$174,126	\$109,040
North Carolina.....	29,317	32,338	33,980	26,892
Metro D. C.....	20,354	23,459	25,144	13,449
California.....	43,551	41,350	52,114	23,839
Texas.....	51,251	54,708	46,671	39,830
Other.....	4,571	4,412	10,685	4,193
Total.....	\$270,223	\$271,916	\$342,720	\$217,243

	Quarter Ended			
	October 31, 1999	July 31, 1999	April 30, 1999	January 31, 1999
	(In Thousands)			
Housing Revenues:				
Northeast Region (1).....	\$164,899	\$142,503	\$126,501	\$126,683
North Carolina.....	47,251	38,269	30,553	29,080
Metro D.C.....	15,541	11,400	6,005	12,547
California.....	37,290	24,792	26,548	17,311
Texas.....	13,184	--	--	--
Other.....	9,294	10,107	9,531	9,264
Total.....	\$287,459	\$227,071	\$199,138	\$194,885

Sales Contracts (Net of Cancellations):				
Northeast Region (1).....	\$135,514	\$111,083	\$114,924	\$ 90,163
North Carolina.....	25,757	33,078	50,673	31,111
Metro D.C.....	12,246	14,338	16,201	11,077
California.....	36,197	37,788	24,135	17,817
Texas.....	5,416	--	--	--
Other.....	3,230	4,643	9,050	12,012
Total.....	\$218,360	\$200,930	\$214,983	\$162,180

(1) Includes \$31,961,000 housing revenues and \$12,922,000 sales contracts in the quarter ended October 31, 1999 from a New Jersey homebuilder acquired on August 7, 1999.

Our contract backlog using base sales prices by market area is set forth below:

	October 31, 2001	October 31, 2000	October 31, 1999
	(Dollars in Thousands)		
Northeast Region:			
Total Contract Backlog.....	\$322,100	\$311,539	\$286,149
Number of Homes.....	1,160	1,149	1,125
North Carolina:			
Total Contract Backlog.....	\$103,616	\$ 40,635	\$ 44,534
Number of Homes.....	534	215	207
Metro D.C.:			
Total Contract Backlog.....	\$208,888	\$ 52,339	\$ 34,484
Number of Homes.....	779	215	149
California:			
Total Contract Backlog.....	\$ 53,338	\$ 58,089	\$ 34,313
Number of Homes.....	172	151	129
Texas:			
Total Contract Backlog.....	\$ 64,961	\$ 61,703	\$ 51,610

Number of Homes.....	263	282	261
Mid South:			
Total Contract Backlog.....\$	19,734	--	--
Number of Homes.....	122	--	--
Other:			
Total Contract Backlog.....\$	437	\$ 14,241	\$ 9,570
Number of Homes.....	3	84	50
Totals:			
Total Contract Backlog.....\$	773,074	\$538,546	\$460,660
Number of Homes.....	3,033	2,096	1,921

We have written down or written off certain inventories totaling \$4.4, \$1.8, and \$2.1 million during the years ended October 31, 2001, 2000, and 1999, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 11" for additional explanation. These writedowns and write-offs were incurred primarily because of lower property values, a change in the marketing strategy to liquidate a particular property, or the decision not to exercise an option to purchase land.

During the years ended October 31, 2001 and 2000, we wrote off residential land options including approval and engineering costs amounting to \$1.9 and \$1.8 million, respectively. We did not exercise those options because the communities' proforma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, Metro D. C., North Carolina, and California.

During the year ended October 31, 2001, we wrote down two residential communities in the Northeast Region, one community in North Carolina, and two land parcels in Florida. The writedown in the Northeast Region was attributed to two communities that were part of a large land acquisition, which resulted in a loss. The writedowns in North Carolina and Florida were based upon changes in market conditions. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$2.5 million impairment loss.

During the year ended October 31, 1999 we wrote off one residential land option including approval and engineering costs amounting to \$0.3 million. We did not exercise this option because the community's proforma profitability did not produce an adequate return on investment commensurate with the risk. In addition, we wrote down one land parcel in Florida, one residential community in New York and two residential communities in North Carolina. The Florida land parcel was written down based on recent purchase offers. The communities were written down based on our decision to discontinue selling homes and offer the remaining lots for sale. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$1.8 million impairment loss.

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999

	(Dollars In Thousands)		
Sale of homes.....	\$1,693,717	\$1,105,466	\$908,553
Cost of sales.....	1,344,708	876,492	717,953

Housing gross margin.....	\$ 349,009	\$ 228,974	\$190,600
	=====		
Gross margin percentage....	20.6%	20.7%	21.0%
	=====		

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999

Sale of homes.....	100.0%	100.0%	100.0%

Cost of sales:			
Housing, land and development costs.....	71.5	71.1	71.0
Commissions.....	2.3	2.2	2.0
Financing concessions....	1.0	0.9	0.8

Overheads.....	4.6	5.1	5.2
Total cost of sales.....	79.4	79.3	79.0
Gross margin percentage....	20.6%	20.7%	21.0%

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. During the year ended October 31, 2001, our gross margin percentage decreased 0.1% from the previous year. This decrease was due to the Washington Homes, Inc. merger, which significantly increased our activity in Metro D. C. and North Carolina and added markets in the Mid South region that collectively have a lower average sales price and gross margin than the averages for our other markets. On an individual market basis all of our markets showed an increase in gross margin primarily resulting from increased sales prices. During the year ended October 31, 2000, our gross margin percentage decreased 0.3% from the previous year. This decrease was primarily attributed to a full year of operations from our Texas division where they report lower margins (acquired in October 1999). During the year ended October 31, 1999, our gross margin percentage increased 3.6% from the previous year. This can be attributed to higher gross margins being achieved in each of our markets. The dollar increases for each of the three years ended October 31, 2001, 2000, and 1999 was attributed to increased sales, primarily resulting from the acquisition of Washington Homes in 2001 and the Texas division at the end of 1999.

Selling and general administrative expenses as a percentage of homebuilding revenues decreased to 8.2% for the year ended October 31, 2001 and increased to 9.4% for the year ended October 31, 2000 from 8.8% for the year ended October 31, 1999. The dollar amount of selling and general expenses has increased the last two years to \$140.1 million for the year ended October 31, 2001 from \$104.8 million for the year ended October 31, 2000 which increased from \$81.4 million for the previous year. The percentage decrease during the year ended October 31, 2001 was due to increased deliveries and the in market merger with Washington Homes, Inc., which resulted in administrative efficiencies. The percentage increase in 2000 was primarily attributable to a full year of operations from our Texas division and increases in the number of active selling communities in California. The percentage increase in 1999 was attributable to increases in all our markets but primarily due to fewer deliveries in our Northeast Region and due to Northeast Region and California administrative cost increases.

Land Sales and Other Revenues

Land sales and other revenues consist primarily of land and lot sales, interest income, contract deposit forfeitures, cash discounts, and corporate owned life insurance benefits.

A breakout of land and lot sales is set forth below:

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
	(In Thousands)		
Land and lot sales.....	\$11,356	\$ 6,549	\$12,077
Cost of sales.....	10,646	3,971	11,766
Land and lot sales gross margin.....	\$ 710	\$ 2,578	\$ 311

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

Year ended October 2000 land and lot sales gross margin includes a legal settlement in California amounting to \$1,924,000.

Financial Services

Financial services consists primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. During the year ended October 31, 2001, financial services provided a \$10.0 million pretax profit. During the years ended 2000 and 1999, financial services resulted in \$0.5 million loss and a \$1.0 million profit, respectively, before income taxes. The increase from 2000 to 2001 was primarily due to a change in management, reduced costs, increased mortgage loan amounts, and the addition of a mortgage operation from the merger with Washington Homes. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 57%, 54%, and 57% of

our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2001, 2000, and 1999, respectively. Our mortgage banking goals are to improve profitability by increasing the capture rate of our homebuyers to 70%. Most servicing rights on new mortgages originated by us will be sold as the loans are closed.

Corporate General and Administrative

Corporate general and administrative expenses includes the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses were 2.5%, 2.9%, and 3.0% for the years ended October 31, 2001, 2000, and 1999, respectively. The percentage decrease during the year ended October 31, 2001 was due to increased housing revenues. The decrease in fiscal year 2000 was due to increased housing revenues and the adoption of SOP 98-1, "Accounting For the Cost of Computer Software Development For or Obtained For Internal Use." See "Notes to Consolidated Financial Statements - Note 2" for additional explanation. Our long term improvement initiatives include total quality, process redesign (net of capitalized expenses), and training. Such initiatives resulted in additional expenses for the years ended October 31, 2001, 2000, and 1999 which were not capitalized amounting to \$7.2 million, \$6.9 million, and \$7.5 million, respectively.

Interest

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
	(In Thousands)		
Sale of homes.....	\$ 51,046	\$ 34,541	\$29,261
Land and lot sales.....	400	415	1,082
Total.....	\$ 51,446	\$ 34,956	\$30,343

Housing interest as a percentage of sale of home revenues amounted to 3.0%, 3.1%, and 3.2% for the years ended October 31, 2001, 2000, and 1999, respectively.

Other Operations

Other operations consist primarily of miscellaneous senior residential rental operations, amortization of senior and subordinated note issuance expenses, amortization of goodwill, earnout payments from homebuilding company acquisitions, corporate owned life insurance loan interest, reserves for bad debts, and contributions to a foundation for victims of the September 11, 2001 World Trade Center attack.

Restructuring Charges

Restructuring charges are estimated expenses associated with the integration of our operations with those of Washington Homes, Inc. These expenses are salaries, severance and outplacement costs for the termination of associates and costs to close and relocate existing administrative offices, and lost rent and leasehold improvements. At October 31, 2001, \$1.5 million has been charged against the \$2.0 million accrual for termination and related costs while \$0.5 million has been charged against the \$1.2 million accrual established for closing and relocation costs.

Total Taxes

Total taxes as a percentage of income before income taxes amounted to 40.1%, 36.0%, and 38.9% for the years ended October 31, 2001, 2000, and 1999, respectively. The increased percentage is due primarily to higher amounts of expenses in 2001 not deductible for federal taxes and a reduced effect of our senior rental tax credits. Although the credits are the same in 2001 and 2000, they reduce our effective tax rate less when pretax profits are higher. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If for some reason the combination of future

years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income. (See "Notes to Consolidated Financial Statements - Note 10" for an additional explanation of taxes.)

Extraordinary Loss

On June 7, 1999, we redeemed \$45,449,000 of our outstanding 11 1/4% Subordinated Notes due 2002 at an average price of 101.875% of par which resulted in an extraordinary loss of \$868,000 net of income taxes of \$468,000.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. We adopted SFAS No. 141 for all future acquisitions.

SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The amortization of goodwill included in other expenses will also no longer be recorded upon adoption of the new rules. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121. We adopted SFAS 142 on November 1, 2001. Upon adoption of SFAS No. 142, goodwill amortization of \$3,764,000, which was incurred in 2001 will no longer be incurred in the future. We do not anticipate that the adoption of the new statement will have a material effect on the financial position or results of operations of our Company.

In October 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides accounting guidance for financial accounting and reporting for impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." It also supersedes the accounting and reporting of APB Opinion No. 50 "Reporting the Results of Operations - Reporting the Events and Transactions" related to the disposal of a segment of a business. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We do not anticipate that the adoption of the new statement will have a material effect on the financial position or results of operations of our Company.

Inflation

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

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between four to twelve months. Construction costs for residential buildings represent approximately 58% of our homebuilding cost of sales.

Merger with Washington Homes, Inc.

On January 23, 2001 we merged with Washington Homes, Inc. for a total purchase price of \$87.4 million, of which \$38.5 was paid in cash and 6,352,900 shares of our Class A common stock valued at \$44.9 million were issued and options issued to Washington Homes, Inc. employees with an intrinsic value of \$3.4 million were converted

to 738,785 of our options. (See "Notes To Consolidated Financial Statements - Note 15" for an additional explanation of our merger with Washington Homes, Inc.). The merger with Washington Homes, Inc. did not result in a new segment.

Acquisition of a California Homebuilder

On January 10, 2002 we acquired certain homebuilding assets and assumed related liabilities from The Forecast Group, L.P. ("TFG") for an estimated purchase price of \$176.0 million plus the assumption of debt net of cash acquired. The final purchase price is subject to adjustment based on financial performance through January 31, 2002. Under the terms of the agreement the partners in TFG received \$45.5 million of Hovnanian restricted Class A Common Stock and the balance in cash. To fund the acquisition we are planning to raise \$150 million through a five year term loan. We believe our line of credit is adequate to provide working capital for our new TFG operations. The addition of the TFG operations for almost 10 months of fiscal 2002 is expected to add approximately \$0.50 per share to our net earnings. We expect total revenues to increase more than 30% in fiscal 2002 from 2001 levels, largely as a result of the purchase of the TFG operations.

Safe Harbor Statement

Certain statements contained in this Form 10-K that are not historical facts should be considered as "Forward-Looking Statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to:

- . Changes in general economic and market conditions
- . Changes in interest rates and the availability of mortgage financing
- . Changes in costs and availability of material, supplies and labor
- . General competitive conditions
- . The availability of capital
- . The ability to successfully effect acquisitions

These risks, uncertainties, and other factors are described in detail in Item 1 and 2 Business and Properties in this Form 10-K for the year ended October 31, 2001.

Item 7(A) - Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from FNMA, FHLMC, GNMA securities and private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 2001 and 2000, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV"). There have been no significant changes in our market risk from October 31, 2000 to October 31, 2001.

As of October 31, 2001 for the Year Ended October 31,								FMV @
2002	2003	2004	2005	2006	Thereafter	Total	10/31/01	

(Dollars in Thousands)

Long Term Debt(1):								
Fixed Rate.....	\$ 8,919	\$ 2,577	\$ 75	\$ 81	\$ 88	\$ 400,193	\$ 411,933	\$ 406,192
Average interest rate.....	6.65%	7.04%	8.38%	8.38%	8.38%	9.80%	9.71%	--

As of October 31, 2000 for the Year Ended October 31,								FMV @
2001	2002	2003	2004	2005	Thereafter	Total	10/31/00	

(Dollars in Thousands)

Long Term Debt(1):

Fixed Rate.....	\$11,797	\$ 138	\$2,594	\$ 74	\$ 81	\$400,534	\$415,218	\$379,629
Average interest rate.....	4.63%	7.63%	7.04%	8.38%	8.38%	9.79%	9.63%	--

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

Item 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements of Hovnanian Enterprises, Inc. and its consolidated subsidiaries are set forth herein beginning on Page F-1.

Item 9 - CHANGES IN OR DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During the years ended October 31, 2001, 2000, and 1999, there have not been any changes in or disagreements with accountants on accounting and financial disclosure.

PART III

Item 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10, except as set forth below under the heading "Executive Officers of the Registrant", is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 8, 2002, which will involve the election of directors.

Executive Officers of the Registrant

Our executive officers are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table. Each executive officer holds such office for a one year term.

Name	Age	Position	Year Started With Company
Kevork S. Hovnanian	78	Chairman of the Board and Director of the Company.	1967
Ara K. Hovnanian	44	Chief Executive Officer, President and Director of the Company.	1979
Paul W. Buchanan	51	Senior Vice President-Corporate Controller and Director of the Company.	1981
Geaton A. DeCesaris, Jr.	46	President of Homebuilding Operations And Chief Operating Officer and Director of the Company	2001
Kevin C. Hake	42	Vice President, Finance and Treasurer	2000
Peter S. Reinhart	51	Senior Vice President and General Counsel and Director of the Company.	1978
J. Larry Sorsby	46	Executive Vice President and Chief Financial Officer and Director of the Company	1988

Mr. K. Hovnanian founded the predecessor of the Company in 1959 (Hovnanian Brothers, Inc.) and has served as Chairman of the Board of the Company since its incorporation in 1967. Mr. K. Hovnanian was also Chief Executive Officer of the Company from 1967 to July 1997.

Mr. A. Hovnanian was appointed President in April 1988, after serving as Executive Vice President from March 1983. He has also served as Chief Executive Officer since July 1997. Mr. A. Hovnanian was elected a Director of the Company in December 1981. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

Mr. Buchanan has been Senior Vice President-Corporate Controller since May 1990. Mr. Buchanan was elected a Director of the Company in March 1982.

Mr. DeCesaris was appointed President of Homebuilding Operations and Chief Operating Officer in January 2001. From August 1988 to January 2001, he was President, Chief Executive Officer and a Director of Washington Homes, Inc. ("WHI") and from April 1999 Chairman of the Board of WHI.

Mr. Hake joined the Company in July 2000 as Vice President,

Finance and Treasurer. Prior to joining the Company, Mr. Hake was Director, Real Estate Finance at BankBoston Corporation from 1994 to June 2000.

Mr. Reinhart has been Senior Vice President and General Counsel since April 1985. Mr. Reinhart was elected a Director of the Company in December 1981.

Mr. Sorsby was appointed Executive Vice President and Chief Financial Officer of the Company in October 2000 after serving as Senior Vice President, Treasurer, and Chief Financial Officer from February 1996 and as Vice President-Finance/Treasurer of the Company since March 1991.

Item 11 - EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2002, which will involve the election of directors.

Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2002, which will involve the election of directors.

Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated herein by reference to our definitive proxy statement with the exception of the information regarding certain relationships as described below to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2002, which will involve the election of directors.

The weighted average interest rate on Mr. K. Hovnanian and Mr. A. Hovnanian related party debt was 3.90%, 5.87%, and 4.62% for the years ended October 31, 2001, 2000, and 1999, respectively. The largest amount of debt outstanding held by Mr. K. Hovnanian for the years ending October 31, 2001, 2000, and 1999 was \$56,000, \$386,000, and \$1,026,000, respectively. The largest amount of debt outstanding held by Mr. A. Hovnanian for the years ending October 31, 2001, 2000, and 1999 was \$3,002,000, \$3,124,000, and \$2,407,000, respectively. The interest rate on six month Treasury bills at October 31, 2001, 2000, and 1999 was 2.01%, 6.08%, and 5.12%. During the years ended October 31, 2001, 2000, and 1999, we received \$76,000, \$85,000, and \$80,000, respectively, from our affected partnerships.

PART IV

Item 14 - EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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No schedules are applicable to us or have been omitted because the required information is included in the financial statements or notes thereto.

Exhibits:

- 2(a) Asset Purchase Agreement, dated as of January 4, 2002 between Hovnanian Enterprises, Inc. and The Forecast Group.
- 2(b) Securities Purchase Agreement, dated as of January 4, 2002 between Hovnanian Enterprises, Inc. and The Forecast Group.
- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(5)
- 3(c) Bylaws of the Registrant.(5)
- 4(a) Specimen Class A Common Stock Certificate.(5)
- 4(b) Specimen Class B Common Stock Certificate.(5)

- 4(c) Indenture dated as of May 28, 1993, relating to 9 3/4% Subordinated Notes between Registrant and First Fidelity Bank, National Association, New Jersey, as Trustee, including form of 9 3/4% Subordinated Note due 2005.(3)
- 4(d) Indenture dated as of May 4, 1999, relating to 9 1/8% Senior Notes between the Registrant and First Fidelity Bank, including form of 9 1/8% Senior Notes due May 1, 2009.(6)
- 4(e) Indenture dated as of October 2, 2000, relating to 10 1/2% Senior Notes between the Registrant and First Union National Bank, including form of 10 1/2% Senior Notes due October 1, 2007.(11)
- 10(a) \$440,000,000 Revolving Credit Agreement dated August 28, 2001 among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., certain subsidiaries thereof, PNC Bank, National Association, First Union National Bank, Fleet National Bank, Bank of America, National Association, Bank One, National Association, Comerica Bank, Guaranty Bank, AmSouth Bank, Key Bank, National Association, Credit Suisse First Boston, Washington Mutual Bank FA, and Sun Trust Bank. (7)
- 10(b) Description of Management Bonus Arrangements.(5)
- 10(c) Description of Savings and Investment Retirement Plan.(1)
- 10(d) 1999 Stock Incentive Plan.(8)
- 10(e) 1983 Stock Option Plan (as amended and restated May 4, 1990, and amended through May 14, 1998).(9)
- 10(f) Management Agreement dated August 12, 1983 for the management of properties by K. Hovnanian Investment Properties, Inc.(1)
- 10(g) Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(2)
- 10(h) Description of Deferred Compensation Plan.(4)
- 10(i) Senior Executive Short-Term Incentive Plan.(10)
- 12 Ratio of Earnings to Fixed Charges
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Auditors
- (1) Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.
- (2) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1986 of the Registrant.
- (3) Incorporated by reference to Exhibits to Registration Statement (No. 33-61778) on Form S-3 of the Registrant.
- (4) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1990 of the Registrant.
- (5) Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended February 28, 1994 of the Registrant.
- (6) Incorporated by reference to Exhibits to Registration Statement (No. 333-75939) on Form S-3 of the Registrant.
- (7) Incorporated by reference to Exhibits to Quarterly Report on Form 10Q for the quarter ended July 31, 2001 of the Registrant.
- (8) Incorporated by the Proxy Statement of the Registrant Filed on Schedule 14A dated January 15, 1999.
- (9) Incorporated by reference to Exhibit A of the Proxy Statement of the Registrant filed on Schedule 14A dated January 26, 2000.
- (10) Incorporated by reference to Exhibit B of the Proxy Statement of the Registrant filed on Schedule 14A dated January 26, 2000.
- (11) Incorporated by reference to Exhibits to Registration Statement (No. 333-52836-01) on Form S-4 of the Registrant.

Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended October 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Hovnanian Enterprises, Inc.
By:

/S/KEVORK S. HOVNANIAN
Kevork S. Hovnanian
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/KEVORK S. HOVNANIAN Kevork S. Hovnanian	Chairman of The Board and Director	1/18/02
/S/ARA K. HOVNANIAN Ara K. Hovnanian	Chief Executive Officer, President and Director	1/18/02
/S/PAUL W. BUCHANAN Paul W. Buchanan	Senior Vice President Corporate Controller and Director	1/18/02
/S/GEATON A. DECESARIS, JR. Geaton A. DeCesaris, Jr.	President of Homebuilding Operations and Chief Operating Officer and Director	1/18/02
/S/KEVIN C. HAKE Kevin C. Hake	Vice President, Finance and Treasurer	1/18/02
/S/PETER S. RENHART Peter S. Reinhart	Senior Vice President and General Counsel and Director	1/18/02
/S/J.LARRY SORSBY J. Larry Sorsby	Executive Vice President, Chief Financial Officer and Director	1/18/02

HOVNANIAN ENTERPRISES, INC.

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No schedules have been prepared because the required information of such schedules is not present, is not present in amounts sufficient to require submission of the schedule or because the required information is included in the financial statements and notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and
Board of Directors of
Hovnanian Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2001 in conformity with accounting principles generally accepted in the United States.

/S/Ernst & Young LLP

New York, New York
December 11, 2001

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

ASSETS	October 31, 2001	October 31, 2000
	-----	-----
Homebuilding:		
Cash and cash equivalents(Note 5).....	\$ 10,173	\$ 40,131
	-----	-----
Inventories - At the lower of cost or fair value (Notes 7, 11, and 12):		
Sold and unsold homes and lots under development.....	593,149	525,116
Land and land options held for future development or sale.....	146,965	89,867
	-----	-----
Total Inventories.....	740,114	614,983
	-----	-----
Receivables, deposits, and notes (Note 12)....	75,802	36,190
	-----	-----
Property, plant, and equipment - net (Note 4).	30,756	35,594
	-----	-----
Senior residential rental properties - net (Notes 4 and 7).....	9,890	10,276
	-----	-----
Prepaid expenses and other assets (Note 15)...	78,796	64,897
	-----	-----
Total Homebuilding.....	945,531	802,071
	-----	-----
Financial Services:		
Cash.....	5,976	3,122
Mortgage loans held for sale (Notes 6 and 7)..	105,567	61,860
Other assets.....	6,465	6,488
	-----	-----
Total Financial Services.....	118,008	71,470
	-----	-----
Income Taxes Receivable - Including deferred tax benefits (Note 10).....	719	
	-----	-----
Total Assets.....	\$1,064,258	\$873,541
	=====	=====

See notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	October 31, 2001	October 31, 2000
--------------------------------------	---------------------	---------------------

Homebuilding:		
Nonrecourse land mortgages (Note 7).....	\$ 10,086	\$ 18,166
Accounts payable and other liabilities (Note 16)....	124,125	82,205
Customers' deposits (Note 5).....	39,114	31,475
Nonrecourse mortgages secured by operating properties (Note 7).....	3,404	3,554
Total Homebuilding.....	176,729	135,400
Financial Services:		
Accounts payable and other liabilities.....	5,264	5,085
Mortgage warehouse line of credit (Notes 6 and 7)...	98,305	56,486
Total Financial Services.....	103,569	61,571
Notes Payable:		
Revolving credit agreement (Note 7).....		
Senior notes (Note 8).....	296,797	296,430
Subordinated notes (Note 8).....	99,747	100,000
Accrued interest (Notes 7 and 8).....	11,770	12,709
Total Notes Payable.....	408,314	409,139
Income Taxes Payable - Net of deferred tax benefits (Note 10).....		
		4,072
Total Liabilities.....	688,612	610,182
Commitments and Contingent Liabilities (Notes 5, 9, 12, 14 and 15)		
Stockholders' Equity (Notes 13 and 15):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued.....		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 24,599,379 shares in 2001 and 17,309,369 shares in 2000 (including 4,195,621 shares in 2001 and 3,736,921 shares in 2000 held in Treasury).....	246	173
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale) -authorized 13,000,000 shares; issued 7,818,927 shares in 2001 and 7,978,903 shares in 2000 (both years include 345,874 shares held in Treasury).....	78	79
Paid in Capital.....	100,957	46,086
Retained Earnings (Note 8).....	310,106	246,420
Deferred Compensation.....	(127)	
Treasury Stock - at cost.....	(35,614)	(29,399)
Total Stockholders' Equity.....	375,646	263,359
Total Liabilities and Stockholders' Equity.....	\$1,064,258	\$873,541
	=====	=====

See notes to consolidated financial statements.

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
Revenues:			
Homebuilding:			
Sale of homes.....	\$1,693,717	\$1,105,466	\$ 908,553
Land sales and other revenues (Notes 12 and 14).....	16,818	10,769	17,103
Total Homebuilding.....	1,710,535	1,116,235	925,656
Financial Services.....	31,428	19,324	20,758
Total Revenues.....	1,741,963	1,135,559	946,414
Expenses:			
Homebuilding:			
Cost of sales.....	1,355,354	880,463	729,719
Selling, general and administrative.....	140,126	104,771	81,396
Inventory impairment loss (Note 11).....	4,368	1,791	2,091
Total Homebuilding.....	1,499,848	987,025	813,206

Financial Services.....	21,443	19,750	19,699
Corporate General and Administrative(Note 3)	44,278	33,309	28,652
Interest (Notes 7 and 8).....	51,446	34,956	30,343
Other operations (Note 15).....	15,347	8,701	3,897
Restructuring charges (Note 16).....	3,247		
Total Expenses.....	1,635,609	1,083,741	895,797
Income Before Income Taxes and Extraordinary Loss.....	106,354	51,818	50,617
State and Federal Income Taxes:			
State (Note 10).....	4,024	2,495	5,093
Federal (Note 10).....	38,644	16,160	14,581
Total Taxes.....	42,668	18,655	19,674
Extraordinary Loss From Extinguishment of Debt, Net of Income Taxes (Note 8).....			(868)
Net Income.....	\$ 63,686	\$ 33,163	\$ 30,075
Per Share Data:			
Basic:			
Income Per Common Share Before Extraordinary Loss.....	\$ 2.38	\$ 1.51	\$ 1.45
Extraordinary Loss.....			(.04)
Income.....	\$ 2.38	\$ 1.51	\$ 1.41
Weighted Average Number of Common Shares Outstanding.....	26,810	21,933	21,404
Assuming Dilution:			
Income Per Common Share Before Extraordinary Loss.....	\$ 2.29	\$ 1.50	\$ 1.43
Extraordinary Loss.....			(.04)
Income.....	\$ 2.29	\$ 1.50	\$ 1.39
Weighted Average Number of Common Shares Outstanding.....	27,792	22,043	21,612

See notes to consolidated financial statements

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in Thousands)

	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Deferred Comp	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, October 31, 1998...	13,865,923	\$ 157	7,694,297	\$ 80	\$34,561	\$183,182	\$	\$(16,588)	\$ 201,392
Acquisitions.....	1,362,057	13			11,237				11,250
Sale of common stock under employee stock option plan.....	10,000	1			58				59
Conversion of Class B to Class A common stock.....	43,088	1	(43,088)	(1)					
Treasury stock purchases....	(772,900)							(6,350)	(6,350)
Net Income.....						30,075			30,075
Balance, October 31, 1999...	14,508,168	172	7,651,209	79	45,856	213,257		(22,938)	236,426
Acquisitions.....	47,619	1			(270)				(269)
Sale of common stock under employee stock option plan.....					346				346
Stock bonus plan.....	25,128				154				154
Conversion of Class B to Class A common stock.....	18,180		(18,180)						
Treasury stock purchases....	(1,026,647)							(6,461)	(6,461)
Net Income						33,163			33,163
Balance, October 31, 2000...	13,572,448	173	7,633,029	79	46,086	246,420		(29,399)	263,359
Acquisitions.....	6,546,932	66			51,361				51,427

Sale of common stock under employee stock option plan.....	519,673	5			2,885				2,890
Stock bonus plan.....	63,429	1			625				626
Conversion of Class B to Class A common stock.....	159,976	1	(159,976)	(1)					
Deferred compensation.....							(127)		(127)
Treasury stock purchases....	(458,700)							(6,215)	(6,215)
Net Income						63,686			63,686
Balance, October 31, 2001...	20,403,758	\$ 246	7,473,053	\$ 78	\$100,957	\$310,106	\$ (127)	\$(35,614)	\$ 375,646
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
Cash Flows From Operating Activities:			
Net Income.....	\$ 63,686	\$ 33,163	\$ 30,075
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation.....	8,164	6,423	6,314
Amortization of Goodwill.....	3,764	2,513	261
Loss (gain) on sale and retirement of property and assets.....	641	(728)	283
Extraordinary loss from extinguishment of Debt net of income taxes.....			868
Deferred income taxes.....	(6,265)	2,551	3,056
Impairment losses.....	4,368	1,791	2,091
Decrease (increase) in assets:			
Mortgage notes receivable.....	(42,573)	(27,703)	46,012
Receivables, prepaids and other assets....	(35,805)	(13,256)	(9,736)
Inventories.....	12,540	(89,544)	(53,592)
Increase (decrease) in liabilities:			
State and Federal income taxes.....	7,004	3,244	3,020
Tax effect from exercise of stock options.	(566)		
Customers' deposits.....	4,543	6,240	(1,269)
Interest and other accrued liabilities....	15,466	8,222	9,203
Post development completion costs.....	5,120	(2,555)	3,293
Accounts payable.....	(3,018)	8,994	(4,400)
Net cash provided by (used in) operating activities.....	37,069	(60,645)	35,479
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets... Purchase of property, equipment, and other fixed assets.....	5,325	1,517	18,251
Acquisition of homebuilding companies.....	(6,777)	(15,607)	(13,381)
Investment in and advances to unconsolidated affiliates.....	(37,905)	(3,845)	(12,249)
Net cash (used in) investing activities.....	(372)		249
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes.....	1,472,789	1,433,150	850,320
Proceeds from senior debt.....		146,430	150,000
Principal payments on mortgages and notes.....	(1,494,528)	(1,470,805)	(972,265)
Principal payments on subordinated debt.....			(46,302)
Purchase of treasury stock.....	(6,215)	(6,461)	(6,350)
Proceeds from sale of stock and employee stock plan.....	3,510	154	59
Net cash (used in) provided by financing activities.....	(24,444)	102,468	(24,538)
Net (Decrease) Increase In Cash.....	(27,104)	23,888	3,811
Cash and Cash Equivalents Balance, Beginning Of Year.....	43,253	19,365	15,554
Cash and Cash Equivalents Balance, End Of Year.....	\$ 16,149	\$ 43,253	\$ 19,365
	=====	=====	=====
Supplemental Disclosures Of Cash Flow:			
Cash paid during the year for:			
Interest.....	\$ 53,100	\$ 33,814	\$ 23,731
Income Taxes.....	\$ 45,498	\$ 12,858	\$ 16,395
	=====	=====	=====
Stock issued for acquisitions/extension of options granted.....	\$ 50,530	\$ 721	\$ 11,250
	=====	=====	=====

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED OCTOBER 31, 2001, 2000, AND 1999.

1. BASIS OF PRESENTATION AND SEGMENT INFORMATION

Basis of Presentation - The accompanying consolidated financial statements include our accounts and all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions.

Segment Information - Statement of Financial Accounting Standards (SFAS) No. 131 "Disclosures About Segments of an Enterprise and Related Information" established new standards for segment reporting based on the way management organizes segments within a company for making operating decisions and assessing performance. Our financial reporting segments consist of homebuilding, financial services, and corporate. Our homebuilding operations comprise the most substantial part of our business, with approximately 97% of consolidated revenues in years ended October 31, 2001 and 2000 and approximately 96% in the year ended October 31, 1999 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in more than 172 new home communities in New Jersey, Pennsylvania, New York, Virginia, Maryland, North Carolina, Tennessee, Alabama, Mississippi, Texas, and California. We offer a wide variety of homes that are designed to appeal to first time buyers, first and second time move up buyers, luxury buyers, active adult buyers and empty nesters. Our financial services operations provide mortgage banking and title services to the homebuilding operations' customers. We do not retain or service the mortgages that we originate but rather, sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety. Assets, liabilities, revenues and expenses of our reportable segments are separately included in the consolidated balance sheets and consolidated statements of income.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements.

Business Combinations - When we make an acquisition of another company, we use the purchase method of accounting in accordance with Accounting Principal Board Opinion 16 ("APB 16") "Business Combinations". Under APB 16 we record as our cost the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible and identified intangible assets less liabilities is recorded as goodwill. The reported income of an acquired company includes the operations of the acquired company after acquisition, based on the acquisition costs. See "Accounting Pronouncements Not Yet Adopted."

Income Recognition - Income from home sales is recorded when title is conveyed to the buyer, subject to the buyer's financial commitment being sufficient to provide economic substance to the transaction.

Cash and Cash Equivalents - Cash and cash equivalents include cash deposited in checking accounts, overnight repurchase agreements, certificates of deposit, Treasury bills and government money market funds with original maturities of 90 days or less when purchased.

Fair Value of Financial Instruments - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Our financial instruments consist of cash equivalents, mortgages and notes receivable, mortgages and notes payable, and the senior and subordinated notes payable. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

Inventories - For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment

and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on expected revenue, cost to complete including interest, and selling costs. Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined in Statement of Financial Accounting Standard (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. See "Accounting Pronouncements Not Yet Adopted." 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 amortized equally based upon the number of homes to be constructed in the community.

Interest costs related to properties under development are capitalized during the land development and home construction period and expensed along with the associated cost of sales as the related inventories are sold (see Note 7).

The cost of land options is capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option.

Intangible Assets - Any intangible assets acquired by us are amortized on a straight line basis over their useful life. Goodwill resulting from company acquisitions during the years ended October 31, 2001 and October 31, 1999 is being amortized over 5 to 10 years and reported in the consolidated statements of income as "Other Operations". During the years ended October 31, 2001, 2000, and 1999, goodwill amortization amounted to \$3,764,000, \$2,513,000, and \$261,000, respectively. The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the company acquired over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows. In addition, we assess long-lived assets for impairment under SFAS 121. Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable. Total accumulated amortization at October 31, 2001 and 2000 was \$7,579,000 and \$3,815,000, respectively. See "Accounting Pronouncements Not Yet Adopted."

Deferred Bond Issuance Costs - Costs associated with the issuance of our Senior and Subordinated Notes are capitalized and amortized over the associated term of each note issuance into other operations on the consolidated statements of income.

Debt Issued At a Discount - Debt issued at a discount to the face amount is accreted back up to its face amount utilizing the effective interest method over the term of the note and recorded as a component of Interest on the consolidated statements of income.

Post Development Completion 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.

Advertising Costs - Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2001, 2000, and 1999, advertising costs expensed amounted to \$18,536,000, \$14,418,000, and \$11,995,000, respectively.

Deferred Income Tax - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes.

Common Stock - Each share of Class A Common Stock entitles its holder to one vote per share and each share of Class B Common Stock entitles its holder to ten votes per share. The amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110% of the corresponding regular cash dividend payable on a share of Class B Common Stock. If a shareholder desires to sell shares of Class B Common Stock, such stock must be converted into shares of Class A Common Stock.

On December 31, 2000, our stock repurchase program to purchase up to 4 million shares of Class A Common Stock expired. As of December 31, 2000 3,391,047 shares had been purchased under this program. On July 3, 2001, our Board of Directors authorized a revision to our stock repurchase program to purchase up to 2 million shares of Class A Common Stock. As of October 31, 2001, 458,700 have been purchased under this program.

Depreciation - The straight-line method is used for

financial reporting purposes and MACRS is used for tax reporting purposes.

Prepaid Expenses - Prepaid expenses which relate to specific housing communities (model setup, architectural fees, homeowner warranty, etc.) are amortized to costs of sales as the applicable inventories are sold. All other prepaid expenses are amortized over a specific time period or as used and charged to overhead expense.

Stock Options - Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" establishes a fair value-based method of accounting for stock-based compensation plans, including stock options. Registrants may elect to continue accounting for stock option plans under Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," but are required to provide pro forma net income and earnings per share information "as if" the new fair value approach had been adopted. We intend to continue accounting for our stock option plan under APB 25. Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant (see Note 13).

Per Share Calculations - Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" requires the presentation of basic earnings per share and diluted earnings per share. Basic earnings per common share is computed using the weighted average number of shares outstanding and is the same calculation as reported in prior years. Basic weighted average shares outstanding at October 31, 2001, 2000, and 1999 amounted to 26,809,668 shares, 21,933,022 shares, and 21,404,473 shares, respectively. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock shares of 982,000, 110,000, and 208,000 for the years ended October 31, 2001, 2000, and 1999, respectively.

Computer Software Development - On November 1, 1999 we adopted SOP-98-1, Accounting For the Costs of Computer Software Developed For or Obtained For Internal Use. The SOP-98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. Prior to the adoption of SOP-98-1, we expensed such internal use software related costs as incurred. The effect of adopting SOP-98-1 was to increase net income for the year ended October 31, 2000 by \$2,570,000 or \$0.12 per share. Upon entering the application and development phase, the capitalized costs are amortized over the systems estimated useful life. For the year ended October 31, 2001 we recorded amortization expense in the amount of approximately \$2.0 million based on an estimated useful life of 10 years.

Accounting for Derivative Instruments and Hedging Activities - On November 1, 2000, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards (SFAS) No. 138, which addresses the accounting for and disclosure of derivative instruments, including derivative instruments imbedded in other contracts, and hedging activities. The statement requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change is recognized in earnings.

We manage our interest rate risk on mortgage loans held for sale and our estimated future commitments to originate and close mortgage loans at fixed prices through the use of best-efforts whole loan delivery commitments. These instruments are classified as derivatives and generally have maturities of three months or less. Accordingly, gains and losses are recognized in current earnings during the period of change. The impact of the adoption of the new statement as of November 1, 2000 did not have a significant impact on our earnings or financial position. The effect of SFAS 133 is immaterial to our financial statements.

Accounting Pronouncements Not Yet Adopted - In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. We adopted SFAS No. 141 for all acquisitions subsequent to

June 30, 2001.

SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The amortization of goodwill included in other expenses will also no longer be recorded upon adoption of the new rules. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121. We adopted SFAS 142 on November 1, 2001. Upon adoption of SFAS No. 142, goodwill amortization of \$3,764,000, which was incurred in 2001, will no longer be incurred in the future. We do not anticipate that the adoption of the new statement will have a material effect on the financial position or results of operations of our Company.

In October 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides accounting guidance for financial accounting and reporting for impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." It also supersedes the accounting and reporting of APB Opinion No. 50 "Reporting the Results of Operations - Reporting the Events and Transactions" related to the disposal of a segment of a business. We will adopt SFAS No. 144 effective for our fiscal year beginning November 1, 2002. We do not anticipate that the adoption of the new statement will have a material effect on the financial position or results of operations of our Company.

Reclassifications - Certain amounts in the 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 presentation.

3. CORPORATE INITIATIVES

We have embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administrative is \$7,200,000, \$6,902,000, and \$7,502,000 for the years ended October 31, 2001, 2000, and 1999, respectively, related to such initiatives. These amounts are in addition to software development costs capitalized in those years.

4. PROPERTY

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business. Homebuilding accumulated depreciation related to these assets at October 31, 2001 and October 31, 2000 amounted to \$18,367,000 and \$22,164,000, respectively. In addition we have two senior citizen residential rental communities recorded as senior residential rental properties on the balance sheets. Accumulated depreciation on senior residential rental properties at October 31, 2001 and October 31, 2000 amounted to \$2,688,000 and \$2,294,000, respectively.

5. ESCROW CASH

We hold escrow cash amounting to \$4,420,000 and \$3,424,000 at October 31, 2001 and October 31, 2000, respectively, which primarily represents customers' deposits which are restricted from use by us. We are able to release other escrow cash by pledging letters of credit and surety bonds. Escrow cash accounts are substantially invested in short-term certificates of deposit, time deposits, or money market accounts.

6. MORTGAGE LOANS HELD FOR SALE

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market with servicing released. At October 31, 2001 and 2000, respectively, \$105,174,000 and \$61,549,000 of such mortgages were pledged against our mortgage warehouse line (see Note 7). We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 2001 or 2000.

7. MORTGAGES AND NOTES PAYABLE

Substantially all of the nonrecourse land mortgages are short-term borrowings. Nonrecourse mortgages secured by operating properties are installment obligations having annual principal maturities in the following years ending October 31, of approximately \$138,000 in 2002, \$2,577,000 in 2003, \$75,000 in 2004, \$81,000 in 2005, \$88,000 in 2006 and \$445,000 after 2006. The interest rates on these obligations range from 6.0% to 10.0%.

We have an unsecured Revolving Credit Agreement ("Agreement") with a group of banks which provides up to \$440,000,000 through July 2004. Interest is payable monthly and at various rates of either the prime rate plus .40% or LIBOR plus 1.85%. In addition, we pay a fee equal to .375% per annum on the weighted average unused portion of the line. As of October 31, 2001 and 2000, there was no outstanding balance under the Agreement.

Interest costs incurred, expensed and capitalized were:

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
	----- (Dollars in Thousands) -----		
Interest capitalized at beginning of year.....	\$25,694	\$21,966	\$25,545
Plus acquired entity interest....	3,604		3,397
Plus interest incurred(1)(2)....	47,272	38,878	24,594
Less interest expensed(2).....	51,446	34,956	30,343
Less impairment write-off.....		194	
Less sale of assets.....			1,227
	-----	-----	-----
Interest capitalized at end of year(2).....	\$25,124	\$25,694	\$21,966
	=====	=====	=====

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

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

Average interest rates and average balances outstanding for short-term debt are as follows:

	October 31, 2001	October 31, 2000	October 31, 1999
	----- (Dollars In Thousands) -----		
Average monthly outstanding borrowings.....	\$ 74,543	\$128,788	\$ 55,495
Average interest rate during period.....	7.1%	10.0%	9.2%
Average interest rate at end of period(1).....	4.1%	8.4%	7.2%
Maximum outstanding at any month end.....	\$120,600	\$170,800	\$117,085

(1) Average interest rate at the end of the period excludes any charges on unused loan balances.

In addition, we have a secured mortgage loan warehouse agreement with a group of banks, which is a short-term borrowing, that provides up to \$110,000,000 through July 26, 2002. Interest is payable monthly at the Federal Funds Rate plus 1.125% (approximately 3.81% at October 31, 2001) plus fees equal to .625% of the outstanding loan balance. The loan is repaid when the underlying mortgage loans are sold to permanent investors by the Company.

8. SENIOR AND SUBORDINATED NOTES

On April 29, 1992, we issued \$100,000,000 principal amount of 11 1/4% Subordinated Notes due April 15, 2002. Prior to 1999, we redeemed \$44,551,000 principal amount. The funds were provided by the revolving credit agreement. In June 1999, we redeemed the remaining \$45,449,000 principal amount at an average price of 101.875% of par. The funds for this redemption were provided by the issuance of Senior Notes and resulted in an extraordinary loss of \$868,000 net of an income tax benefit of \$468,000.

On June 7, 1993, we issued \$100,000,000 principal amount of 9 3/4% Subordinated Notes due June 1, 2005. In April 2001, we retired \$253,000 of these notes. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option, initially at 104.875% of their principal amount on or after June 1, 1999 and

reducing to 100% of their principal amount on or after June 1, 2002.

On May 4, 1999, we issued \$150,000,000 principal amount of 9 1/8% Senior Notes due May 1, 2009. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option, initially at 104.563% of their principal amount on or after May 1, 2004 and reducing to 100% of their principal amount on or after May 1, 2007.

On October 2, 2000, we issued \$150,000,000 principal amount of 10 1/2% Senior Notes due October 1, 2007. The 10 1/2% Senior Notes were issued at a discount to yield 11% and have been reflected net of the unamortized discount in the accompanying consolidated balance sheet. Interest is payable semi-annually. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price.

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain restrictions on the payment of cash dividends. At October 31, 2001, \$66,013,000 of retained earnings were free of such restrictions.

The fair value of both the Senior Notes and Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The fair value of the Senior Notes and Subordinated Notes is estimated at \$297,750,000 and \$96,256,000, respectively, as of October 31, 2001.

9. RETIREMENT PLAN

In December 1982, we established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$3,675,000, \$2,948,000, and \$2,760,000 for the years ended October 31, 2001, 2000, and 1999, respectively.

10. INCOME TAXES

Income Taxes payable (receivable) including deferred benefits, consists of the following:

	October 31, 2001	October 31, 2000
	-----	-----
	(In Thousands)	
State income taxes:		
Current.....	\$ 3,393	\$ 1,552
Deferred.....	(2,262)	163
Federal income taxes:		
Current.....	6,623	5,519
Deferred.....	(8,473)	(3,162)
	-----	-----
Total.....	\$ (719)	\$ 4,072
	=====	=====

The provision for income taxes is composed of the following charges (benefits):

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
	-----	-----	-----
	(In Thousands)		
Current income tax expense:			
Federal(1).....	\$ 48,478	\$ 13,609	\$ 13,253
State(2).....	6,461	1,574	4,954
	-----	-----	-----
	54,939	15,183	18,207
	-----	-----	-----
Deferred income tax expense:			
Federal.....	(9,834)	2,551	860
State.....	(2,437)	921	139
	-----	-----	-----
	(12,271)	3,472	999
	-----	-----	-----
Total.....	\$ 42,668	\$ 18,655	\$ 19,206
	=====	=====	=====

(1) The current federal income tax expense includes a tax benefit of \$468,000 and in the year ended October 31, 1999 relating to the loss on the redemption of Subordinated Notes that

was reported as an extraordinary item in the "Statements of Income."

- (2) The current state income tax expense is net of the use of state loss carryforwards amounting to \$26,830,000, \$21,330,000, and \$5,860,000, for the years ended October 31, 2001, 2000, and 1999.

The deferred tax liabilities or assets have been recognized in the consolidated balance sheets due to temporary differences as follows:

	October 31, 2001	October 31, 2000
----- (In Thousands) -----		
Deferred tax assets:		
Maintenance guarantee reserves.....	658	740
Inventory impairment loss.....	2,206	1,785
Uniform capitalization of overhead...	6,726	6,008
Post development completion costs....	5,319	3,194
State net operating loss carryforwards.....	27,846	30,916
Other.....	7,067	2,970
	-----	-----
Total.....	49,822	45,613
Valuation allowance(3).....	(27,846)	(30,916)
	-----	-----
Total deferred tax assets.....	21,976	14,697
	-----	-----
Deferred tax liabilities:		
Deferred interest.....	31	31
Installment sales.....	76	96
Accelerated depreciation.....	2,113	3,965
Acquisition goodwill.....	3,124	2,279
Software development expenses.....	5,897	5,327
	-----	-----
Total deferred tax liabilities.....	11,241	11,698
	-----	-----
Net deferred tax assets(4).....	\$10,735	\$ 2,999
	=====	=====

- (3) The net change in the valuation allowance of \$(3,070,000) results from a decrease in the separate company state net operating losses that may not be fully utilized.

- (4) In connection with the merger with Washington Homes, Inc. we recorded a deferred tax liability of \$4,534,000.

The effective tax rates varied from the expected rate. The sources of these differences were as follows:

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
----- ----- -----			
Computed "expected" tax rate.....	35.0%	35.0 %	35.0 %
State income taxes, net of Federal income tax benefit.....	3.2	3.1	6.5
Permanent timing differences.....	1.6	1.0	.2
Low income housing tax credit.....	(1.3)	(2.6)	(2.8)
Other.....	1.6	(1.5)	.1
	-----	-----	-----
Effective tax rate.....	40.1	36.0 %	39.0 %
	=====	=====	=====

We have state net operating loss carryforwards for financial reporting and tax purposes of \$358,000,000 due to expire between the years October 31, 2002 and October 31, 2016.

11. REDUCTION OF INVENTORY TO FAIR VALUE

In accordance with "Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of", we record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. During the year ended October 31, 2001, inventory with a carrying amount of \$12,084,000 was written down by \$2,088,000 to its fair value. This was based on our evaluation of the expected revenue, cost to complete including interest and selling cost. The writedown during the year ended October 31, 2001 was attributed to two communities in the Northeast Region that were part of a large land acquisition, which resulted in a loss.

Also in accordance with SFAS 121, we record impairment losses

on inventories and long-lived assets held for sale when the related carrying amount exceeds the fair value less the selling cost. As of October 31, 2001, inventory with a carrying amount of \$1,391,000 was written down by \$424,000 to its fair value. No inventory was written down during the year ended October 31, 2000. As of October 31, 1999, inventory with a carrying amount of \$4,539,000 was written down by \$1,801,000 to its fair value. The writedowns during the year ended October 31, 2001 were attributed to two land parcels in Florida and one community in North Carolina. The writedowns in Florida and North Carolina were based upon changes in market conditions. The writedowns during the year ended October 31, 1999 were attributed to one land parcel in Florida and two residential communities in North Carolina. The Florida land parcel was written down based on purchase offers. The communities in North Carolina were written down based on our decision to discontinue selling homes and offer the remaining lots for sale.

The total aggregate impairment losses, which are presented in the consolidated statements of income, in inventory held for future development or sale were \$2,512,000, zero, and \$1,801,000 for the years ended October 31, 2001, 2000, and 1999, respectively.

On the statement of income the line entitled "Homebuilding - Inventory impairment loss" also includes write-offs of options including approval, engineering, and capitalized interest costs. During the years ended October 31, 2001, 2000, and 1999 write-offs amounted to \$1,856,000, \$1,791,000 and \$290,000, respectively. During the years ended October 31, 2001, 2000, and 1999 we did not exercise options in various locations because the communities pro forma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, Metro D. C., North Carolina, and California.

12. TRANSACTIONS WITH RELATED PARTIES

Our Board of Directors has adopted a general policy providing that it will not make loans to our officers or directors or their relatives at an interest rate less than the interest rate at the date of the loan on six month U.S. Treasury Bills, that the aggregate of such loans will not exceed \$3,000,000 at any one time, and that such loans will be made only with the approval of the members of our Board of Directors who have no interest in the transaction. At October 31, 2001 and 2000 included in receivables, deposits and notes are related party receivables from officers and directors amounted to \$1,119,000 and \$3,127,000, respectively. Due to an oversight the loan balances exceeded \$3,000,000 at October 31, 2000. On November 9, 2000 a \$250,000 payment was received which reduced the loans to within authorized limits. Interest income from these loans for October 31, 2001, 2000, and 1999 amounted to \$84,000, \$167,000, and \$108,000, respectively.

We provide property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited partners. During the years ended October 31, 2001, 2000, and 1999 we received \$76,000, \$85,000, and \$80,000, respectively, in fees for such management services. At October 31, 2000 and 1999, no amounts were due us by these partnerships.

During the year ended October 31, 2001 we entered into an agreement to purchase land from an entity that is a family relative of our Chairman of the Board and our Chief Executive Officer. As of October 31, 2001, land aggregating \$2,384,000 has been purchased. The Company remains obligated under a land purchase agreement to purchase an additional \$26.9 million of land from this entity over the next three years. Neither the Company nor the Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

13. STOCK PLANS

We have a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. Certain Washington Homes associates were granted and held options to purchase Washington Homes stock prior to the January 23, 2001 merger. These options vest in three installments: 25% on the first and second anniversary, and 50% on the third anniversary of the date of the grant. In connection with the merger (See Note

15) the options were exchanged for options to purchase the Company's Class A Common Stock. In 2000 we extended the life of options that expired on May 4, 2000 five years which resulted in additional compensation expense of \$346,000 net of taxes. All options expire ten years after the date of the grant. In addition, during the years ended October 31, 2000 and 1999 each of the three outside directors of the Company were granted options to purchase 10,000 shares at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	October 31, 2001	Weighted Average Fair Value (1) And Exercise Price	October 31, 2000	Weighted Average Fair Value (1) And Exercise Price	October 31, 1999	Weighted Average Fair Value (1) And Exercise Price
Options outstanding at beginning of period.	1,980,500	\$7.55	1,656,000	\$8.02	1,415,000	\$8.13
Granted.....	1,048,785	\$5.81	444,500	\$6.10	251,000	\$7.87
Exercised.....	519,673	\$4.29			10,000	\$5.81
Forfeited.....	238,955	\$7.67	120,000	\$8.60		
	-----		-----		-----	
Options outstanding at end of period.....	2,270,657	\$7.44	1,980,500	\$9.44	1,656,000	\$8.29
	=====		=====		=====	
Options exercisable at end of period.....	1,451,718		1,276,708		1,106,666	
Price range of options outstanding.....	\$2.66- \$15.08		\$5.13- \$11.50		\$5.13- \$11.50	
Weighted-average remaining contractual life.....	6.0 yrs.		7.0 yrs.		5.0 yrs.	

(1) Fair value of options at grant date approximate exercise price.

Pro forma information regarding net income and earnings per share is required under the fair value method of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" and is to be calculated as if we had accounted for our stock options under the fair value method of SFAS 123. The fair value for these options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2000, and 1999: risk-free interest rate of 4.4%, 5.9%, and 6.4%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.38, 0.41, and 0.46, respectively; and a weighted-average expected life of the option of 5.1, 7.0, and 7.7 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and are not likely to be representative of the effects on reported net income for future years, if applicable.

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

	Year Ended		
	October 31, 2001	October 31, 2000	October 31, 1999
Pro forma net income.....	\$ 63,491	\$ 32,322	\$ 29,851
	=====	=====	=====
Pro forma basic earnings per share...	\$ 2.37	\$ 1.47	\$ 1.39
	=====	=====	=====
Pro forma diluted earnings per share.	\$ 2.28	\$ 1.47	\$ 1.38
	=====	=====	=====

During the year ended October 31, 1999, we modified our bonus plan for certain associates. A portion of their bonus will be paid by issuing a deferred right to receive our Class A Common Stock. The

number of shares will be calculated by dividing the portion of the bonus subject to the deferred right award by our stock price on the date the bonus is earned. 25% of the deferred right award will vest and shares will be issued one year after the year end and then 25% a year for the next three years. During the years ended October 31, 2001 and 2000, we issued 84,962 and 25,000 shares under the plan. During the years ended October 31, 2001 and 2000 41,550 and 26,000 shares were forfeited under this plan, respectively. For the years ended October 31, 2001, 2000, and 1999, approximately 319,000, 281,000, and 200,000 deferred rights were awarded in lieu of \$3,857,000, \$1,923,000, and \$1,534,000 of bonus payments, respectively.

14. COMMITMENTS AND CONTINGENT LIABILITIES

We are involved from time to time in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. We were involved in an action resulting from the non-performance by a land owner (the "Defendant") to sell real property to us. In 1999, we entered into a Settlement Agreement and Mutual Release ("SAMR") relating to this action. Pursuant to the terms of the SAMR, the Defendant stipulated to a judgement in our favor in the amount of \$3,535,349. In 2000 the judgement was upheld in bankruptcy proceedings. As a result of the bankruptcy proceeding and evaluation of the collateral underlying our claim, we recorded a net gain on settlement of \$1.8 million which is included in land sales and other revenues in the consolidated statements of income at October 31, 2000.

As of October 31, 2001 and 2000, respectively, we are obligated under various performance letters of credit amounting to \$10,223,000 and \$4,284,000. (See Note 5)

15. ACQUISITIONS

On August 7, 1999 we acquired The Matzel and Mumford Organization, Inc. ("M & M"), a New Jersey homebuilder and its related entities. On October 1, 1999 we acquired the Goodman Family of Builders, L.P. ("Goodman"), a Texas homebuilder and its related entities. The combined purchase price for both acquisitions was approximately \$24,400,000 in cash and 1,845,359 shares of our Class A Common Stock at a weighted average share price of \$7.18, of which 483,302 shares were held in escrow (and thus not reported as issued and outstanding) for pre-acquisition contingencies. As of October 31, 2001, 241,651 of those shares held in escrow were released. At the dates of the acquisition we loaned the acquired entities approximately \$85,000,000 to pay off their third party debt. In addition, both the M & M and Goodman acquisitions provide for other payments to be made generally dependent upon the achievement of certain future operating and return objectives.

Both acquisitions were accounted for as a purchase with the results of operations of the acquired entities included in our consolidated financial statements as of the dates of acquisitions. The purchase prices were allocated based on estimated fair values at the dates of the acquisitions. An intangible asset equal to the excess purchase prices over the fair values of net assets acquired of \$19,998,000 has been recorded in prepaid expenses and other assets on the consolidated balance sheet; this amount is being amortized on a straight-line basis over a period of ten years.

On January 23, 2001 we merged with Washington Homes, Inc. for a total purchase price of \$87.4 million, of which \$38.5 million was paid in cash and 6,352,900 shares of our Class A Common Stock valued at \$44.9 million were issued and options were issued to Washington Homes, Inc. employees with an intrinsic value of \$3.4 million were converted to 738,785 of our options. At the date of acquisition we loaned Washington Homes, Inc. approximately \$57,000,000 to pay off their third party debt.

The merger with Washington Homes, Inc. was accounted for as a purchase with the results of operations of the merged entity included in our consolidated financial statements as of the date of the merger. The purchase price was allocated based on estimated fair value at the date of the merger. An intangible asset equal to the excess purchase price over the fair value of the net assets of \$16,689,000 is recorded in prepaid expenses and other assets on the consolidated balance sheet. This amount is being amortized on a straight line basis over a period of ten years.

The following unaudited pro forma financial data presents a summary of our consolidated results of operations as if the merger with Washington Homes, Inc. on January 23, 2001 had occurred on November 1, 1999. Unaudited pro forma financial data is presented for information purposes only and may not be indicative of the actual amounts of the Company had the events occurred on the dates listed above, nor does it purport to

represent future periods.

	Year Ended October 31,	
	2001	2000
	(In Thousands Except Per Share)	
Revenues.....	\$1,811,701	\$1,617,161
Expenses.....	1,704,844	1,544,083
Income Taxes.....	42,126	27,556
Net Income.....	\$ 64,731	\$ 45,522
Diluted Net Income Per Common Share.....	\$ 2.22	\$ 1.59

These pro forma results have been prepared for comparative purposes only and include certain adjustments including additional amortization expense as a result of goodwill, additional compensation and increased interest expense on acquisition debt. This pro forma does not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on November 1, 1999 or of future results of operations of the consolidated entities.

16. Restructuring Charges

Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina will be either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. Expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. We estimated that approximately 58 associates would be terminated. We have accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated are primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocating various administrative offices in these three states. At October 31, 2001 \$1.5 million has been charged against termination costs relating to the termination of 55 associates and \$0.5 million has been charged against closing and relocation costs.

17. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY INFORMATION

Summarized quarterly financial information for the years ended October 31, 2001 and 2000 is as follows:

	Three Months Ended			
	October 31, 2001	July 31, 2001	April 30, 2001	January 31, 2001(1)
	(In Thousands Except Per Share Data)			
Revenues.....	\$537,185	\$509,250	\$402,340	\$293,188
Expenses.....	\$500,243	\$473,965	\$379,773	\$281,628
Income before income taxes...	\$ 36,942	\$ 35,285	\$ 22,567	\$ 11,560
State and Federal income tax.	\$ 15,251	\$ 14,273	\$ 8,507	\$ 4,637
Net Income.....	\$ 21,691	\$ 21,012	\$ 14,060	\$ 6,923
Per Share Data:				
Basic:				
Net Income.....	\$ 0.77	\$ 0.74	\$ 0.50	\$ 0.31
Weighted average number of common shares outstanding	28,288	28,375	28,176	22,286
Assuming Dilution:				
Net Income.....	\$ 0.74	\$ 0.71	\$ 0.48	\$ 0.30
Weighted average number of common shares outstanding	29,227	29,623	29,472	22,732

(1) On January 23, 2001, we merged with Washington Homes, Inc.

	Three Months Ended			
	October 31, 2000	July 31, 2000	April 30, 2000	January 31, 2000
	(In Thousands Except Per Share Data)			
Revenues.....	\$352,483	\$284,620	\$241,487	\$256,969
Expenses.....	\$323,151	\$272,362	\$236,035	\$252,193

Income before income taxes...	\$ 29,332	\$ 12,258	\$ 5,452	\$ 4,776
State and Federal income tax.	\$ 11,170	\$ 4,167	\$ 1,994	\$ 1,324
Net Income.....	\$ 18,162	\$ 8,091	\$ 3,458	\$ 3,452

Per Share Data:

Basic:

Net Income.....	\$ 0.85	\$ 0.37	\$ 0.16	\$ 0.15
Weighted average number of common shares outstanding	21,463	21,904	22,054	22,327

Assuming Dilution:

Net Income.....	\$ 0.84	\$ 0.37	\$ 0.16	\$ 0.15
Weighted average number of common shares outstanding	21,704	21,949	22,111	22,413

18. FINANCIAL INFORMATION OF SUBSIDIARY ISSUER AND SUBSIDIARY GUARANTORS

Hovnanian Enterprises, Inc., the parent company (the "Parent") is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc., (the "Subsidiary Issuer") was the issuer of certain Senior Notes on May 4, 1999 and October 2, 2000.

The Subsidiary Issuer acts as a finance and management entity that as of October 31, 2001 had issued and outstanding approximately \$97,747,000 subordinated notes, \$300,000,000 senior notes and a revolving credit agreement with an outstanding balance of zero. The subordinated notes, senior notes and the revolving credit agreement are fully and unconditionally guaranteed by the Parent.

Each of the wholly owned subsidiaries of the Parent (collectively the "Guarantor Subsidiaries"), with the exception of various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary holding and licensing the "K. Hovnanian" trade name, a subsidiary engaged in homebuilding activity in Poland, our Title subsidiaries, and a joint venture (collectively the "Non-guarantor Subsidiaries"), have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the senior notes and revolving credit agreement of the Subsidiary Issuer.

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

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

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2001
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Homebuilding.....	\$ 2,022	\$ 50,565	\$ 882,715	\$ 10,229	\$	\$ 945,531
Financial Services.....			205	117,803		118,008
Income Taxes (Payables)Receivables.	(5,067)	(3,658)	11,893	(2,449)		719
Investments in and amounts due to and from consolidated subsidiaries.....	378,691	375,514	(668,285)	14,513	(100,433)	
Total Assets.....	\$375,646	\$ 422,421	\$ 226,528	\$ 140,096	\$ (100,433)	\$1,064,258
Liabilities						
Homebuilding.....	\$	\$ 14,679	\$ 161,759	\$ 291	\$	\$ 176,729
Financial Services.....				103,569		103,569
Notes Payable.....		408,206	108			408,314
Income Taxes Payable.....						
Stockholders' Equity.....	375,646	(464)	64,661	36,236	(100,433)	375,646
Total Liabilities and Stockholders'						

Equity.....\$375,646 \$ 422,421 \$ 226,528 \$ 140,096 \$ (100,433)\$1,064,258
=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2000
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Assets						
Homebuilding.....	\$ (63)	\$ 76,648	\$ 717,484	\$ 8,002	\$	\$ 802,071
Financial Services.....			994	70,476		71,470
Income Taxes (Payables)Receivables.	(4,585)	(5,873)	12,567	(2,109)		
Investments in and amounts due to and from consolidated subsidiaries.....	268,007	353,115	(473,872)	577	(147,827)	
Total Assets.....	\$263,359	\$ 423,890	\$ 257,173	\$ 76,946	\$(147,827)	\$ 873,541
	=====	=====	=====	=====	=====	=====
Liabilities						
Homebuilding.....	\$	\$ 11,533	\$ 122,807	\$ 1,060	\$	\$ 135,400
Financial Services.....			457	61,114		61,571
Notes Payable.....		409,041	98			409,139
Income Taxes Payable.....			4,072			4,072
Stockholders' Equity.....	263,359	3,316	129,739	14,772	(147,827)	263,359
Total Liabilities and Stockholders' Equity.....	\$263,359	\$ 423,890	\$ 257,173	\$ 76,946	\$(147,827)	\$ 873,541
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
TWELVE MONTHS ENDED OCTOBER 31, 2001
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Revenues:						
Homebuilding.....	\$	\$ 431	\$1,701,394	\$ 46,190	\$ (37,480)	\$1,710,535
Financial Services.....			10,391	21,037		31,428
Intercompany Charges.....		96,368	30,480		(126,848)	
Equity In Pretax Income of Consolidated Subsidiaries.....	106,354				(106,354)	
Total Revenues.....	106,354	96,799	1,742,265	67,227	(270,682)	1,741,963
	-----	-----	-----	-----	-----	-----
Expenses:						
Homebuilding.....		96,799	1,637,238	8,935	(128,806)	1,614,166
Financial Services.....			5,748	15,821	(126)	21,443
Total Expenses.....		96,799	1,642,986	24,756	(128,932)	1,635,609
	-----	-----	-----	-----	-----	-----
Income (Loss) Before Income Taxes	106,354		99,279	42,471	(141,750)	106,354
State and Federal Income Taxes....	42,668	109	39,278	16,448	(55,835)	42,668
Net Income (Loss).....	\$63,686	\$ (109)	\$ 60,001	\$ 26,023	\$ (85,915)	\$ 63,686
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
TWELVE MONTHS ENDED OCTOBER 31, 2000
(Thousands of Dollars)

Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
-----	-----	-----	-----	-----	-----

Revenues:							
Homebuilding.....	\$	\$ 391	\$1,112,173	\$	21,397	\$ (17,726)	\$1,116,235
Financial Services.....			6,028		13,296		19,324
Intercompany Charges.....		82,051	34,505			(116,556)	
Equity In Pretax Income of Consolidated Subsidiaries.....	51,818					(51,818)	
Total Revenues.....	51,818	82,442	1,152,706		34,693	(186,100)	1,135,559
Expenses:							
Homebuilding.....		66,232	1,094,207		2,831	(99,279)	1,063,991
Financial Services.....			4,591		15,426	(267)	19,750
Total Expenses.....		66,232	1,098,798		18,257	(99,546)	1,083,741
Income (Loss) Before Income Taxes..	51,818	16,210	53,908		16,436	(86,554)	51,818
State and Federal Income Taxes....	18,655	6,616	18,438		5,757	(30,811)	18,655
Net Income (Loss).....	\$33,163	\$ 9,594	\$ 35,470	\$	10,679	\$ (55,743)	\$ 33,163

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF INCOME
TWELVE MONTHS ENDED OCTOBER 31, 1999
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding.....	(159)	\$ 1,120	\$ 922,333	\$ 22,767	\$ (20,405)	\$ 925,656
Financial Services.....			3,561	17,197		20,758
Intercompany Charges.....		91,695	72		(91,767)	
Equity In Pretax Income of Consolidated Subsidiaries.....	50,776				(50,776)	
Total Revenues.....	50,617	92,815	925,966	39,964	(162,948)	946,414
Expenses:						
Homebuilding.....		90,111	865,736	2,248	(81,997)	876,098
Financial Services.....			2,757	17,370	(428)	19,699
Total Expenses.....		90,111	868,493	19,618	(82,425)	895,797
Income (Loss) Before Income Taxes..	50,617	2,704	57,473	20,346	(80,523)	50,617
State and Federal Income Taxes....	19,674	917	21,453	7,771	(30,141)	19,674
Extraordinary Loss.....	(868)	(868)			868	(868)
Net Income (Loss).....	\$30,075	\$ 919	\$ 36,020	\$ 12,575	\$ (49,514)	\$ 30,075

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2001
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Cash Flows From Operating Activities:						
Net Income.....	\$ 63,686	\$ (109)	\$ 60,001	\$ 26,023	\$ (85,915)	\$ 63,686
Adjustments to reconcile net income to net cash provided by (used in) operating activities..	102,908	99,063	(264,122)	(50,381)	85,915	(26,617)
Net Cash Provided By (Used In) Operating Activities.....	166,594	98,954	(204,121)	(24,358)		37,069
Net Cash Provided By (Used In) Investing Activities.....	(49,622)	(3,770)	13,399	264		(39,729)
Net Cash Provided By (Used In)						

Financing Activities.....	(6,215)	114	(59,555)	41,212	(24,444)
Intercompany Investing and Financing Activities - Net.....	(110,684)	(118,767)	243,387	(13,936)	
Net Increase (Decrease).....	73	(23,469)	(6,890)	3,182	(27,104)
In Cash and Cash Equivalents Balance, Beginning of Period.....	(63)	17,629	22,506	3,181	43,253
Cash and Cash Equivalents Balance, End of Period.....	\$ 10	\$ (5,840)	\$ 15,616	\$ 6,363	\$ 16,149
	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 2000
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$ 33,163	\$ 9,594	\$ 35,470	\$ 10,679	\$ (55,743)	\$ 33,163
Adjustments to reconcile net income to net cash provided by (used in) operating activities...	751	80,742	(196,014)	(35,030)	55,743	(93,808)
Net Cash Provided By (Used In) Operating Activities.....	33,914	90,336	(160,544)	(24,351)		(60,645)
Net Cash Provided By (Used In) Investing Activities.....	(231)	(13,262)	(4,433)	(9)		(17,935)
Net Cash Provided By (Used In) Financing Activities.....	(6,461)	76,305	6,864	25,760		102,468
Intercompany Investing and Financing Activities - Net.....	(27,331)	(130,355)	156,011	1,675		
Net Increase (Decrease).....	(109)	23,024	(2,102)	3,075		23,888
In Cash and Cash Equivalents Balance, Beginning of Period.....	46	(5,395)	24,608	106		19,365
Cash and Cash Equivalents Balance, End of Period.....	\$ (63)	\$ 17,629	\$ 22,506	\$ 3,181		\$ 43,253
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED OCTOBER 31, 1999
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$ 30,075	\$ 919	\$ 36,020	\$ 12,575	\$ (49,514)	\$ 30,075
Adjustments to reconcile net income to net cash provided by (used in) operating activities...	15,774	311	(123,977)	63,782	49,514	5,404
Net Cash Provided By (Used In) Operating Activities.....	45,849	1,230	(87,957)	76,357		35,479
Net Cash Provided By (Used In) Investing Activities.....		(9,478)	1,868	480		(7,130)
Net Cash Provided By (Used In) Financing Activities.....	(6,291)	106,676	(40,326)	(84,597)		(24,538)
Intercompany Investing and Financing Activities - Net.....	(39,526)	(94,163)	128,000	5,689		
Net Increase (Decrease).....	32	4,265	1,585	(2,071)		3,811
In Cash and Cash Equivalents Balance, Beginning of Period.....	14	(9,660)	23,023	2,177		15,554
Cash and Cash Equivalents Balance, End of Period.....	\$ 46	\$ (5,395)	\$ 24,608	\$ 106		\$ 19,365

19. Subsequent Event (Unaudited)

On December 19, 2001 we entered into a purchase agreement with The Forecast Group, L.P. ("TFG"), a California homebuilder, to acquire certain assets and assume related liabilities for an estimated purchase price of \$176.0 million plus the assumption of debt net of cash acquired. The transaction closed on January 10, 2002 but the final purchase price is subject to adjustment based on financial performance through January 31, 2002. Under the terms of the agreement the partners in TFG received \$45.5 million of Hovnanian restricted Class A Common Stock amounting to approximately 2,200,000 shares and the balance in cash.

EXHIBIT 21
SUBSIDIARY LISTING

K. Hovnanian Equities, Inc.
EXC, Inc.
K. Hovnanian Companies of North Carolina, Inc.
KHL, Inc.
Hovnanian Texas, Inc.
Hovnanian Georgia, Inc.
Hovnanian Financial Services III, Inc.
K. Hovnanian Mortgage USA, Inc.
Hovnanian Financial Services IV, Inc.
K. Hovnanian Developments of New Jersey, Inc.
KHE Finance, Inc.
K. Hov International, Inc.
Hovnanian Financial Services II, Inc.
New Fortis Investment
Hovnanian Financial Services I, Inc.
K. Hovnanian Enterprises, Inc.
Hovnanian Pennsylvania, Inc.
Recreational Development Corp., Inc.
K. Hovnanian Marine, Inc.
K. Hovnanian Aviation, Inc.
K. Hovnanian Companies of North Jersey, Inc.
K. Hovnanian at Montville, Inc.
K. Hovnanian at Wayne, Inc.
K. Hovnanian at Mahwah IV, Inc.
K. Hovnanian at Morris II, Inc.
K. Hovnanian at Mahwah II, Inc.
K. Hovnanian at Mahwah III, Inc.
K. Hovnanian at Northern Westchester, Inc.
K. Hovnanian at Hanover, Inc.
K. Hovnanian at Montville II, Inc.
K. Hovnanian at Newark Urban Renewal Corp.I, Inc.
K. Hovnanian at Newark I, Inc.
K. Hovnanian at Newark Urban Renewal Corp.II, Inc.
Jersey City Danforth CS0, Inc.
K. Hovnanian at Newark Urban Renewal Corp.III, Inc.
K. Hovnanian at Newark Urban Renewal Corp. IV, Inc.
K. Hovnanian at Newark Urban Renewal Corp. V, Inc.
K. Hovnanian at Jersey City I, Inc.
K. Hovnanian at Jersey City II, Inc.(Phase 2A)
K. Hovnanian at Jersey City III, Inc.
K. Hovnanian at Mahwah VI, Inc.
K. Hovnanian at Jersey City II, Inc.(Phase 2B)
K. Hovnanian at Mahwah VII, Inc.
K. Hovnanian at Montclair, New Jersey, Inc.
K. Hovnanian at Horizon Heights, Inc.
K. Hovnanian at Reservoir Ridge, Inc.
K. Hovnanian at Mahwah V, Inc.
K. Hovnanian at Mahwah VIII, Inc.
K. Hovnanian of North Jersey, Inc. (Hudson River)
Montego Bay I Acquisition Corp., Inc.
Montego Bay Associates Limited I, LP (MBAI)
Montego Bay II Acquisition Corp., Inc.
Montego Bay Associates Limited II, LP (MBAIL)
0515 Co., Inc.
K. Hovnanian at North Brunswick IV, Inc.
K. Hovnanian Properties of North Brunswick IV, Inc.
Arrow Properties, Inc.
KHIPE, Inc.
Pine Brook Company, Inc.
K. Hovnanian Properties of North Brunswick II, Inc.
K. Hovnanian Properties of Galloway, Inc.
K. Hovnanian at Cedar Grove I, Inc.
K. Hovnanian at Cedar Grove II, Inc.
K. Hovnanian Properties of Piscataway, Inc.
K. Hovnanian Properties of North Brunswick I, Inc.
Molly Pitcher Renovations, Inc.
K. Hovnanian Properties of East Brunswick II, Inc.
K. Hovnanian Investment Properties of N.J., Inc.
K. Hovnanian Investment Properties, Inc.
Hovnanian Properties of Atlantic County, Inc.
K. Hovnanian Properties of Newark Urban Renewal Corporation, Inc.
K. Hovnanian Properties of Hamilton, Inc.
K. Hovnanian Properties of Franklin, Inc.
K. Hovnanian Properties of North Brunswick III, Inc.
K. Hovnanian Properties of Franklin II, Inc.
K. Hovnanian at Jacksonville, Inc.
K. Hovnanian Properties of North Brunswick V, Inc.
K. Hovnanian Properties of Wall, Inc.
K. Hovnanian at Pompano Beach, Inc.
Hovnanian Properties of Lake Worth, Inc.
Landarama, Inc.
K. Hovnanian Companies Northeast, Inc.
Parthenon Group
Minerva Group
K. Hovnanian Companies of Central Jersey, Inc.
K. Hovnanian Real Estate Investment, Inc.
K. Hovnanian at Princeton, Inc.

K. Hovnanian at South Brunswick III, Inc.
K. Hovnanian at South Brunswick IV, Inc.
K. Hovnanian at Plainsboro I, Inc.
K. Hovnanian at Plainsboro II, Inc.
K. Hovnanian at Klockner Farms, Inc.
K. Hovnanian at South Brunswick II, Inc.
K. Hovnanian at Hopewell III, Inc.
K. Hovnanian at Hopewell I, Inc.
K. Hovnanian at South Brunswick, Inc.
K. Hovnanian at East Windsor I, Inc.
K. Hovnanian at North Brunswick II, Inc.
K. Hovnanian at North Brunswick III, Inc.
K. Hovnanian at Hopewell II, Inc.
K. Hovnanian at Somerset VIII, Inc.
K. Hovnanian at Lawrence Square, Inc.
Dryer Associates, Inc.
K. Hovnanian at East Brunswick V, Inc.
K. Hovnanian at Bernards II, Inc.
K. Hovnanian at Bridgewater III, Inc.
K. Hovnanian at Plainsboro III, Inc.
K. Hovnanian at Somerset V, Inc.
K. Hovnanian at Somerset VI, Inc.
Eastern Title Agency, Inc.
K. Hovnanian Mortgage, Inc.
Governors Abstract
Eastern National Title Insurance Agency, Inc.
Founders Title Agency, Inc.
K. Hovnanian Companies North Central Jersey, Inc.
K. Hovnanian at Bedminster, Inc.
K. Hovnanian at Bridgewater IV, Inc.
K. Hovnanian at Branchburg III, Inc.
K. Hovnanian at Spring Ridge, Inc.
K. Hovnanian at Bridgewater V, Inc.
K. Hovnanian at Readington, Inc.
K. Hovnanian at Branchburg II, Inc.
K. Hovnanian at Bridgewater II, Inc.
K. Hovnanian at Branchburg I, Inc.
K. Hovnanian Companies Jersey Shore, Inc.
K. Hovnanian at Wall Township, Inc.
K. Hovnanian at Galloway VIII, Inc.
K. Hovnanian at Dover Township, Inc.
K. Hovnanian at Galloway VII, Inc.
K. Hovnanian at Tinton Falls II, Inc.
K. Hovnanian at Ocean Township, Inc.
K. Hovnanian at Wall Township II, Inc.
K. Hovnanian at Wall Township III, Inc.
K. Hovnanian at Holmdel Township, Inc.
K. Hovnanian at Wall Township IV, Inc.
K. Hovnanian at Wall Township V, Inc.
K. Hovnanian at Atlantic City, Inc.
K. Hovnanian at Ocean Township II, Inc.
K. Hovnanian at Ocean Township, Inc.
K. Hovnanian at Marlboro Township, Inc.
K. Hovnanian at Howell Township, Inc.
K. Hovnanian at Howell Township II, Inc.
K. Hovnanian at Woodbury Oaks, Inc.
K. Hovnanian at Freehold Township, Inc.
K. Hovnanian at Lakewood, Inc.
K. Hovnanian Companies of the Delaware Valley, Inc.
K. Hovnanian Co. of Delaware Valley, Inc. Brokerage Company
K. Hovnanian at Lower Saucon, Inc.
K. Hovnanian at Perkiomen I, Inc.
K. Hovnanian at Montgomery I, Inc.
K. Hovnanian at Upper Merion, Inc.
K. Hovnanian at Perkiomen II, Inc.
K. Hovnanian Companies of South Jersey, Inc.
K. Hovnanian at Valleybrook, Inc.
Kings Grant Evesham Corp.
K. Hovnanian at Burlington, Inc.
K. Hovnanian at Medford I, Inc.
K. Hovnanian at The Reserve @ Medford, Inc.
K. Hovnanian at Kings Grant I, Inc.
K. Hovnanian at Valleybrook II, Inc.
K. Hovnanian Real Estate of Florida, Inc.
Hovnanian Developments of Florida, Inc.
K. Hovnanian Companies of Florida, Inc.
Hovnanian of Palm Beach II, Inc.
Hovnanian of Palm Beach III, Inc.
Hovnanian of Palm Beach IV, Inc.
Hovnanian of Palm Beach V, Inc.
Hovnanian of Palm Beach VI, Inc.
Hovnanian of Palm Beach VII, Inc.
Hovnanian of Palm Beach VIII, Inc.
Hovnanian of Palm Beach IX, Inc.
Hovnanian at Tarpon Lakes I, Inc.
Hovnanian at Tarpon Lakes II, Inc.
Hovnanian at Tarpon Lakes III, Inc.
K. Hovnanian at Pasco I, Inc.
K. Hovnanian at Ft. Myers I, Inc.
K. Hovnanian at Palm Beach XI, Inc.
K. Hovnanian at Jensen Beach, Inc.

Hovnanian of Palm Beach X, Inc.
K. Hovnanian at Martin Downs I, Inc.
K. Hovnanian at Jacksonville I, Inc.
K. Hovnanian at Ft. Myers II, Inc.
K. Hovnanian at Lawrence Grove, Inc.
K. Hovnanian at Jacksonville II, Inc.
K. Hovnanian of Palm Beach XIII, Inc.
Hovnanian of Palm Beach, Inc.
K. Hovnanian at Half Moon Bay, Inc.
K. Hovnanian at Woodridge Estates, Inc.
Pike Utilities, Inc.
Tropical Service Builders, Inc.
K. Hovnanian at Embassy Lakes, Inc.
K. Hovnanian at Delray Beach II, Inc.
K. Hovnanian at Orlando I, Inc.
K. Hovnanian at Orlando II, Inc.
K. Hovnanian at Orlando III, Inc.
K. Hovnanian at Martin Downs II, Inc.
K. Hovnanian at Orlando IV, Inc.
K. Hovnanian Properties of Orlando, Inc.
K. Hovnanian at Delray Beach I, Inc.
K. Hovnanian at Pasco II, Inc.
K. Hovnanian at Port St. Lucie I, Inc.
K. Hovnanian at Delray Beach, Inc.
Eastern National Title Insurance Agency, Inc.
K. Hovnanian Mortgage of Florida, Inc.
South Florida Residential Title Agency, Inc.
Eastern National Title Insurance Agency I, Inc.
Western Financial Services, Inc.
r. e. Scott Mortgage co. of Florida, Inc.
New K. Hovnanian Developments of Florida, Inc.
New K. Hovnanian Companies of Florida, Inc.
K. Hovnanian at Fairway Views, Inc.
K. Hovnanian at Lake Charleston, Inc.
K. Hovnanian at Carolina Country Club I, Inc.
K. Hovnanian at Chapel Trail, Inc.
K. Hovnanian at Winston Trails, Inc.
K. Hovnanian at Lakes of Boca Raton, Inc.
K. Hovnanian at Lake Charleston II, Inc.
K. Hovnanian at Lake Charleston III, Inc.
K. Hovnanian at Carolina Country Club II, Inc.
K. Hovnanian at Winston Trails, Inc.
K. Hovnanian at Pembroke Isles, Inc.
K. Hovnanian at Carolina Country Club III, Inc.
K. Hovnanian at Coconut Creek, Inc.
K. Hovnanian at Polo Trace, Inc.
K. Hovnanian Companies of New York, Inc.
K. Hovnanian at Westchester, Inc.
K. Hovnanian at Peekskill, Inc.
K. Hovnanian at Washingtonville, Inc.
K. Hovnanian at Mahopac, Inc.
K. Hovnanian at Carmel, Inc.
K. Hovnanian Developments of New York, Inc.
Cedar Hill Water Corporation
Cedar Hill Sewer Corporation
R.C.K. Community Management Co., Inc.
K. Hovnanian Companies of Massachusetts, Inc.
K. Hovnanian at Merrimack, Inc.
K. Hovnanian at Merrimack II, Inc.
K. Hovnanian at Taunton, Inc.
New England Community Management Co., Inc.
K. Hovnanian Cos. of Metro Washington, Inc.
K. Hovnanian at Ashburn Village, Inc.
K. Hovnanian at Woodmont,, Inc.
K. Hovnanian at Sully Station, Inc.
K. Hovnanian at Bull Run, Inc.
K. Hovnanian at Montclair, Inc.
K. Hovnanian at River Oaks, Inc.
K. Hovnanian at Holly Crest, Inc.
K. Hovnanian at Woodmont, Inc.
K. Hovnanian at Montclair, Inc.(Montclair Condos)
K. Hovnanian at Fair Lakes, Inc.
K. Hovnanian at Ashburn Village, Inc.
K. Hovnanian at Park Ridge, Inc.
K. Hovnanian at Belmont, Inc.
K. Hovnanian at Fair Lakes Glen, Inc.
K. Hovnanian Developments of Metro Washington, Inc.
K. Hovnanian at River Oaks, Inc.
K. Hovnanian at Montclair, Inc. (Montclair Laing)
K. Hovnanian Companies of California, Inc.
K. Hovnanian at Clarkstown, Inc.
K. Hovnanian at West Orange, Inc.
K. Hovnanian at Wayne III, Inc.
K. Hovnanian at Wayne IV, Inc.
K. Hovnanian at Wayne V, Inc.
K. Hovnanian at Hackettstown, Inc.
K. Hovnanian at Spring Mountain, Inc.
K. Hovnaian at East Windsor II, Inc.
K. Hovnanian Treasure Coast, Inc.
K. Hovnanian at La Terraza, Inc.
K. Hovnanian at Highland Vineyards, Inc.

K. Hovnanian Companies of Southern California II, Inc.
K. Hovnanian at Vail Ranch, Inc.
K. Hovnanian at Carmel Del Mar, Inc.
K. Hovnanian at Calabria, Inc.
K. Hovnanian Developments of California, Inc.
K. Hovnanian at Ballantrae, Inc.
Ballantrae Home Sales, Inc.
K. Hovnanian at Hunter Estates, Inc.
K. Hovnanian Developments of Maryland, Inc.
K. Hovnanian Companies of Maryland, Inc.
K. Hovnanian at Seneca Crossing, Inc.
K. Hovnanian at Exeter Hills, Inc.
K. Hovnanian Southeast Florida, Inc.
K. Hovnanian Florida Region, Inc.
K. Hovnanian at East Brunswick VI, Inc.
K. Hovnanian at Berlin, Inc.
K. Hovnanian at Bedminster II, Inc.
K. Hovnanian at Marlboro Township II, Inc.
K. Hovnanian at Inverrary I, Inc.
K. Hovnanian at Mahwah IX, Inc.
K. Hovnanian at Hopewell IV, Inc.
K. Hovnanian at Northlake, Inc.
K. Hovnanian at Castile, Inc.
K. Hovnanian at Tierrasanta, Inc.
K. Hovnanian at Bridgewater VI, Inc.
K. Hovnanian at Preston, Inc.
K. Hovnanian at Bernards III, Inc.
K. Hovnanian at Wayne VI, Inc.
K. Hovnanian at Rancho Cristianitos, Inc.
K. Hovnanian at La Trovata, Inc.
K. Hovnanian at Watchung Reserve, Inc.
K. Hovnanian at Windsong East Brunswick, Inc.
K. Hovnanian at South Brunswick V, Inc.
K. Hovnanian at Wall Township III, Inc.
K. Hovnanian at Tannery Hill, Inc.
K. Hovnanian at Upper Freehold Township I, Inc.
K. Hovnanian at Jefferson, Inc.
K. Hovnanian at Hershey's Mill, Inc.
K. Hovnanian at Bernards VI, Inc.
K. Hovnanian at Port Imperial North, Inc.
K. Hovnanian at Hopewell V, Inc.
K. Hovnanian at Hopewell VI, Inc.
K. Hovnanian at Manalapan II, Inc.
K. Hovnanian at Union Township, Inc.
K. Hovnanian at Wayne VII, Inc.
K. Hovnanian at Scotch Plains II, Inc.
K. Hovnanian at Thornbury, Inc.
K. Hovnanian at Cameron Chase, Inc.
K. Hovnanian at Marlboro Township IV, Inc.
K. Hovnanian at Port Imperial Urban Renewal, Inc.
K. Hovnanian at East Whiteland, Inc.
K. Hovnanian at Stonegate, Inc.
K. Hovnanian Companies of Southern California, Inc.
K. Hovnanian at Crestline, Inc.
K. Hovnanian at Sycamore, Inc.
K. Hovnanian at Saratoga, Inc.
K. Hovnanian at Stone Canyon, Inc.
K. Hovnanian at Chaparral, Inc.
K. Hovnanian at Ocean Walk, Inc.
K. Hovnanian at Maplewood, Inc.
K. Hovnanian at Tuxedo, Inc.
K. Hovnanian at Bridgeport, Inc.
K. Hovnanian at Stonegate, Inc. (California)
K. Hovnanian at Lower Saucon II, Inc.
K. Hovnanian at Barrington, Inc.
K. Hovnanian at The Glen, Inc.
K. Hovnanian at Hampton Oaks, Inc.
K. Hovnanian at Summerwood, Inc.
K. Hovnanian at Chester I, LLC
K. Hovnanian at West Windsor, LLC
K. Hovnanian at Bernards V, LLC
K. Hovnanian's Four Seasons of the Palm Beaches, Inc.
K. Hovnanian at Menifee, LLC
K. Hovnanian at Rowland Heights, LLC
K. Hovnanian at Winchester, LLC
K. Hovnanian at Carmel Village, LLC
K. Hovnanian's Four Seasons, LLC
K. Hovnanian at North Brunswick VI, LLC
K. Hovnanian at Lawrence V, LLC
K. Hovnanian at Jackson, LLC
K. Hovnanian at Blue Heron Pines, LLC
K. Hovnanian at Middletown, LLC
K. Hovnanian at Berkeley, LLC
K. Hovnanian at Guttenberg, LLC
K. Hovnanian at Prince William, LLC
K. Hovnanian at Lake Terrapin, LLC
K. Hovnanian at King Farm, LLC
K. Hovnanian at South Bank, LLC
K. Hovnanian at Clifton, LLC
K. Hovnanian at Jersey City IV, LLC
K. Hovnanian at Lafayette Estates, LLC

K. Hovnanian at Upper Freehold II, LLC
K. Hovnanian at Kincaid, LLC
K. Hovnanian at Linwood, LLC
K. Hovnanian at South Amboy, LLC
K. Hovnanian at Upper Freehold Township III, LLC
K. Hovnanian at Brenbrooke, LLC
K. Hovnanian at Blooms Crossing, LLC
K. Hovnanian at Spring Hill Road, LLC
K. Hovnanian at St. Margarets, LLC
K. Hovnanian at Paramus, LLC
K. Hovnanian Developments of Texas, Inc.
The Matzel & Mumford Organization, Inc.
Matzel & Mumford of Delaware, Inc.
K. Hovnanian at Kent Island, LLC
K. Hovnanian at Northfield, LLC
K. Hovnanian at Willow Brook, LLC
K. Hovnanian at South Brunswick II, Inc.
K. Hovnanian at Rancho Santa Margarita, LLC
K. Hovnanian at Arbor Heights, LLC
K. Hovnanian at the Gables, LLC
K. Hovnanian at Riverbend, LLC
K. Hovnanian at Encinitas Ranch, LLC
K. Hovnanian at Sunsets, LLC
K. Hovnanian at Pacific Bluffs, LLC
K. Hovnanian at Park Lane, LLC
K. Hovnanian at West Milford, LLC
K. Hovnanian at Washington, LLC
K. Hovnanian at Roderick, LLC
K. Hovnanian at Columbia Town Center, LLC
K. Hovnanian at North Haledon, LLC
K. Hovnanian at Curries Woods, LLC
K. Hovnanian at Lake Ridge Crossing, LLC
K. Hovnanian at Lower Moreland I, LLC
K. Hovnanian at Lower Moreland II, LLC
K. Hovnanian at Northampton, LLC
K. Hovnanian at Marlboro VII, LLC
K. Hovnanian at Marlboro VI, LLC
K. Hovnanian at Little Egg Harbor, LLC
K. Hovnanian at Barnegat I, LLC
K. Hovnanian at Cranbury, LLC
K. Hovnanian at Hamburg Contractors, LLC
K. Hovnanian at Little Egg Harbor Contractors, LLC
K. Hovnanian at Mt. Olive, LLC
K. Hovnanian at Sayreville, LLC
K. Hovnanian at Sayreville, LLC
K. Hovnanian at Cedar Grove III, LLC
K. Hovnanian at Woolwich I, LLC
K. Hovnanian at Wayne IX, LLC
K. Hovnanian at Woodhill Estates, LLC
K. Hovnanian Forecast, LLC
Westminster Homes of South Carolina, LLC
K. Hovnanian Developments of South Carolina, Inc.

ASSET PURCHASE AGREEMENT

Seller: THE FORECAST GROUP, L.P.
 Buyer: HOVNANIAN ENTERPRISES, INC.
 Dated: January 4, 2002

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Exhibits

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Buyer's Disclosure Schedule

Seller's Disclosure Schedule

A S S E T P U R C H A S E A G R E E M E N T

THIS ASSET PURCHASE AGREEMENT is entered into as of January (2), 2002 (the "Effective Date"), by and among (a)HOVNANIAN ENTERPRISES, INC., a Delaware corporation (the "Buyer"), (b)THE FORECAST GROUP, L.P., a California limited partnership (the "Seller"), and (c)JAMES P. PREVITI, an individual ("Previti").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. Prior to the Effective Date, the Parties hereto (among others) entered into an Option Agreement dated as of October 27, 2001 (the "Option Date") pursuant to which the Seller, Forecast PP2, LLC, a Delaware limited liability company, and Forecast Homes, Inc., a California corporation (Forecast PP2, LLC and Forecast Homes, Inc. shall collectively be referred to as the "Securities Sellers"), granted to the Buyer, in exchange for Two Million Dollars (\$2,000,000) (the "Option Consideration"), the option to purchase (a) the limited partnership interest and the general partnership interest (the "Securities") of Securities Partnership, L.P., a California limited partnership (the "Securities Partnership") pursuant to the Securities Purchase Agreement (as defined in Recital C below), and (b) certain assets owned by the Seller pursuant to this Agreement.

B. As of the Effective Date, the Seller is the owner of the assets listed on Exhibit A (the "Assets and Hold-Back Properties") attached hereto.

C. Simultaneously herewith, the Buyer, the Securities Sellers and Previti are entering into an agreement dated as of the Effective Date (the "Securities Purchase Agreement") pursuant to which the Buyer shall purchase all of the Securities from the Securities Sellers.

D. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into a lot option agreement (the "Lot Option Agreement") in the form attached hereto as Exhibit B (the "Form of Lot Option Agreement") pursuant to which the Buyer shall have the option to purchase the Hold-Back Properties.

E. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into an agreement (the "ROFO Agreement") in the form attached hereto as Exhibit C (the "Form of ROFO Agreement") pursuant to which Previti shall grant to the Buyer a right of first offer with respect to certain real property described therein.

F. At the Closing (and as a condition thereto), the Buyer, Premier Group, Inc., a California corporation ("Premier"), and Prestige Homes, L.P., a California limited partnership ("Prestige"), shall enter into an agreement (the "Non-Competition and Option Agreement") in the form attached hereto as Exhibit D (the "Form of Non-Competition and Option Agreement") pursuant to which each of Premier and Prestige shall agree, as more particularly set forth therein, to certain restrictions on its ability to (a) compete with the Buyer in the Homebuilding Business (as defined herein), and (b) solicit certain persons for employment.

G. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into an option agreement (the "Park Meadows Option Agreement") in the form attached hereto as Exhibit E (the "Form of Park Meadows Option Agreement") pursuant to which the Buyer shall have the option

to purchase certain real property described therein.

H. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into a consulting agreement (the "Consulting Agreement") in the form attached hereto as Exhibit F (the "Form of Consulting Agreement") pursuant to which Previti shall provide certain consulting services to the Buyer with respect to the Homebuilding Business.

I. At the Closing (and as a condition thereto), the Buyer and Forecast Development, L.P., a California limited partnership ("Forecast Development"), shall enter into an agreement (the "Forecast Development Option and Purchase Agreement") in the form attached hereto as Exhibit G (the "Form of Forecast Development Option and Purchase Agreement") pursuant to which Forecast Development shall grant to the Buyer an option to purchase Forecast Development's limited partnership interest in Premier.

J. At the Closing (and as a condition thereto), the Buyer and the Seller shall enter into an indemnification and release agreement (the "Indemnification and Release Agreement") in the form attached hereto as Exhibit H (the "Form of Indemnification and Release Agreement") pursuant to which (a) the Buyer shall indemnify and release the Seller with respect to any claims with respect to the Assets, and (b) the Seller shall indemnify and release the Buyer with respect to any claims regarding the Excluded Assets.

K. Prior to the Effective Date, the Buyer shall have delivered to the Seller a copy of the resolutions adopted by the Buyer's Board approving the execution, delivery, and performance of this Agreement and the transactions contemplated hereby and each agreement, certificate, instrument or other document to be delivered pursuant hereto to which the Buyer is a party.

L. Subject to the terms and conditions of this Agreement, the Seller desires to sell and the Buyer desires to buy all of the Assets at the Closing in consideration for, among other things, the Purchase Price.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the Parties, the Parties to this Agreement, intending to be legally bound, agree as follows:

SECTION 1. DEFINITIONS; PURCHASE AND SALE; CLOSING

1.1 Definitions.

1.1.1. General. For all purposes of this Agreement, except as otherwise expressly provided herein:

(a) the terms defined in this Section 1 have the meanings assigned to them in this Section 1 and include the plural as well as the singular;

(b) all accounting terms not otherwise defined in this Agreement have the meanings assigned to them under GAAP;

(c) unless otherwise specified, all references in this Agreement to designated "Sections," subsections and other subdivisions are to the designated Sections, subsections and other subdivisions of the body of this Agreement;

(d) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms;

(e) the words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, subsection or other subdivision; and

(f) the words "made available" shall mean a document that (i) is filed with the SEC and accessible on the SEC's website as of the Effective Date, or (ii) was placed in the document room accessible by the Buyer and its representatives for purposes of conducting its due diligence investigation on or before October 22, 2001, or (iii) is referenced in a title report or title policy with respect to Real Property delivered to the Buyer or placed in said room on or before October 22, 2001.

1.1.2. Definitions. As used in this Agreement and the Exhibits and Schedules delivered pursuant to this Agreement, the following definitions shall apply:

(a) "Account" shall have the meaning set forth in Section 2.7.

(b) "Action" means any action, complaint, claim, demand, accusation, petition, investigation, suit or other proceeding, including, without limitation, those under or relating to Environmental Laws, whether civil, criminal, administrative or investigative, in Law or in equity, or before any arbitrator or Governmental Entity.

(c) "Additional Consideration" shall have the meaning set forth in Section 1.6.1.

(d) "Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, a specified Person.

(e) "Agreement" means this Asset Purchase Agreement by and among the Buyer, the Seller and Previti, as the same may be amended or supplemented from time to time in accordance with its terms, together with all of the Exhibits and Schedules attached hereto or incorporated herein by reference.

(f) "Approval" means any approval, authorization, consent, qualification or registration, or any waiver of any of the foregoing, required to be obtained from, or any notice, statement or other communication required to be filed with or delivered to, any Governmental Entity or any other Person.

(g) "Assets" shall mean all of the assets owned by the Seller, the Consolidated Forecast Entities and Previti (other than the Excluded Assets) that are primarily used in the Homebuilding Business, including, without limitation, those which are listed as Assets on Exhibit A attached hereto.

(h) "Auditors" means Ernst & Young LLP, independent public accountants.

(i) "Buyer" shall have the meaning set forth in the introductory paragraph of this Agreement.

(j) "Buyer's Board" shall mean the board of directors of the Buyer.

(k) "Buyer's SEC Reports" shall mean the following reports filed by the Buyer with the SEC, in the form filed with the SEC, except to the extent permitted by Regulation S-T under the Securities Act: (i) its Annual Report to Shareholders and Annual Report on Form 10-K for the fiscal years ended September 30, 2000 and September 30, 2001, (ii) its Proxy Statement for its 2001 Annual Meeting of Shareholders, (iii) its Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, (iv) any Current Reports on Form 8-K filed by it after September 30, 2001, and (v) any amendments and supplements to any such reports filed by the Buyer with the SEC.

(l) "Buyer's Shares" shall mean the Common Stock conveyed to Seller pursuant to Section 1.3.1 hereof.

(m) "Call Payment" shall have the meaning set forth in Section 1.5.

(n) "Cash Purchase Portion" shall have the meaning set forth in Section 1.3.1.

(o) "CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as subsequently amended.

(p) "Change of Control" shall mean, in a transaction or series of related transactions, (i) the liquidation, winding up, or dissolution of the Buyer, whether voluntary or involuntary, (ii) the sale of all or substantially all of the assets of the Buyer, (iii) the reorganization or recapitalization of the Buyer, or (iv) the sale, merger, or consolidation of the Buyer in which the holders of the securities of the Buyer immediately prior to such transaction(s) hold less than fifty percent (50%) of the voting power of the surviving entity after such transaction(s).

(q) "Change of Control Payment" shall have the meaning set forth in Section 1.4.4.

(r) "Closing" means the consummation of the purchase and sale of the Assets pursuant to the terms of this Agreement.

(s) "Closing Date" shall mean February 1, 2002 or such other date as the Parties may mutually agree in writing.

(t) "Closing Price" shall have the meaning set forth in Section 1.3.1.

(u) "Closing Refund" shall have the meaning set forth in Section 1.6.1.

(v) "Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(w) "Collateral Agreements" means, collectively, the Lot Option Agreement, the ROFO Agreement, the Non-Competition and Option Agreement, the Park Meadows Option Agreement, the Forecast Development Option and Purchase Agreement, the Consulting Agreement, the Assignment and Assumption Agreement and the Indemnification and Release Agreement.

(x) "Common Stock" shall mean shares of the Class A common stock of the Buyer, par value \$.01 per share.

(y) "Consolidated Forecast Entities" means, collectively, the entities listed on Schedule 1.1 attached hereto, and their subsidiaries and predecessors engaged in the Homebuilding Business.

(z) "Consolidated Net Worth" means the aggregate book value of the Hold-Back Properties, the Assets and the Securities, plus any amounts credited to or deposited by or on behalf of (i) the Seller with respect to any Contract relating to the Assets, or (ii) the Securities Partnership with respect to any Contract less any Liabilities relating to the Assets of the Consolidated Forecast Entities and assumed by Buyer pursuant to this Agreement, the Securities Agreement or any Collateral Agreement (other than the Excluded Liabilities); provided, however, that the determination of the Consolidated Net Worth shall not take into account any stepped-up basis of the Assets resulting from the transactions contemplated hereby.

(aa) "Consulting Agreement" shall have the meaning set forth in Recital H.

(bb) "Contract" means any agreement, arrangement, bond, commitment, franchise, indemnity, indenture, instrument, lease, license or understanding, whether or not in writing, entered into by the Buyer, the Seller or any of the Consolidated Forecast Entities, as applicable, specifically excluding, however, the Collateral Agreements.

(cc) "Controlled Entity" means any entity (i) in which the direct or indirect beneficial ownership (as described in Rule 13d-3 under the Exchange Act) of at least fifty-one percent (51%) of its voting securities is held by Previti, or (ii) with respect to which Previti has the contractual right to exercise control.

(dd) "Covered Counties" shall have the meaning set forth in Section 5.1.2.

(ee) "Day" shall mean Larry R. Day, a natural person.

(ff) "days" shall mean calendar days, unless specifically provided to the contrary in a particular instance in this Agreement.

(gg) "Debt" shall have the meaning set forth in Section 1.12.

(hh) "Development Status" shall have the meaning set forth in Section 2.4.1.

(ii) "Disclosure Schedule" means a disclosure schedule attached to this Agreement and prepared by or on behalf of the Buyer or the Seller, as applicable, which disclosure schedules set forth with specificity exceptions to the representations and warranties of the Buyer and the Seller, respectively, contained in this Agreement.

(jj) "Divestiture Period" shall have the meaning set forth in Section 1.4.2.

(kk) "Effective Date" means the date this Agreement is duly authorized, executed and delivered by each Party to the other, as more particularly set forth in the introductory paragraph of this Agreement.

(ll) "Encumbrance" means any claim, charge, mortgage, title restriction, title defect, easement, encumbrance, lease, covenant, security interest, hypothecation, lien, option, pledge, rights of others, or restriction of any kind, imposed by Contract or Law, except for any restrictions on transfer generally arising under any applicable federal or state securities law.

(mm) "Environmental Laws" means any past or present federal, state or local codes, regulations, rules, statutes, ordinances or similar items of any Governmental Entities, and any covenants running with the land, that relate to environmental, health, industrial hygiene, pollution, or safety matters, including, without limitation, the Clean Air Act, CERCLA, the Federal Water Pollution Control Act, the Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act of 1976, the Toxic Substances Control Act, any other applicable Laws of any jurisdiction in which any of the Combined Forecast Entities is conducting or has during any specifically referenced time period set out in this Agreement conducted business and any judicial or administrative decrees, interpretations, judgments or Orders with respect thereto.

(nn) "Environmental Reports" shall have the meaning set forth in Section 2.4.9.

(oo) "Equity Securities" means any capital stock or other equity interest or any securities convertible into or exchangeable for capital stock or any other rights, warrants or options to acquire any of the foregoing securities.

(pp) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the related regulations and published interpretations.

(qq) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(rr) "Excluded Assets" shall mean, collectively, the Hold-Back Property and the Previti Projects.

(ss) "Excluded Employees" shall have the meaning set forth in Section 5.1.1.

(tt) "Excluded Liabilities" shall mean any and all known and unknown Liabilities (i) associated with the Excluded Assets or arising as a result of or in connection with the ownership or use of the Excluded Assets by the Seller, including, without limitation, under any Environmental Law, and (ii) of the Seller, Previti or any of their Affiliates relating to, pertaining to, or arising out of the Assets with respect to income or other Taxes for periods or portions thereof ending on or prior to the Closing Date, including, without limitation, any Taxes arising in connection with the consummation of the transactions contemplated hereby.

(uu) "Executive Officers" means, (i) with respect to the Seller, collectively, Messrs. Previti, Day, Glankler and Richard Munkvold, and (ii) with respect to the Buyer, collectively, Messrs. Ara Hovnanian, Geaton DeCesaris, Peter Reinhart and Larry Sorsby.

(vv) "Exhibit" means an exhibit attached to, or incorporated by reference in, this Agreement.

(ww) "Final Balance Sheet" shall have the meaning set forth in Section 1.6.2.

(xx) "Financial Statements" means the audited financial statements dated October 31, 2001 prepared by the Auditors with respect to the assets and liabilities of the Seller.

(yy) "Forecast Development" shall have the meaning set forth in Recital I.

(zz) "Forecast Development Option and Purchase Agreement" shall have the meaning set forth in Recital I.

(aaa) "Fundamental Default" means a default (beyond any applicable cure period) by the Buyer under any of Section 1.3, 1.4.4, 1.4.5, 1.5 or 1.6.1.

(bbb) "GAAP" means generally accepted accounting principles in the United States, as in effect from time to time, consistently applied.

(ccc) "Glankler" shall mean Frank Glankler, a natural person.

(ddd) "Governmental Entity" means any government or any agency, bureau, board, commission, court, department, official, political subdivision, tribunal or other instrumentality of any government, whether federal, state or local, domestic or foreign.

(eee) "Hart-Scott-Rodino Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the related regulations and published interpretations.

(fff) "Hazardous Substance" means substances that are defined or listed in, or otherwise classified pursuant to, any applicable Laws as "hazardous substances," "solid wastes," "oil," "petroleum," "hazardous materials," "hazardous wastes" or "toxic substances."

(ggg) "Hold-Back Properties" shall mean those properties listed as Hold-Back Properties on Exhibit A attached hereto.

(hhh) "Homebuilding Business" means the business of the Consolidated Forecast Entities, including, by way of limitation, the construction of single-family, for sale residential housing and the sale-leaseback of model homes in the applicable homebuilding communities.

(iii) "Indemnifiable Claim" means any Loss for or against which any party is entitled to indemnification as set forth in Section 5.6 or 8.

(jjj) "Indemnification and Release Agreement" shall have the meaning set forth in Recital J.

(kkk) "Indemnified Party" means the party entitled to indemnity as set forth in Section 8.

(lll) "Indemnifying Party" means the party obligated to provide indemnification as set forth in Section 8.

(mmm) "IRS" means the Internal Revenue Service or any

successor entity.
(nnn) "knowledge of the Buyer" and words of similar import and effect shall have the meaning set forth in Section 10.12.
(ooo) "knowledge of the Seller" and words of similar import and effect shall have the meaning set forth in Section 10.12.
(ppp) "Law" means any constitutional provision, statute or other law, rule, regulation, or interpretation of any Governmental Entity and any Order.
(qqq) "Liability" means any liability or obligation of any kind, character or description, contingent or otherwise, known or unknown, whether liquidated or unliquidated, secured or unsecured, and/or joint or several.
(rrr) "Lock-Out Period" shall have the meaning set forth in Section 1.4.1.
(sss) "Loss" means any cost, damage, disbursement, expense, liability, loss, deficiency, obligation, penalty or settlement of any kind or nature, contingent or otherwise, that is not recaptured through insurance proceeds or any other form of rebate, credit or reimbursement, including, without limitation, interest or other carrying costs, penalties, reasonable legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement.
(ttt) "Lot Option Agreement" shall have the meaning set forth in Recital D.
(uuu) "Market Price," as applied to any publicly-traded class of security on any specified day, means the average closing market price (regular way) of such security on the New York Stock Exchange (or any other major exchange on which such security is listed or any market on which such security is included) for the trailing five (5)-trading days at the close of markets immediately preceding the specified day.
(vvv) "material adverse effect," means, with respect to a Person or a specific parcel of Real Property or the Homebuilding Business, as applicable, any change or effect that has resulted or could reasonably be expected to result in Losses, together with any other change or effect, suffered in excess of Five Hundred Thousand Dollars (\$500,000); provided, however, that a decline or forecasted decline in general economic conditions or matters generally affecting homebuilding businesses in one or more real estate markets in which such Person conducts business or operates or any Real Property is located, or homebuilding companies in general (including, without limitation, the cost or availability of energy or energy-related products, changes in or affecting interest rates, securities markets, accounting principles, practices or conventions, applicable laws and regulations, homebuilding starts, closings, building and/or permit moratoria, zoning changes or comparable events or events in the nature of the foregoing) shall not be deemed to have a material adverse effect.
(www) "Material Contract" shall have the meaning set forth in Section 2.2.1.
(xxx) "Maximum Proceeds" shall have the meaning set forth in Section 1.4.5.
(yyy) "Maximum Share Allocation" shall mean that number of Buyer's Shares equal to nineteen and nine-tenths percent (19.9%) of the number of all shares of outstanding Common Stock as of the end of the trading day on the Closing Date.
(zzz) "Minimum Proceeds" shall have the meaning set forth in Section 1.4.5.
(aaaa) "Monthly Repurchase Amount" shall have the meaning set forth in Section 1.3.2.
(bbbb) "Monthly Repurchase Price" shall have the meaning set forth in Section 1.3.2.
(cccc) "Monthly Sale Amount" shall have the meaning set forth in Section 1.4.2.
(dddd) "Net Worth Deficiency" shall have the meaning set forth in Section 1.6.1.
(eeee) "Net Worth Surplus" shall have the meaning set forth in Section 1.6.1.
(ffff) "Non-Competition and Option Agreement" shall have the meaning set forth in Recital F.
(gggg) "Notice of Dispute" shall have the meaning set forth in Section 1.6.2.
(hhhh) "Option Consideration" shall have the meaning set forth in Recital A.
(iiii) "Option Date" shall have the meaning set forth in Recital A.
(jjjj) "Order" means any decree, injunction, judgment, order, ruling, assessment or writ, including, without limitation, those arising under any Environmental Law.
(kkkk) "Park Meadows Option Agreement" shall have the meaning set forth in Recital G.
(llll) "Party" means any party to this Agreement.
(mmmm) "Permit" means any license, permit, franchise, certificate of authority, order or any waiver of the foregoing, required to be issued by any Governmental Entity.
(nnnn) "Permitted Encumbrance" shall have the meaning set forth in Section 2.4.2.
(oooo) "Person" means any association, corporation, individual, partnership, limited liability company, trust or any other entity or organization, including any Governmental Entity.
(pppp) "Policies" shall have the meaning set forth in Section 2.6.1.
(qqqq) "Premier" shall have the meaning set forth in Recital F.

(rrrr) "Premier Option" shall have the meaning set forth in Section 1.7.

(ssss) "Premier Shareholders" shall have the meaning set forth in Section 1.7.

(tttt) "Previti" has the meaning set forth in the introductory paragraph of this Agreement.

(uuuu) "Previti Projects" shall mean the assets transferred by the Seller to a third-party prior to the Effective Date and listed on Exhibit I (the "Previti Projects") attached hereto.

(vvvv) "Property Documents" shall have the meaning set forth in Section 2.4.2.

(www) "Purchase Price" shall have the meaning set forth in Section 1.3.1.

(xxxx) "Real Property" shall have the meaning set forth in Section 2.4.1.

(yyyy) "Recital" shall mean one of the introductory paragraphs to this Agreement.

(zzzz) "Registration Deadline" shall have the meaning set forth in Section 1.3.2.

(aaaaa) "Registration Statement" shall have the meaning set forth in Section 5.5.1.

(bbbb) "Representative" shall mean Previti (and any designee or nominee so named by Previti).

(ccccc) "ROFO Agreement" shall have the meaning set forth in Recital E.

(dddd) "Sale Proceeds" shall mean the aggregate sales proceeds (net of any and all out-of-pocket costs, brokers' fees, filing fees and other related transaction costs, fees and expenses) from the sales or sales by Previti from time to time of the Buyer' Shares (whether such sales are on the open market or to the Buyer pursuant to the terms of this Agreement) during any specified time period or for any specified number of Buyer's Shares in accordance with Section 1.4.

(eeee) "Salomon" shall mean Salomon Smith Barney Inc.

(ffff) "Schedule" means any schedule attached to, or incorporated by reference in, this Agreement.

(gggg) "SEC" shall mean the United States Securities and Exchange Commission.

(hhhh) "SEC Reports" means reports filed by a Person with the SEC.

(iiii) "Securities" shall have the meaning set forth in Recital A.

(jjjj) "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(kkkk) "Securities Partnership" shall have the meaning set forth in Recital A.

(llll) "Securities Purchase Agreement" shall have the meaning set forth in Recital C.

(mmmm) "Securities Sellers" shall have the meaning set forth in Recital A.

(nnnn) "Seller" has the meaning set forth in the introductory paragraph of this Agreement.

(oooo) "Share Allocation" shall have the meaning set forth in Section 1.3.1.

(pppp) "Subsidiary" means any Person in which the Buyer has a direct or indirect equity or ownership interest in excess of ten percent (10%).

(qqqq) "Tax" means any foreign, federal, state, county or local income, sales and use, excise, franchise, real and personal property, transfer, gross receipt, capital stock, production, business and occupation, disability, employment, payroll, severance or withholding tax or charge imposed by any Governmental Entity, and any interest and/or penalties (civil or criminal) or addition to tax related thereto or to the nonpayment thereof.

(rrrr) "Tax Proceeding" shall have the meaning set forth in Section 5.3.

(ssss) "Tax Return" means a report, return or other information required to be supplied to a Governmental Entity with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes the Consolidated Forecast Entities including any amendments thereof.

(tttt) "Title Company" means Orange Coast Title Company in Santa Ana, California (Attention: Ms. Kathy Danneman).

(uuuu) "Title Policy" means for each parcel of Real Property, a CLTA Standard Coverage Owner's Policy of Title Insurance (with no endorsements thereto and no indemnification provided to the Title Company by Seller), with an effective date as of the Closing Date naming the Buyer as the insured.

(vvvv) "Transfer" means the transfers by the Seller of (i) the Excluded Assets to a third party, and (ii) certain intangible property to Securities Partnership.

(www) "WARN Act" means the Worker Adjustment and Retraining Notification Act.

1.2 Transfer of the Assets by the Seller and Assumption of Liabilities by the Buyer. Subject to the terms and conditions of this Agreement, (a) the Seller shall sell all of the Assets to the Buyer on the Closing Date, and (b) the Buyer shall assume all of the Liabilities associated with the Assets and Securities (but specifically excluding the Excluded Liabilities).

1.3 Purchase of the Assets by the Buyer.

1.3.1. Purchase Price. Subject to the terms and conditions of this Agreement, the Buyer shall purchase the Assets from the Seller for a purchase price of One Hundred Fifteen Million Five Hundred Thousand Dollars (\$115,500,000) (the "Purchase Price"), of which (a) Seventy Million Dollars

(\$70,000,000) shall be payable in cash (the "Cash Purchase Portion"), and (b) Forty-Five Million Five Hundred Thousand Dollars (\$45,500,000) shall be payable in Common Stock, the number of shares of which shall not exceed the Maximum Share Allocation, and shall be determined by dividing Forty-Five Million Five Hundred Thousand Dollars (\$45,500,000) by the Market Price of the Common Stock on the Closing Date (the "Closing Price"), and rounding such quotient to the nearest number of whole shares (the "Share Allocation"). In the event that the calculation set forth above yields a number of shares of Common Stock that exceeds the Maximum Share Allocation, then (i) Buyer shall pay to the Seller cash (which shall be deemed a part of the Cash Purchase Portion) in an amount equal to the Closing Price multiplied by the number equal to the difference between the Share Allocation and the Maximum Share Allocation, and (ii) the Share Allocation shall be deemed equal to the Maximum Share Allocation. The amount of the Cash Purchase Portion and the Share Allocation shall be subject to adjustment as provided below, and from and after any such adjustment(s), the terms "Buyer's Shares," "Share Allocation" and "Purchase Price" shall refer to such adjusted amounts.

1.3.2. Registration of the Buyer's Shares. After the Closing Date, in accordance with Section 5.6, the Buyer shall cause all of the Buyer's Shares to be fully registered under the Securities Act and freely transferable. The Buyer shall inform the Seller of the form and content of the financial statements of the Consolidated Forecast Entities that the Buyer reasonably and in good faith expects the SEC to require (with specific reference to the applicable SEC rule or comment). The Seller agrees to use commercially reasonable efforts, in good faith, to prepare the financial statements of the Consolidated Forecast Entities so that the form and content of such financial statements are consistent with the previous sentence. If for any reason the Buyer does not or is unable to fully register all of the Buyer's Shares under the Securities Act on or before the day that is six (6) months after the Closing Date (the "Registration Deadline"), then the Buyer shall purchase all of the Buyer's Shares from the Seller as follows:

(a) On or before the fifth (5th) day of each calendar month following the Registration Deadline, for eighteen (18) consecutive months, the Buyer shall, in accordance with this Section 1.3.2, purchase from the Seller a number of the Buyer's Shares equal to the Share Allocation divided by eighteen (the "Monthly Repurchase Amount").

(b) The purchase price to be paid by the Buyer to the Seller for the purchase of the Buyer's Shares pursuant to subsection (a) above shall be the Market Price as of the day of repurchase multiplied by the Monthly Repurchase Amount (the "Monthly Repurchase Price").

(c) The Buyer shall remit the Monthly Repurchase Price within two (2) business days of its receipt of the certificates representing the applicable Buyer's Shares and any stock powers or endorsements necessary to evidence the transfer of the applicable Buyer's Shares to the Buyer.

(d) Within five (5) days after the final repurchase by the Buyer of the Buyer's Shares in accordance with this Section 1.3.2, the Buyer or the Seller, as the case may be, shall make any payment to the other that may be required by either Section 1.4.5(a) or 1.4.5(b).

1.3.3. Equitable Adjustment. The Share Allocation shall be subject to proportionate adjustment in the event of any stock split, reverse stock split, dividend payable in stock, reclassification, combination or extraordinary distribution, or any other event in the nature of any of the foregoing, whereby the Buyer issues, without consideration, additional shares of its Common Stock with a record date prior to the Closing Date, and in such case the term "Buyer's Shares" shall refer to such adjusted amount.

1.4 Disposition of Buyer's Shares by the Seller.

1.4.1. Lock-Out Period. Subject to Section 1.4.4, during the period from the Closing Date to the last day of the calendar month in which the six (6) month anniversary of the Closing Date occurs (the "Lock-Out Period"), the Seller shall not sell the Buyer's Shares without the Buyer's prior written consent. The Parties agree that the Seller may, in its sole and absolute discretion, at any time, pledge and/or hypothecate the Buyer's Shares; provided, however, that the lender thereunder shall agree in writing to take such pledge or hypothecation subject to the terms of this Agreement applicable to the Buyer's Shares.

1.4.2. Divestiture Period. Subject to Section 1.4.4, during the period between the first day following the Lock-Out Period and the last day of the calendar month in which the two (2) year anniversary of the Closing Date occurs (the "Divestiture Period"), the Buyer and the Seller shall cause a third party mutually selected by the Buyer and the Representative to sell all of the Buyer's Shares pursuant to the following procedures:

(a) The Buyer shall pay for any and all (i) brokers' fees and commissions incurred in connection with any disposition of the Buyer's Shares, and (ii) out-of-pocket costs, brokers' fees and commissions, filing fees, auditing fees and other related transaction costs, fees and expenses incurred by the Seller in connection with any unusual transaction for the sale of the Buyer's Shares if such sale transaction is proposed by the Buyer.

(b) The Buyer shall have the right to select the broker engaged in such disposition of the Buyer's Shares if (i) such broker requires a lesser commission arrangement than the broker selected by the Seller, (ii) the Seller consents in writing to the engagement of such broker (which consent shall not be unreasonably withheld or delayed), and (iii) the Buyer's selection of such broker does not in any way prejudice the interests of the Seller.

(c) Each calendar month, the Seller shall sell that number of the Buyer's Shares (the "Monthly Sale Amount") equal to the Share Allocation divided by eighteen (18), rounded off to the nearest number of whole shares.

1.4.3. Extension of Divestiture Period. The Divestiture Period shall be deemed to extend for the necessary number of days required to dispose of the Buyer's Shares pursuant to this Section 1.4.

1.4.4. Change of Control. In the event of a Change of Control, the Buyer shall, within five (5) days of such Change of Control (a) repurchase any and all remaining outstanding Buyer's Shares for a per share price equal to one hundred and fifteen percent (115%) of the Closing Price (the "Change of Control Payment"), and (b) deliver payment thereof to the Seller, without demand, deduction, offset or delay; provided, however, that such payment shall be net of any adjustment required pursuant to either Section 1.4.5(a) or 1.4.5(b). Within five (5) days after the Seller's receipt of the Change of Control Payment, the Buyer or the Seller, as the case may be, shall make any payment to the other that may be required by either Section 1.4.5(a) or 1.4.5(b).

1.4.5. Adjustment Based on Market Price of the Buyer's Shares.

(a) Minimum Proceeds. If the aggregate Sales Proceeds from the sales of the Buyer's Shares (including sales to the Buyer pursuant to Section 1.3.2, 1.4.4 or 1.5) do not equal or exceed Forty Million Nine Hundred Fifty Thousand Dollars (\$40,950,000) (the "Minimum Proceeds"), then the Buyer shall, within five (5) days after the last sale of the Buyer's Shares, deliver to the Seller (without demand, deduction, offset or delay) cash in an amount equal to the difference between (i) the Minimum Proceeds, and (ii) the Sale Proceeds.

(b) Maximum Proceeds. If, at any time during the Divestiture Period, the aggregate Sales Proceeds from the sales of the Buyer's Shares (including sales of the Buyer's Shares to the Buyer pursuant to Section 1.3.2, 1.4.4 or 1.5) exceed Fifty-Two Million Three Hundred Twenty-Five Thousand Dollars (\$52,325,000) (the "Maximum Proceeds"), then the Seller shall, within five (5) days after the last sale of the Buyer's Shares, deliver to the Buyer (without demand, deduction, offset or delay) (i) cash in an amount equal to the difference between (A) such aggregate Sale Proceeds, and (B) the Maximum Proceeds, and (ii) any and all certificates, stock powers or endorsements required to transfer any remaining unsold Buyer's Shares to the Buyer in exchange for Ten Dollars (\$10) in consideration.

(c) Limitations on Adjustments. The payments of the Buyer or the Seller required by this Section 1.4.5 shall be made only (i) with respect to those Buyer's Shares sold during the Divestiture Period, and (ii) if none of such sales is a "block" or other non-customary sale or trade at a discount to the then-current Market Price, regular way that were not mutually agreed upon in advance. Any payment made pursuant to this Section 1.4.5 shall be treated as an adjustment to the Purchase Price.

1.5 Call Right. During the time period beginning on the one (1) year anniversary of the Closing Date and ending on the two (2) year anniversary of the Closing Date, the Buyer may elect to repurchase all remaining Buyer's Shares then owned by the Seller by (a) providing not less than ten (10) days' prior written notice to the Representative of such election (which election shall be irrevocable and unconditional), and (b) delivering to the Seller, in exchange for the certificate representing such Buyer's Shares and any necessary stock powers or endorsements, an amount in immediately available funds equal to the product of the number of the then-remaining Buyer's Shares and one hundred fifteen percent (115%) of the Closing Price (the "Call Payment"); provided, however, that such payment shall be net of any adjustment required pursuant to either Section 1.4.5(a) or 1.4.5(b).

1.6 Purchase Price Adjustment.

1.6.1. Closing Refund; Additional Consideration. If the Consolidated Net Worth included on the Final Balance Sheet is (a) less than One Hundred Forty-Five Million Dollars (\$145,000,000) (the amount of such difference being the "Net Worth Deficiency"), the Seller shall pay to the Buyer an amount, in immediately available funds, equal to the Net Worth Deficiency multiplied by 1.55 (the "Closing Refund"), or (b) greater than One Hundred Forty-Five Million Dollars (\$145,000,000) (the amount of such difference being the "Net Worth Surplus"), the Buyer shall pay to the Seller an amount, as additional consideration, in immediately available funds, equal to the Net Worth Surplus multiplied by 1.55 (the "Additional Consideration") and such payment shall be a decrease or an increase in the Purchase Price, as appropriate. Any Closing Refund or Additional Consideration shall be paid within five (5) business days after the Final Balance Sheet becomes final and binding on the Parties pursuant to Section 1.6.2. Any late payment (i) by the Seller of the Closing Refund, or (ii) by the Buyer of the Additional Consideration, shall bear interest at one percent (1%) per month, compounded monthly.

1.6.2. Final Balance Sheet.

(a) The Parties shall cause the Auditors, within sixty (60) days following the Closing Date, at the Buyer's sole cost and expense, to deliver to each of the Parties, a balance sheet regarding the Consolidated Net Worth as of January 31, 2002 (as it may be adjusted pursuant to this Section 1.6.2, the "Final Balance Sheet"), together with a written notice stating whether there is a Net Worth Deficiency or a Net Worth Surplus and, if applicable, specifying the amount thereof. During the preparation of the Final Balance Sheet, the Seller shall have the right to be present at each discussion between the Buyer and the Auditors in respect of the audit and to observe the work performed by the Buyer and the Auditors in connection with their preparation of the Final Balance Sheet. After the Closing, the Buyer shall allow the Auditors access to such books and records that were transferred to the Buyer by the Seller at the Closing as the Auditors may reasonably require for such audit. The Final Balance Sheet shall be prepared in accordance with GAAP as the Auditors determine is applicable to an Exchange Act reporting company with registered equity securities. In the event the Closing occurs prior to January 31, 2002, the Buyer shall, from the Closing Date through January 31, 2002, operate the Homebuilding Business in the ordinary course of business, which shall include the sale-leaseback of model homes.

(b) If either of the Parties disputes any item(s) on the Final Balance Sheet, such disputing Party shall notify the other Party in

writing thereof (the "Notice of Dispute") within thirty (30) days after the Auditor's delivery of the Final Balance Sheet to each of the Buyer and the Seller, which Notice of Dispute shall set forth in reasonable detail the items in dispute, the basis for dispute and the amounts being disputed. If neither of the Parties delivers a Notice of Dispute within the aforesaid thirty (30)-day period, the Final Balance Sheet shall become final and binding upon, and non-appealable by, all Parties at the end of such period and any Closing Refund or Additional Consideration evidenced by the Final Balance Sheet delivered pursuant to Section 1.6.2, if applicable, shall be paid pursuant to Section 1.6.1.

(c) If either of the Parties timely delivers a Notice of Dispute to the other Party, the Representative and the Buyer shall attempt in good faith to resolve such dispute(s). If the Representative and the Buyer are unable to resolve any disputed item(s) within ten (10) business days after the non-disputing Party's receipt of the Notice of Dispute, such disputed item(s) shall be submitted by the disputing Party within five (5) days after the expiration of such ten (10) business day period to one of the "Big 5" accounting firms which is independent of both the Seller and the Buyer and not heretofore engaged by either Party, chosen with the mutual consent of the Representative and the Buyer. This accounting firm shall be instructed to resolve such disputed item(s) based upon the presentations of the Seller and the Buyer within twenty (20) days after the initial submission as aforesaid. The resolution of disputes by the accounting firm so selected shall be set forth in writing and shall become final and binding upon, and non-appealable by, all Parties, and the Final Balance Sheet shall become final and binding upon the date of such resolution. The costs and expenses of such resolution, including, without limitation, the costs and fees of the efforts of the accounting firm retained to resolve such dispute, shall be paid by the losing party.

(d) Between the Closing Date and the completion of the Final Balance Sheet, the Buyer shall afford the Seller and its representatives reasonable access during normal working hours to all books, records, correspondence, files, financial statements, operating data and all other information with respect to the business of the Consolidated Forecast Entities as in existence prior to the Closing Date, and shall provide to the Seller, the Auditors and their respective representatives such operating and financial data and any other information with respect to the business of the Consolidated Forecast Entities, as in existence prior to the Closing Date as they may from time to time reasonably request for the purpose of preparing the Final Balance Sheet and resolving any disputed items. The Seller shall perform those procedures normally performed in a year-end closing and take such other reasonable measures as are reasonably necessary to prepare the Final Balance Sheet. The Buyer shall make reasonably available to the Seller the appropriate officers and employees of the business of the Seller for purposes of assisting the Seller, the Auditors or their respective representatives, at no cost to Seller, in the preparation of the Final Balance Sheet and resolving any disputed items.

1.6.3. Survival. The Parties' obligations under Sections 1.3, 1.4, 1.5 and 1.6 shall survive the Closing Date and remain in full force and effect.

1.7 Option to Purchase Premier. On or prior to the Closing Date, Previti and the other shareholders of Premier at that time (collectively, the "Premier Shareholders"), shall, pursuant to the terms and provisions of the Non-Competition and Option Agreement, grant to the Buyer an option to purchase the assets of Premier (the "Premier Option"). The Premier Option shall terminate, at Previti's sole discretion, upon a Fundamental Default by the Buyer.

1.8 Closing. The Closing will take place (a) at the offices of O'Melveny & Myers LLP, 610 Newport Center Drive, Newport Beach, California, at 10:00 a.m. (Pacific Time) on January --, 2002, or (b) on such other date or at such other location as the Representative and the Buyer may mutually agree in writing. In no case shall the Closing occur after the date specified in Section 7.1, unless extended by the mutual written agreement of the Parties as provided in Section 7.1. At the Closing, the Buyer shall (i) pay the Cash Purchase Portion to the Seller in cash by wire transfer of immediately available federal funds to such account(s) as shall be specified in instructions from the Representative to the Buyer at least three (3) business days prior to the Closing, (ii) issue and deliver the Buyer's Shares to the Seller registered in the name of such Persons in such denominations as shall be specified in instructions from the Representative at least three (3) business days prior to the Closing, and (iii) execute any and all documents that the Seller and any other interested party in the transactions contemplated hereunder shall deem necessary to perfect the intentions of the Parties to this Agreement, including, without limitation, documents reasonably and customarily required by the Title Company and/or any escrow holder.

1.9 Purchase Price Allocation. The Parties shall not cause to be filed any Tax Return or otherwise take any position for federal or state income Tax purposes which is inconsistent with the allocations set forth on Schedule 1.9 (the "Purchase Price Allocation Schedule") attached hereto, prepared in accordance with the tax rules under Sections 1060 and 755 of the Code which have been agreed upon through arms-length negotiations by the Buyer and the Seller and which represent the respective fair market value of the Assets.

1.10 Further Assurances. At any time and from time to time after the Closing Date, upon the written request of the Buyer or the Seller to the other, as applicable, and without any cost or expense to the responding Party, the Buyer and the Seller, as applicable, shall execute and deliver such instruments of conveyance, assignment and transfer and other documents as the Buyer or the Seller, as applicable, may reasonably request to (a) transfer to and vest in the Buyer (or any of its Subsidiaries) and to put the Buyer (or any of its Subsidiaries) in possession of, the Assets, or (b) to

otherwise carry out the intent and purposes of this Agreement.

1.11 Representative. The Seller hereby appoints the Representative to represent the Seller in connection with any part or all of the transactions contemplated by this Agreement and to take any and all action on its behalf under this Agreement that may be taken or received by the Seller as to any or all of the transactions contemplated under the terms of this Agreement. Without giving notice to the Seller, the Representative shall have full and irrevocable authority on behalf of the Seller to (a) deal with the Buyer, (b) accept and give notices and other communications relating to this Agreement, (c) settle any disputes relating to this Agreement, (d) waive any condition to the obligations of the Seller included in this Agreement, (e) execute any document or instrument that the Representative may deem necessary or desirable in the exercise of the authority granted under this Section 1.11, and (f) act in connection with all matters arising out of, based upon, or in connection with, this Agreement and the transactions contemplated hereby. The Buyer shall be entitled to rely on the advice, information, instructions and decisions of the Representative evidenced by a writing signed by him without any obligation independently to verify, authenticate or seek the confirmation or approval of the Representative's advice, information, instructions or decisions or any other facts from the Seller or any other Person. Any certificate to be delivered by the Seller at the Closing may be executed and delivered by the Representative on behalf of the Seller.

1.12 Satisfaction of Debt. The Parties agree that the Buyer shall, simultaneously with the Closing, satisfy any and all debt relating to the Assets or the Homebuilding Business generally set forth on Schedule 1.12 (the "Debt") attached hereto.

SECTION 2. REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Parties agree that the sale of the Assets shall be without representation or warranty by the Seller, express or implied, except as specifically set forth in this Agreement. Other than with respect to the representations and warranties contained in Sections 2.1.1 and 2.16 (as limited by Section 8.1.1), none of the representations and warranties contained herein shall survive the Closing; provided, however that to the extent that the making of any such representation or warranty constituted actual fraud (and as further limited by Section 8.1.2) on the part of the Seller, the Buyer's right to bring any Action against the Seller thereunder and to such extent shall survive the Closing and shall remain in full force and effect until the date that is ninety (90) days after the expiration of the applicable statutory period; provided, however, such Action shall be filed in accordance with Section 10.10 by the Buyer within ninety (90) days after the Buyer's knowledge thereof or the claim (and the applicable remedy) shall be automatically waived. Except as otherwise specifically indicated on the Seller's Disclosure Schedule as to the particular section as to which an exception is being disclosed, the Seller represents and warrants to the Buyer as follows:

2.1 The Assets.

2.1.1. Ownership at the Closing. At the Closing, the Seller shall have good and marketable title to, and sole record and beneficial ownership of, the Assets, all of which are to be transferred to the Buyer by the Seller pursuant to this Agreement free and clear of Encumbrances, except Permitted Encumbrances and those exceptions set forth on the Seller's Disclosure Schedule.

2.1.2. Transfer of Unencumbered Title to the Assets. Upon the Closing, the Seller shall transfer to the Buyer legal and beneficial ownership of the Assets, free and clear of all Encumbrances other than the Permitted Encumbrances and those exceptions set forth on the Seller's Disclosure Schedule.

2.1.3. Formation; Power and Authority. The Seller is a duly formed and validly existing limited partnership, in good standing, under the laws of the State of California with the power under the California Revised Limited Partnership Act and its partnership agreement to own, lease and operate its properties, to carry on its business as now conducted, to enter into this Agreement and to transfer, convey and sell to the Buyer at the Closing the Assets. The Seller is duly qualified or registered to transact business in each jurisdiction in which it conducts its businesses, except where the failure, individually or in the aggregate, to be so qualified or registered could not reasonably be expected to have a material adverse effect on the assets, business operations, earnings, properties or condition of the Seller. The Seller has made available to the Buyer true, correct and complete copies of all organizational or constituent documents of the Seller and each of the Consolidated Forecast Entities.

2.1.4. Authorization. The execution, delivery and performance of this Agreement and the transactions contemplated hereby by the Seller have been duly and validly authorized by all necessary partnership action on the part of the Seller. This Agreement has been duly executed and delivered by the Seller and constitutes the legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms except as may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or limiting creditors' rights generally and equitable principles.

2.1.5. Absence of Certain Changes. Except as set forth on the Seller's Disclosure Schedule and with respect to the Transfer, since October 31, 2001, the Consolidated Forecast Entities (a) have preserved and maintained their Assets generally in accordance with past practice, and (b) have not suffered a material adverse effect.

2.1.6. Compliance with Applicable Laws. Except as denoted in the description of Actions pending against the Seller that is set forth on the Seller's Disclosure Schedule, to the Seller's knowledge, the Consolidated Forecast Entities are in material compliance with all applicable Laws with respect to the Assets, except where the noncompliance, individually or in the

aggregate, could not reasonably be expected to have a material adverse effect on the Assets. Except as denoted in the description of Actions pending against the Seller that is set forth on the Seller's Disclosure Schedule, to the Seller's knowledge, no Action has been filed, commenced or threatened in writing against any of the Consolidated Forecast Entities alleging a failure to so comply with applicable Laws, nor has any Governmental Entity provided any Consolidated Forecast Entities with written notice regarding a present intention to commence an Action based upon the Seller's noncompliance with applicable Laws.

2.1.7. Adequacy of Assets. The assets of Securities Partnership and the Assets include all assets and properties of every kind and description, real, personal or mixed, tangible or intangible, the use of which is reasonably necessary to enable the Buyer to conduct the Homebuilding Business substantially as conducted prior to the Effective Date.

2.2 Material Contracts.

2.2.1. Descriptions. The Seller's Disclosure Schedule lists each Contract (each, a "Material Contract," and collectively, the "Material Contracts") that:

(a) shall obligate the successor owner of any of the Assets to pay a contractor or subcontractor an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) over a one (1)-year period;

(b) shall obligate the successor owner of any of the Assets to pay to any party other than a contractor or subcontractor an amount in excess of Fifty Thousand Dollars (\$50,000) over a one (1)-year period;

(c) represents an indenture, loan or credit agreement in excess of Fifty Thousand Dollars (\$50,000), or provides for or evidences a loan or extension of credit, a letter of credit or any security or guaranty in excess of Fifty Thousand Dollars (\$50,000) in respect thereof, to which any of the Assets is bound;

(d) provides a guaranty or indemnity (other than indemnities that are provided in the ordinary course of business, e.g., mechanics lien indemnities, among others) by the owner of any of the Assets;

(e) contains a right of first refusal, first offer obligation or purchase option with respect to any of the Assets, except as otherwise set forth or described in this Agreement and/or the Collateral Agreements;

(f) expressly limits or restricts the ability of the owner of any of the Assets to conduct any type of business in any manner or place; and

(g) represents (i) a sales agency, broker or finder Contract, (ii) a loan origination or customer referral Contract that involves an aggregate payment over a one (1) year period in excess of Fifty Thousand Dollars (\$50,000), (iii) consulting, advisory, marketing, management and other service agreements that are not terminable by the owner of any Asset without further liability on not more than thirty (30) days' notice and provides for annual payments per individual agreement exceeding Fifty Thousand Dollars (\$50,000), or (iv) a performance, completion, surety or other bond or performance guarantee of more than Fifty Thousand Dollars (\$50,000), in each instance to which the owner of any Asset is a party or bound.

True, correct and complete copies of such Material Contracts, including all amendments and supplements, if any, have been made available to the Buyer.

2.2.2. No Breach. To the Seller's knowledge, the Seller has duly performed, in all material respects, all its obligations under each Material Contract to the extent that such obligations to perform have accrued. Except as specifically set forth on the Seller's Disclosure Schedule, to the Seller's knowledge, no breach or default, alleged breach or default, or event which would (with the passage of time, notice or both) constitute a breach or default thereunder in any material respect by the Seller has occurred under any Material Contract or will occur as a result of this Agreement.

2.3 Permits. To the Seller's knowledge, the Seller possesses or currently and reasonably anticipates that the successor owner of the Assets should be able to obtain in the ordinary course of business, all Permits necessary for the lawful development of the Real Property, except where the failure to hold such Permits could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the value of such Real Property as fully developed.

2.4 Real Property.

2.4.1. Real Property. The Seller's Disclosure Schedule sets forth an identifying description or, if available, the street address of each parcel of real property owned by the Seller and included in the Assets. The real property to be sold by the Seller to the Buyer pursuant to this Agreement is referred to herein as the "Real Property." The Seller's Disclosure Schedule also sets forth the general (not detailed) development status of each project included in the Assets and the Seller's reasonable good faith estimate of the projected finished lot cost thereof, exclusive of any and all fees and expenses of any kind or amount owed or to be paid to unaffiliated third parties (the "Development Status"); provided, however, that such good faith estimate shall not constitute a covenant or a guarantee of any kind of nature. With regard to lots on which a single-family residence may be constructed, to the Seller's knowledge, such lots have or are reasonably expected to obtain access to streets that are, or in the future will be, dedicated public rights-of-way or private roadways that are reasonably expected to be connected to and serviced by electric, gas, sewage, telephone, cable television and water facilities upon the payment of customary fees; and the grading thereof has or is reasonably expected to be completed pursuant to approved grading and drainage plans. Building permits and (upon the completion of the applicable single-family residence final inspection and approval by the local Governmental Entity) certificates of occupancy (or their equivalent) have been, or are reasonably expected to be, obtained (upon payment of applicable fees therefor where required by the applicable municipality, the recording of the final plat and/or the

completion of necessary on- and off-site improvements) for all such Real Property. Except as set forth on the Seller's Disclosure Schedule, with regard to the Real Property which is not yet ready for construction of a single-family residence, to the Seller's knowledge, there are no material, unusual matters which would likely prevent, prohibit, impair or materially delay the currently intended development, use or occupancy of such Real Property, taken as a whole, or cause the most recent projected finished lot cost (as listed on the Seller's Disclosure Schedule) to be materially exceeded. No forward-looking statements shall constitute predictions, guarantees or assurances of actual future results or the likelihood of such results.

2.4.2. Good and Marketable Title.

(a) To the Seller's knowledge, based solely upon its review of owner's policies of title insurance from independent title companies, the Seller has good and marketable title in fee simple to the Real Property, subject only to (i) the Encumbrances listed on the Seller's Disclosure Schedule including, without limitation, the exceptions described in the Seller's title insurance policies for each parcel of the Real Property, (ii) liens for Taxes not yet due and payable, and (iii) such imperfections of title, pledges, liens and encumbrances, if any, as do not (A) materially detract from the value or materially interfere with the present or intended use of the Assets, (B) cause or result in any absence, loss or reversion of title, or (C) cause or result in any restriction on or inability to transfer title (the items set forth in clauses (i), (ii) and (iii) above, being referenced to herein as "Permitted Encumbrances"). True, correct and complete copies of any existing surveys, plans, plats and material documents, if any, which the Seller believes to be directly related to the current state of the entitlements appurtenant to the Real Property (collectively, the "Property Documents") have been made available to the Buyer, in each case to the extent in the Consolidated Forecast Entities' possession. Other than as set forth on the Seller's Disclosure Schedule, the Seller has no rights to acquire any real property other than the Real Property.

(b) The Seller has, to the Seller's knowledge, valid and binding title insurance policies and/or commitments to issue valid and binding title insurance policies with respect to all Real Property. Copies of such title insurance policies and commitments to issue title insurance policies have been made available to the Buyer.

2.4.3. No Condemnation. Except as set forth on the Seller's Disclosure Schedule, no condemnation, eminent domain or similar proceeding is pending with respect to any Real Property.

2.4.4. Compliance with Laws. Except as set forth on the Seller's Disclosure Schedule, the subdivisions, buildings and improvements on the Real Property do not violate, in any material respect, (a) any applicable Law, including, without limitation, any building set-back or zoning law, ordinance, regulation or statute for which a variance or other lawful exception has not been obtained, except where the noncompliance, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the Real Property, or (b) any restrictive covenant affecting any such Real Property.

2.4.5. Site Obligations. Except as set forth on the Seller's Disclosure Schedule, to the Seller's knowledge, no Real Property is currently subject to any condition or obligation to any Governmental Entity or other Person requiring the owner or any transferee thereof to donate land, money or other real property or to make off-site public improvements not associated with the Real Property or take other mitigation measures.

2.4.6. Assessments. To the Seller's knowledge, all charges or assessments made against the owner or developer of the Real Property or any lots included therein for installation of public improvements serving the subdivision, including, without limitation, those for construction of sewer lines, water lines, storm drainage systems, electric lines, natural gas lines, streets (including perimeter streets), and roads and curbs, that are required by any Governmental Entity prior to the granting of a building permit for a real property lot on which construction has already commenced, have been paid or are set forth on the most recent Financial Statement or have been incurred since the date thereof in the ordinary course of business consistent with past practice.

2.4.7. Subdivision Standards. Except as set forth on the Seller's Disclosure Schedule, to the Seller's knowledge, the Real Property and all lots included therein conform or are reasonably expected to conform, in all material respects, to the appropriate Governmental Entity's subdivision standards (except for variances approved by the applicable Governmental Authority). To the Seller's knowledge, there is no material impediment to subdivision approval for any undeveloped portion of the Real Property that would (despite commercially reasonable measures and payments by the Buyer) prevent, prohibit, impair or materially delay the eventual construction and sale of homes on such Real Property.

2.4.8. Moratoria. To the Seller's knowledge, except as set forth with specificity on the Seller's Disclosure Schedule, there is no moratorium currently in place that is applicable to or affects any of the Real Property as to (a) the issuance of building permits for the construction of homes or certificates of occupancy therefor, or (b) the purchase of sewer or water taps.

2.4.9. Soil Conditions. To the Seller's knowledge, except (a) as set forth in the environmental reports with respect to the Real Property made available to the Buyer (the "Environmental Reports"), (b) as set forth on the Seller's Disclosure Schedule, or (c) to the extent included in the finished lot costs reflected on the Seller's Disclosure Schedule, there are no soil conditions affecting any of the lots included in the Real Property that would materially and adversely impair, delay or prevent the construction of homes or that would materially increase the cost of construction thereon. To Seller's knowledge, true, correct and complete copies of all Environmental

Reports have been made available to the Buyer.

2.4.10. Certain Environmental Matters. To the Seller's knowledge, except as set forth in the Environmental Reports or on the Seller's Disclosure Schedule, the Real Property does not contain any material wetlands, endangered or otherwise protected species or habitats therefor and is not located within a "critical," "preservation," "conservation," "environmentally sensitive" or similar type of area, which in any case would interfere, in any material, adverse respect, with the development thereof in accordance with its development plan and preliminary plat.

2.4.11. Ownership. None of the Consolidated Forecast Entities, any Controlled Entity nor Previti owns any real property or right to acquire any real property that may be developed for the construction of single-family homes, other than (a) the Real Property, and (b) the real property included in the Excluded Assets.

2.5 Operating Condition. To the Seller's knowledge, the buildings and equipment, if any, included in the Assets, are in operating condition and are generally adequate for their present and intended use.

2.6 Insurance.

2.6.1. Policies. The Seller's Disclosure Schedule lists all insurance policies and bonds in excess of a face amount of One Hundred Thousand Dollars (\$100,000) with respect to the Assets and the Consolidated Forecast Entities (the "Policies"). Except as set forth in Schedule 2.6.1, no material disagreement or dispute exists between any of the insurers and any of the Consolidated Forecast Entities, subject to defense arrangements undertaken in accordance with applicable reservations of rights; provided, however, nothing herein shall constitute a waiver of any of the Consolidated Forecast Entities' rights against such insurers. To the Seller's knowledge, none of the Consolidated Forecast Entities is in material default under any such policy or bond. None of the Consolidated Forecast Entities has received any written notice from any insurer or agent of any intent to cancel or not renew any such policy or bond.

2.6.2. Claims. There is no material claim by any of the Consolidated Forecast Entities pending under any of the Policies as to which coverage has been denied to it in writing by the underwriters of such Policy. To the Seller's knowledge, there has been no occurrence that may form the basis of a material claim that is by or on behalf of any of the Consolidated Forecast Entities under any such Policy. To the Seller's knowledge, no coverage as to any material claim under any of such Policies has been denied by the underwriters of such Policy, excluding any qualifications regarding the underwriters reservation of rights. All premiums currently due and payable under all such Policies have been paid in all material respects.

2.7 Bank Accounts, Powers, etc. The Seller's Disclosure Schedule lists each bank, trust company, savings institution, brokerage firm, mutual fund or other financial institution with which the Seller has an account (each, an "Account") and the names and identification of all Persons authorized to draw thereon or to have access thereto, and lists the names of each Person holding powers of attorney or agency authority from the Seller.

2.8 Compliance with Applicable Laws. Except as set forth on the Seller's Disclosure Schedule, (a) the Consolidated Forecast Entities have complied, in all material respects, with all applicable Laws in the conduct of its business, including, without limitation, the Homebuilding Business, and (b) no material Action has been filed or commenced against the Seller alleging a material failure to so comply.

2.9 No Brokers or Finders. Other than Salomon, no agent, broker, finder, or investment or commercial banker, or other Person or firm acting on behalf of the Seller in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement is or will be entitled to any brokerage or finder's or similar fee or other commission as a result of this Agreement or such transactions contemplated hereunder; provided, however, that (a) the Buyer shall have full responsibility for the obligations to any Person claiming a fee through Buyer, and (b) the Seller shall have full responsibility for Salomon.

2.10 Environmental Compliance.

2.10.1. No Violation of Environmental Laws. Except as set forth in the Environmental Reports or on the Seller's Disclosure Schedule, to the Seller's knowledge, none of the Consolidated Forecast Entities is, in any material respect, in violation or non-compliance with any Environmental Laws.

2.10.2. No Liability. Except as set forth in the Environmental Reports or on the Seller's Disclosure Schedule, and, as to events occurring prior to the Seller's acquisition of each parcel of Real Property, to the Seller's knowledge, none of the Consolidated Forecast Entities nor any parcel of Real Property is subject to any material Liability or Lien in connection with any release or threatened release of any Hazardous Substance into the environment or subject to any material reclamation or remediation requirements under any Environmental Laws, except where the noncompliance, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the Real Property.

2.10.3. Not Named as a Potentially Responsible Party. To the Seller's knowledge, none of the Consolidated Forecast Entities has, in the three (3) years preceding the Effective Date, been named as a potentially responsible party under CERCLA or any corresponding state Laws.

2.10.4. Hazardous Substances. Except as set forth in the Environmental Reports or on the Seller's Disclosure Schedule, in the three (3) years preceding the Effective Date, (a) none of the Consolidated Forecast Entities has, in connection with the Real Property, generated, used, transported, treated, stored, released or disposed of, or has suffered or permitted anyone else to generate, use, transport, treat, store, release or dispose of any Hazardous Substance in connection with the Real Property in violation of any Environmental Laws or which would require reporting to or notification of any Governmental Entity, (b) to the Seller's knowledge, no asbestos or polychlorinated biphenyl or underground storage tank is contained

in or located at any Real Property, and (c) to the Seller's knowledge, any Hazardous Substance handled or dealt with in any way in connection with any Real Property has been and is being handled or dealt with, in all material respects, in compliance with applicable Environmental Laws, except where the noncompliance, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the Real Property.

2.10.5. No Notices. Except as set forth in the Environmental Reports or on the Seller's Disclosure Schedule, in the three (3) years preceding the Closing Date, none of the Consolidated Forecast Entities has generated, used, transported, stored, released or disposed of any Hazardous Substances in connection with the conduct of the Homebuilding Business or the use of any property or facility currently owned or operated (and, to the Seller's knowledge, heretofore owned or operated) by any Consolidated Forecast Entity, which has created any Liability under any Environmental Laws or which would require reporting to or notification of any Governmental Entity.

2.10.6. Assumption of Liabilities. Except as set forth on the Seller's Disclosure Schedule or in any environmental guarantees or indemnities existing under any lending documents relating to the Real Property or the Homebuilding Business, none of the Consolidated Forecast Entities has contractually assumed any liability or obligation under or relating to any Environmental Law.

2.11 Information Generally. The information prepared by the Consolidated Forecast Entities and thereafter made available by the Seller to the Buyer in or pursuant to this Agreement or in or pursuant to the Schedules or Exhibits hereto does not and will not, as of the date provided, contain any untrue statement of a material fact, and does not and will not, as of the date provided, omit to state a material fact necessary to make the statements or facts contained therein not misleading. Notwithstanding the foregoing, the Seller makes no representations with respect to information prepared by Persons other than the Consolidated Forecast Entities, Previti or Previti's Affiliates and the Seller provides no assurances with respect to future events.

2.12 No Conflicts; Government Approvals; Third-Party Consents. Except as set forth on the Seller's Disclosure Schedule, the execution, delivery and performance of this Agreement by the Seller and the consummation of any of the transactions contemplated hereby will not, to the Seller's knowledge, (a) violate, or constitute a non-technical breach or material default (whether upon lapse of time or notice or both) under, or results in any material augmentation or acceleration of rights, benefits or obligations of any party under (including the acceleration of indebtedness or any prepayment obligation), the constituent documents of the Seller or any Contract listed on the Seller's Disclosure Schedule, or (b) violate any Law or Order applicable to the Seller or the Assets, except for such violations, breaches or defaults that cannot, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Seller or the Real Property, taken as a whole. Except as set forth on the Seller's Disclosure Schedule, this Agreement and/or as required under the Hart-Scott-Rodino Act, the execution and delivery of this Agreement by the Seller and the performance of this Agreement by the Seller shall not require a filing or registration with, or the issuance of any Permit or Approval by, any other Person or Governmental Entity.

2.13 Legal Proceedings. Except as set forth on the Seller's Disclosure Schedule, (a) no Order or Action is pending or, to the Seller's knowledge, threatened against Previti, the Seller or any of the Consolidated Forecast Entities or any of the Assets that, if resolved unfavorably against such Person or Asset, individually or when aggregated with one or more other such Orders or Actions, would have a material adverse effect on such Person or Asset or would materially and adversely effect the Seller's ability to materially perform this Agreement, (b) the Seller does not reasonably expect any of such Orders or Actions, individually or in the aggregate, to have a material adverse effect on the Seller or the Assets, (c) no Order or Action is pending with respect to the entitlements pertaining to any Real Property, (d) no Action is pending against the Seller that would prevent the execution, delivery or performance of this Agreement by the Seller or the transfer, conveyance and sale of the Assets to be sold by the Seller to the Buyer pursuant to the terms hereof, and (e) neither the Seller nor any of the Assets is a party to, subject to or bound by any Action or Order.

2.14 Acquisition for Investment. Previti is an "accredited investor," as such term is defined in Regulation D under the Securities Act, or otherwise has such knowledge and experience in financial and business matters that Previti is capable of evaluating the merits and risks of Previti's investment hereunder.

2.15 Construction Defect Claims. Except with respect to those claims of construction defects, or personal injuries stemming from such claims, which, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the Homebuilding Business, all (a) material claims regarding construction defects which have been disclosed to the underwriter of any of the Policies, and (b) claims regarding construction defects which could reasonably be expected to exceed Fifty Thousand Dollars (\$50,000) and which the division presidents of the Seller have received written notice of such claims are set forth on the Seller's Disclosure Schedule. Together with any Policies, the amounts reserved therefor by the Seller on its Financial Statements in accordance with GAAP is specified, and, to the Seller's knowledge, is reasonable under the circumstances; provided, however, that Seller cannot and is not providing any assurance or guarantee with respect thereto.

2.16 Taxes.

2.16.1. Other than as set forth on the Seller's Disclosure Schedule, all Tax Returns required to be filed by or on behalf of the Seller with respect to the Assets have been duly and timely filed (taking into

account any extensions) and such Tax Returns have been prepared in accordance with applicable Laws and, to the best of Previti's knowledge, are true and correct in all material respects.

2.16.2. All Taxes shown on the Tax Returns have been timely paid in full and no other Taxes or penalties are payable by the Seller with respect to items or periods covered by such Tax returns.

2.16.3. None of the Assets is tax-exempt use property within the meaning of Section 168(h) of the Code and none of the Assets is property that is or will be required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and as in effect immediately prior to the enactment of the Tax Reform Act of 1986.

2.16.4. Tax Liens. There are no tax liens on any of the Assets with respect to Taxes, other than liens for (a) Taxes not yet due and payable, or (b) Taxes that the Consolidated Forecast Entities are contesting in good faith through appropriate procedures and/or proceedings which are described on the Seller's Disclosure Schedule.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Parties agree that the purchase of the Assets shall be without representation or warranty by the Buyer, express or implied, except as specifically set forth in this Agreement. None of the representations and warranties contained herein shall survive Closing; provided, however, that to the extent that the making of any such representation or warranty constituted actual fraud (and as further limited by Section 8.2) on the part of the Buyer, the Seller's right to promptly bring an Action against the Buyer thereunder and to such extent shall survive the Closing and shall remain in full force and effect until the date that is ninety (90) days after the expiration of the applicable statutory period; provided, however, such Action shall be filed in accordance with Section 10.10 by the Seller within ninety (90) days after the Seller's actual discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Except as otherwise indicated on the Buyer's Disclosure Schedule as to the particular section as to which an exception is being disclosed, the Buyer represents and warrants to the Seller and Previti as follows:

3.1 Organization and Related Matters. The Buyer is duly organized, validly existing and in good standing under the Laws of the State of Delaware, with the necessary corporate power and authority (a) to own and operate its business as now being conducted and as presently proposed to be conducted, and (b) to execute, deliver and perform this Agreement.

3.2 Authorization. The execution, delivery and performance of this Agreement by the Buyer have been duly and validly authorized by the Buyer's Board and by all other necessary corporate action on the part of the Buyer, including, without limitation, the requisite vote of the holders of the capital stock of the Buyer, and no other corporate proceedings on the part of the Buyer are necessary to authorize this Agreement or the transactions contemplated hereunder. This Agreement has been duly and validly executed and delivered by the Buyer and constitutes the legal, valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or limiting creditors' rights generally and equitable principles.

3.3 Licenses Held by the Seller. The Buyer acknowledges and agrees that any licenses from the Department of Real Estate or the Contractors' Board held by the Consolidated Forecast Entities as of the Closing Date shall not be transferred or delivered to the Buyer, and that the Buyer shall rely upon its own licenses, if any, to manage or develop any of the Assets acquired in connection with this Agreement after the Closing Date.

3.4 No Conflicts; Government Approvals; Third-Party Consents. Except as set forth on the Buyer's Disclosure Schedule, the execution, delivery and performance of this Agreement by the Buyer, including, without limitation, the issuance of the Buyer's Shares in connection with this Agreement, will not, to the Buyer's knowledge, violate the provisions of, or constitute a breach or default (whether upon lapse of time and/or the occurrence of any act or event or otherwise) under (a) the constituent documents of the Buyer or any of its Subsidiaries, or (b) any Law or Order to which the Buyer or its Subsidiaries or any of their assets is subject, except for such violations, breaches or defaults that cannot reasonably be expected to be materially adverse to the Buyer and its Subsidiaries, taken as a whole. Except as set forth with specificity on the Buyer's Disclosure Schedule and/or as required under the Hart-Scott-Rodino Act, the execution and delivery of this Agreement by the Buyer and the performance of this Agreement by the Buyer will not require a filing or registration with, or the issuance of any Permit or Approval by, any other third party or Governmental Entity.

3.5 No Brokers or Finders. No agent, broker, finder or investment or commercial banker, or other Person or firms engaged by or acting on behalf of the Buyer or its Affiliates in connection with the negotiation, execution or performance of this Agreement, the Securities Purchase Agreement or the transactions contemplated thereunder, is or will be entitled to any broker's or finder's or similar fees or other commissions as a result of this Agreement, the Securities Purchase Agreement or the transactions contemplated thereunder; provided, however, that (a) the Buyer shall have full responsibility for any obligations to any Person claiming a fee through the Buyer, if any, and (b) the Seller shall have full responsibility for the obligations to Salomon.

3.6 Legal Proceedings. Except as set forth on the Buyer's Disclosure Schedule, there is no Order or Action pending or, to the Buyer's knowledge, threatened against either the Buyer or any of its Subsidiaries that if resolved unfavorably against the Buyer or any of its Subsidiaries could reasonably be expected to have a material adverse effect on the financial position of the Buyer and its Subsidiaries taken as a whole or on the Buyer's ability to materially perform this Agreement, nor, to the Buyer's knowledge,

is there any outstanding judgment, settlement, decree or injunction, in each case against the Buyer, any of its Subsidiaries or any of their respective assets, or any statute, rule or Order of any Governmental Entity applicable to the Buyer or any of its Subsidiaries that could reasonably be expected to have a material adverse effect on the financial position of the Buyer and its Subsidiaries taken as a whole or on the Buyer's ability to materially perform this Agreement.

3.7 Financing. The Buyer currently has available sufficient funds and authorized Common Stock, which is capable of being registered under the Securities Act, to enable it to consummate the transactions contemplated hereby and by the Securities Purchase Agreement and the Buyer's ability to close the transactions in accordance with this Agreement and the Securities Purchase Agreement is not and will not be conditioned or contingent upon the Buyer's stock price, economic conditions or the Buyer's ability to receive any additional funds or financing.

3.8 SEC Reports; Financial Statements. The Buyer has delivered to the Seller the Buyer's SEC Reports. The consolidated financial statements of the Buyer included in the Buyer's SEC Reports comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except, in the case of unaudited consolidated quarterly statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and present fairly, in all material respects, the consolidated financial position of the Buyer and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited quarterly statements, to normal year-end audit adjustments). Neither the Buyer nor any of its Subsidiaries has any material liability (contingent or otherwise) or obligations, in each case that are required to be disclosed by GAAP, except liabilities that (a) are reflected or disclosed in the most recent financial statements included in the Buyer's SEC Reports, or (b) were incurred after the date of such most recent financial statements in the ordinary course of business consistent with past practice.

3.9 Compliance with Requirements for Short-Form Registration. The Buyer has complied in all material respects with all requirements under the New York Stock Exchange (and any other major exchange on which the Buyer's securities are listed or any major market on which the Buyer's securities are included), the Securities Act and the Exchange Act, and has satisfied all requirements for the use of a short-form registration of the Buyer's securities under the Securities Act, including, without limitation, a Form S-3.

3.10 Capitalization.

3.10.1. As of the Effective Date, the authorized capital stock of the Buyer consists of (a) eighty-seven million (87,000,000) shares of Common Stock, of which Twenty Million Six Hundred Seven Thousand One Hundred Seventy-Eight (20,607,178) shares are currently issued and outstanding, (b) thirteen million (13,000,000) shares of Class B common stock, par value \$0.01 per share, of which Seven Million Four Hundred Seventy-One Thousand Six Hundred Forty (7,471,640) shares are currently issued and outstanding, (c) one hundred thousand (100,000) shares of preferred stock, par value \$0.01 per share, of which none are currently issued and outstanding and (d) options to acquire Two Million Six Hundred Twenty-Three Thousand Five Hundred Fifty-Two (2,623,752) shares of the Buyer's Common Stock issued pursuant to the Buyer's various option plans. Except as set forth on the Buyer's Disclosure Schedule or pursuant to Buyer's benefit plans, as of the Effective Date, there are no outstanding (i) Contracts, options, warrants or other rights to subscribe for or purchase any Equity Securities of the Buyer, (ii) Contracts or other obligations to issue or grant any rights to acquire any Equity Securities of the Buyer, or (iii) Contracts or other obligations to restructure or recapitalize the Buyer or any of its Subsidiaries. As of the Effective Date, there are no outstanding Contracts of the Buyer to repurchase, redeem or otherwise acquire any Equity Securities of the Buyer or its Subsidiaries.

3.10.2. The issuance of the Buyer's Shares has been duly authorized by all necessary corporate action on the part of the Buyer and, when issued pursuant to this Agreement, will be validly issued, fully paid and non-assessable. The Buyer's Shares will be issued without any violation of preemptive rights, co-sale rights, rights of first refusal or any other similar right or restriction arising under the Buyer's charter or Delaware General Corporation Law or any other document or agreement or any other restriction, including, without limitation, restrictions on transfer.

3.11 No Vote Required. The affirmative vote of the holders of capital stock of the Buyer is not required of any class or series of the Buyer's capital stock in order to approve this Agreement, the Securities Purchase Agreement or the transactions contemplated thereunder or under any Collateral Agreement. The Buyer's Board, at a meeting duly called and held prior to the Effective Date (a) determined that this Agreement, the Securities Purchase Agreement and the transactions contemplated thereby, and under any Collateral Agreement, are fair to, and in the best interests of, the stockholders of the Buyer, and (b) approved this Agreement, the Securities Purchase Agreement, any Collateral Agreement and the transactions contemplated thereby. Prior to the Effective Date, the Buyer has delivered to the Seller a copy of the complete set of minutes of the meeting and all the resolutions of the Buyer's Board.

3.12 Not an Investment Company. Neither the Buyer nor any of its Subsidiaries is an "investment company" or an entity "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

3.13 Registration of the Buyer's Shares; Securities Laws Compliance.

The Buyer's Shares shall be issued to the Seller (or its designee) in compliance with the Securities Act, all applicable state securities laws and all applicable rules and regulations of the New York Stock Exchange (or any

other exchange on which the Buyer's securities are listed or any other market on which the Buyer's securities are included). The SEC has not initiated any proceedings to remove, suspend or terminate from listing or quotation the Buyer's common stock from any securities exchange upon which it is listed for trading, included or designated for quotation, or threatened to initiate any proceedings for any of such purposes. If the SEC shall enter any such stop order at any time, the Buyer shall use its best efforts to obtain the lifting of such order at the earliest possible moment. Additionally, the Buyer agrees that it shall comply with the provisions of Rules 424(b), 430A and 434, as applicable, under the Securities Act and will use its best efforts to confirm that any filings made by it under such Rule 424(b) were received in a timely manner by the SEC. The Buyer has not received any notification from the New York Stock Exchange (or any other exchange on which the Buyer's securities are listed or any other market on which the Buyer's securities are included) indicating that the Buyer's securities shall or may be removed from listing or inclusion on such exchange or market, as applicable.

SECTION 4. COVENANTS PRIOR TO CLOSING

4.1 Access. The Seller shall cause the Consolidated Forecast Entities to afford the Buyer, its agents and its attorneys reasonable access during normal business hours, upon advance written notice and in such manner as will not unreasonably interfere with the usual day-to-day conduct of the Seller's businesses, to the offices, properties and financial records of the Consolidated Forecast Entities as the Buyer may from time to time reasonably request. In furtherance and not in limitation of the foregoing, the Buyer shall be entitled to conduct or cause to be conducted (at its sole expense) on any Real Property such soils and geological tests and environmental inspections, audits and tests (including the taking of soils and ground water samples) and such structural and other physical inspections as the Buyer shall deem reasonably necessary or useful in connection with the transactions contemplated by this Agreement, so long as such inspections, audits and tests do not delay the Closing Date and the Buyer conducts the same in material compliance with all Laws and upon written notice to the Seller delivered three (3) days prior to the date of such inspection, audit or test and so long as the Buyer causes its consultants (prior to their entry upon any Real Property) to name the Seller as an additional insured under insurance policies carried by such consultants. The Buyer shall cause any property damage resulting from any such testing, inspection or audit to be promptly repaired at the Buyer's sole cost, and the Buyer hereby agrees to indemnify, defend and hold the Seller and the other Consolidated Forecast Entities, as applicable, harmless from any Loss incurred by the Seller and/or the Consolidated Forecast Entities (including, without limitation, any Loss incurred by Seller related to any property damage and/or any personal injury), and/or arising out of the conduct of any such tests, inspections or audits. Notwithstanding any of the foregoing, the Buyer shall have no obligation to indemnify or hold harmless any Person regarding any remediation of, or any response to, any contamination or violation of Environmental Law, or any other liability under or relating to any Environmental Law discovered, but not actually caused, by the Buyer's tests, inspections or audits. The Buyer's obligations hereunder shall survive the expiration or termination of this Agreement without any limitation or qualification.

4.2 Preservation of Business Prior to the Closing Date.

4.2.1. Except as otherwise set forth on the Seller's Disclosure Schedule, during the period beginning on the Option Date and ending on the Closing Date, the Seller shall not sell more than five percent (5%) of the Assets outside of the ordinary course of business in one or a series of related transactions; provided, however, that nothing contained herein shall limit or restrict the ability or right of any of the Consolidated Forecast Entities' to sell lots included in the Assets to individual home buyers in the ordinary course of business.

4.2.2. During the period beginning on the Effective Date and ending on the Closing Date:

(a) Conduct of Business. Except as otherwise set forth on the Seller's Disclosure Schedule, the Seller shall cause the Consolidated Forecast Entities to conduct the Homebuilding Business generally in accordance with their past business practices.

(b) Goodwill. The Seller shall cause the Consolidated Forecast Entities to use commercially reasonable efforts to preserve the goodwill of customers, suppliers and others having business relations with the Consolidated Forecast Entities.

(c) Third Party Rights. Except with respect to (i) the Permitted Encumbrances, (ii) those items set forth on the Seller's Disclosure Schedule, and (iii) those items as to which the Buyer has given its written or oral approval, the Seller shall not grant to any person any Contract or other right to use or acquire any portion of the Real Property, or to the furnishing or use of any facility or amenity on or relating to the Real Property, in each case that will continue past the Closing Date.

4.3 Notification of Certain Matters. The Seller shall give prompt written notice to the Buyer, and the Buyer shall give prompt written notice to the Seller, of such Party's respective knowledge of (a) the occurrence, or failure to occur, of any event that would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material adverse respect at any time between the Effective Date and the Closing Date, and (b) any failure of the Buyer or the Seller, as the case may be, to comply with or satisfy, any covenant, condition or agreement to be complied with or satisfied by it under this Agreement to the extent such covenants, conditions or agreements may be qualified therein by materiality or otherwise.

4.4 Permits and Approvals.

4.4.1. Pre-Closing. The Seller and the Buyer each agree to cooperate and use commercially reasonable efforts to obtain all (and shall promptly prepare all registrations, filings and applications, requests and

notices preliminary to all) Approvals and Permits that may be necessary to consummate the transactions contemplated by this Agreement, including, without limitation, the Approvals listed on the Seller's Disclosure Schedule (which shall be obtained at the Seller's expense) and the Buyer's Disclosure Schedule (which shall be obtained at the Buyer's expense).

4.4.2. Post-Closing. To the extent that the Approval of a third party with respect to any Material Contract is required in connection with the transactions contemplated by this Agreement but is not obtained prior to the Closing Date, the Seller shall (but without limitation on the Buyer's rights under Section 6.2 and without any cost to the Seller) attempt in a commercially reasonable manner to assist the Buyer in obtaining for the Buyer the benefits of each such Contract. Previti and the Seller agree, for a period of six (6) months following the Closing Date, to reasonably cooperate with the Buyer (at no cost or expense to Previti or the Seller) and, to the extent permitted by Law, to permit the Buyer to use the appropriate licenses or permits of the Seller, Previti or the Consolidated Forecast Entities with respect to the Assets only. In connection therewith, neither the Seller, Previti or any of the Consolidated Forecast Entities shall be obligated to cooperate in the event that doing so could jeopardize such licenses or permits. Additionally, the Buyer shall indemnify and hold the Seller, Previti and the Consolidated Forecast Entities harmless from and against any loss, cost, damage or claim, including, without limitation, any attorneys' fees and costs arising in connection with its cooperation with the Buyer or the Buyer's use of such licenses or permits, except to the extent arising from the Seller's willful misconduct or gross negligence.

4.5 Reserved Insurance. Prior to the Closing Date, the Buyer shall (a) name Previti and the Consolidated Forecast Entities as additional insureds under the insurance policies carried by the Buyer and its Affiliates with respect to the Homebuilding Business, and (b) provide the Representative with evidence reasonably satisfactory to the Representative of having named Previti and each of the Consolidated Forecast Entities as additional insureds under the foregoing insurance policies for ten (10) years following the Closing. The Parties acknowledge and agree that notwithstanding any other provision in this Agreement to the contrary, the assignment of the Policies pursuant to this Agreement and the inclusion of the Policies as "Assets" hereunder, the Seller, Previti and the Consolidated Forecast Entities, as applicable, retain the benefit of the Policies with respect to the Excluded Assets (and any Excluded Liabilities) and shall have the right and ability to make claims under the Policies for any and all Excluded Liabilities.

SECTION 5. ADDITIONAL CONTINUING COVENANTS

5.1 Non-Competition.

5.1.1. Restrictions on Competitive Activities. Except as expressly set forth in Section 5.1.2, after the Closing Date and for a period of three (3) years thereafter, each of the Seller and Previti agrees that it shall not (a) directly or indirectly, through an Affiliate or otherwise, for its own benefit or that of another, engage, own or manage or act as an employee for any Person that engages in the construction of single-family, for sale residences or residential condominiums in the Covered Counties, and (b) solicit for employment or employ any individual employed by the Seller or its Affiliates as of either October 1, 2001 or the Closing Date.

Notwithstanding clause (b) of the immediately preceding sentence, Previti may solicit for employment or employ any individual that (i) is terminated by the Buyer, commencing six (6) months after the Closing Date, (ii) terminates his employment with the Buyer and is subsequently employed by a third party for at least six (6) months, (iii) is a relative of Previti, or (iv) is an individual listed on Schedule 5.1.1 (the "Excluded Employees") attached hereto; provided, however, that in the instance of clause (i) or (ii), Previti shall not employ such individual in a role related to homebuilding until such time as the three (3) year anniversary of the Closing Date has occurred.

5.1.2. Exceptions. Nothing contained in this Agreement shall limit the right of Previti, the Group or any of the Controlled Entities, without limitation, (a) to participate in the development and construction of single-family, for sale residences on the real property included in the Previti Projects and in the development and construction of those condominium projects set forth on Schedule 5.1.2 (the "Permissible Condominium Projects") attached hereto, (b) to hold their respective current investments or to manage their other current businesses which are unrelated to the Homebuilding Business and the sale of single-family homes, (c) to construct for the purpose of selling or leasing for its own account, any development that is not single-family residential construction, including, without limitation, multi-family rental properties, (d) to acquire and entitle raw land for single-family or multi-family residential or commercial, retail or industrial development, (e) to retain or increase its ownership and/or equity interest in Premier and to participate in any activity of Premier in connection with the construction, development and sale of any residential property, including, without limitation, the homebuilding business of Premier; provided, however, that (1) if Premier executes and delivers the Non-Competition and Option Agreement effective as of the Closing Date, Premier shall (i) limit its construction for sale of single family homes (including condominiums) in all of the counties in California (the "Covered Counties"), to not more than (A) one hundred and fifty (150) in the calendar year 2002, (B) two hundred and fifty (250) in the calendar year 2003, and (C) three hundred fifty (350) in the calendar year 2004, and (ii) sell each such single-family residence for a base amount (exclusive of non-standard options and non-standard add-ons, etc.) exceeding Three Hundred Thousand Dollars (\$300,000), or (2) if Premier does not execute and deliver the Non-Competition and Option Agreement effective as of the Closing Date, Previti shall limit his and the Controlled Entities' construction for sale of single family residences to (i) not more than (A) six hundred (600) homes in the three (3) year period following the Closing Date in the Covered Counties and

(B)two hundred fifty (250) homes in any single year in the Covered Counties, and (ii)single-family residences that sell for a for a base amount (exclusive of non-standard options and non-standard add-ons, etc.) exceeding Three Hundred Thousand Dollars (\$300,000), (f)as a passive investor without veto rights, to hold and make investments in securities of any corporation or limited partnership that is registered on a national securities exchange or admitted to trading privileges thereon or actively traded in a generally recognized over-the-counter market, provided the Seller's equity interest therein (other than interests in the Buyer) does not exceed five percent (5%) of the outstanding shares or interests in such corporation or partnership, and (g)as a passive investor in or as a secured or unsecured lender (i) to real estate investment companies and/or investors which provide financing to commercial and/or residential real estate owners and developers or (ii) directly to commercial and/or residential real estate owners and developers (which shall include the right to exercise any and all remedies available to such party as lender with respect to defaulted loans, including, without limitation, the right to foreclose, accept a deed-in-lieu of foreclosure and to own, operate and/or complete the construction and/or development of any commercial or residential project acquired as a result of any such default). In addition, nothing herein shall limit the right of Previti to periodically invest in and consult with respect to any homebuilding efforts initiated by either of his two (2) sons; provided, however, that such Previti invested homebuilding activities undertaken by either son shall not exceed the construction of twelve (12) units of single-family, for sale residential homes over any period of twelve (12) consecutive months from the Closing Date through the third anniversary of the Closing Date. Nothing in this Section 5.1.2 shall serve to restrict or limit the rights or abilities of either of Previti's sons to acquire, entitle, develop and/or construct any type or number of developments at any time if such activity is without the investment of Previti and without the direct material involvement of Previti in such activities.

5.1.3. Special Remedies and Enforcement. The Seller recognizes and agrees that a breach by the Seller or any Controlled Entity of any of the covenants set forth in this Section 5.1 could cause irreparable harm to the Buyer, that the Buyer's remedies at Law in the event of such breach would be inadequate, and that, accordingly, in the event of such breach, a restraining order or injunction or both may be issued pursuant to and subject to appropriate legal proceedings against the Seller, in addition to any other rights and remedies which are available to the Buyer (subject to the limitations in this Agreement). If this Section 5.1 is more restrictive than permitted by the Laws of the jurisdiction in which the Buyer seeks enforcement hereof, this Section 5.1 shall be limited to the extent required to permit enforcement under such Laws. Without limiting the generality of the foregoing, the Parties intend that the covenants contained in the preceding portions of this Section 5.1 shall be construed as a series of separate covenants, one for each of the Covered Counties. Except for geographic coverage, each such separate covenant shall be deemed identical in terms. If, in any judicial proceeding, a court shall refuse to enforce any of the separate covenants deemed included in this Section 5.1, then such unenforceable covenant shall be deemed eliminated from these provisions for the purpose of those proceedings to the extent necessary to permit the remaining separate covenants to be enforced.

5.2 Nondisclosure of Proprietary Data. Each of Previti and the Seller agrees that the Seller will not, and agrees to cause the Consolidated Forecast Entities to not (a)divulge or otherwise disclose any trade secret or other proprietary data concerning the business or policies of the Seller or its Affiliates as they relate to the Assets, or (b)divulge or otherwise disclose to Persons other than the Buyer, any confidential information concerning the business or policies of the Seller or its Affiliates as they relate to the Assets, except, in each case, (i) to the extent that such information is or hereafter becomes lawfully obtainable from other sources, (ii) to the extent that such information is necessary or appropriate to disclose to a Governmental Entity having jurisdiction over the disclosing Party, (iii) as may otherwise be required by Law, or (iv) to the extent such duty of confidentiality is waived in writing by the Buyer.

5.3 Tax Cooperation. After the Closing Date, the Seller and the Buyer shall, and shall cause their respective Affiliates to, cooperate in a commercially reasonable manner with each other in the preparation and filing of all Tax Returns and any Tax investigation, audit or other proceeding with respect to the Seller (a "Tax Proceeding") and shall provide, or cause to be provided, any records and other information in their possession or control or in the control of their agents reasonably requested by such other Party in connection therewith as well as access to, and the cooperation of, their respective Auditors at each Party's request. The Seller shall not agree to any settlement concerning Taxes with respect to the Assets for any taxable period which would result in an increase of more than One Million Dollars (\$1,000,000) in Taxes of the Buyer for any taxable period ending after the Closing Date, without the prior written consent of the Buyer. Except as to the extent the Seller has indemnified such costs pursuant to the provisions set forth in this Agreement or the Collateral Agreements, the Buyer and the Seller shall bear their respective costs and expenses in connection with any Tax Proceeding. Any information obtained pursuant to this Section 5.3 or pursuant to any other Section of this Agreement providing for the sharing of information or the review of any Tax Return or other information relating to Taxes shall be subject to Section 10.9.

5.4 Access to Books and Records. After the Closing Date, the Buyer shall afford the Seller and its accountants, counsel and other representatives, reasonable access during normal business hours to the books and records related to the Assets transferred to the Buyer by the Seller for the period prior to the Closing Date that relate to Tax matters or any third-party claims against the Seller relating to the business of the Consolidated

Forecast Entities during any such period. The Seller or its representatives, may, at the Seller's own expense, make copies of such books and records. The Buyer understands that there are certain 2000 and 1999 tax returns for entities associated with the Consolidated Forecast Entities for which Tax Returns have not yet been prepared and that such Tax returns are identified on the Seller's Disclosure Schedule. The Buyer agrees after the Closing to give the Seller's accountants and tax accountants complete access to the information needed to prepare such returns.

5.5 Registration of the Buyer's Shares.

5.5.1. Obligations of the Buyer. Within the first six (6) months following the Closing Date, the Buyer shall:

- (a) prepare and file with the SEC a registration statement (a "Registration Statement") to register all of the Buyer's Shares and cause such Registration Statement to become effective;
- (b) keep such Registration Statement effective for such time as shall be required for the Seller to dispose of all of the Buyer's Shares;
- (c) prepare and file with the SEC such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement;
- (d) furnish to Previti and the Consolidated Forecast Entities such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirement of the Securities Act and such other documents as they may request in order to facilitate the disposition of all of the Buyer's Shares;
- (e) register and qualify the Buyer's Shares covered by such Registration Statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Seller;
- (f) provide a transfer agent and registrar for the Buyer's Shares and a CUSIP number for such Buyer's Shares, in each case not later than the effective date of such registration;
- (g) cause all of the Buyer's shares registered pursuant hereto to be listed on each securities exchange (or automated quotation service) on which similar securities issued by the Buyer are then listed, or if no such listing exists, then on either the New York Stock Exchange, the American Stock Exchange or NASDAQ;
- (h) notify Previti and the Consolidated Forecast Entities at any time when a prospectus relating thereto is required to be delivered under the Securities Act or the happening of any event which causes the prospectus included in such registration statement, as then in effect, to include an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing; and
- (i) cause its counsel to furnish, at the request of Previti or any of the Consolidated Forecast Entities, on the date that any of the Buyer's Shares are delivered to a purchaser or purchasers thereof an opinion, dated such date, of the counsel representing the Buyer, in form and substance as is customarily given to remove all legends from such shares.

5.5.2. Failure to Register the Buyer's Shares. In the event that the Buyer does not fulfill its foregoing obligations, the Seller shall have the right to cause the Buyer to promptly repurchase all of the Buyer's Shares from the Seller pursuant to Section 1.3.2.

5.5.3. Expenses of Registration. All expenses, including, without limitation, out-of-pocket costs incurred by Previti, commissions, filing fees, transaction fees, stock transfer taxes and fees of counsel (which counsel's fee shall not exceed Ten Thousand Dollars (\$10,000) except in the event of default by the Buyer), incurred in connection with the registration of the Buyer's Shares (including, without limitation, the filing of the Registration Statement and any other related filings with the SEC) shall be paid by the Buyer.

5.5.4. Protection. The Buyer agrees to indemnify, defend and hold harmless Previti and the Consolidated Forecast Entities against any Loss as incurred, to which Previti and the Consolidated Forecast Entities may become subject, under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation), insofar as such Loss (or actions in respect thereof as contemplated below) arises out of or is based (a) upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, or any amendment thereto, including any information deemed to be a part thereof pursuant to Rule 430A under the Securities Act, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading; or (b) upon any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus or prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and to reimburse Previti and the Consolidated Forecast Entities for any and all expenses (including the fees and disbursements of counsel chosen solely by Previti and the Consolidated Forecast Entities) as such expenses are reasonably incurred by Previti and the Consolidated Forecast Entities in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the Buyer shall not have liability under clauses (a) and (b) to the extent such statement was related to the Assets, Previti or the Consolidated Forecast Entities and was provided in writing directly to the Buyer by Previti specifically for inclusion in the applicable registration statement or prospectus. The indemnity agreement set forth in this Section 5.5.4 shall be in addition to any liabilities that the Buyer may otherwise have and shall survive the Closing Date.

5.6 Change of Control. The Buyer shall not enter into any agreement with any third party to effect or obligate itself to effect a Change of Control unless the surviving entity of such contemplated Change of Control transaction shall agree to assume all of the Buyer's obligations under this Agreement (and any other related agreements), including, without limitation, the Buyer's obligations with respect to the Buyer's Shares and Section 10.9; provided, however, nothing herein shall limit, modify or change in any way Buyer's obligations arising under Sections 1.3, 1.4, 1.5 and 1.6.

SECTION 6. CONDITIONS OF PURCHASE

6.1 General Conditions. The obligations of the Parties to effect the Closing shall be subject to the following conditions, except to the extent waived in writing by all Parties:

6.1.1. No Orders; Legal Proceedings. No Law or Order shall have been enacted, entered, issued or enforced by any Governmental Entity, nor shall any Action have been instituted and remain pending at what would otherwise be the Closing Date, which prohibits or restricts or would (if successful) prohibit or materially restrict the transactions contemplated by this Agreement. No Governmental Entity shall have notified any Party that consummation of the transactions contemplated by this Agreement would constitute a violation of any Laws of any jurisdiction or that it intends to commence proceedings to restrain or prohibit such transactions or force divestiture or rescission, unless such Governmental Entity shall have withdrawn such notice and abandoned any such proceedings prior to the time which otherwise would have been the Closing Date.

6.1.2. Approvals. All Permits and Approvals required to be obtained from any Governmental Entity to consummate the transactions contemplated by this Agreement shall have been received or obtained on or prior to the Closing Date.

6.1.3. Hart-Scott-Rodino Act Approvals. If applicable, all waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act shall have been expired or otherwise been terminated.

6.1.4. No Prohibition. No Action, suit or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction or before any arbitrator wherein an unfavorable result would (a) prevent consummation of any of the transactions contemplated hereby, or (b) cause any of the transactions contemplated hereby to be rescinded following consummation.

6.1.5. Securities Purchase Agreement. All of the Closing conditions set forth in the Securities Purchase Agreement have been satisfied or waived by the parties thereto.

6.2 Conditions to Obligations of the Buyer. The obligations of the Buyer to effect the Closing shall be subject to the following conditions, except to the extent waived in writing by the Buyer:

6.2.1. Representations and Warranties and Covenants of the Seller. The representations and warranties of the Seller and the Consolidated Forecast Entities contained in this Agreement (as qualified by matters set forth as exceptions thereto in the Seller's Disclosure Schedule and as otherwise permitted by the terms of this Agreement) shall be true in all material respects at the Effective Date and at the Closing Date, as applicable, with the same effect as though made at and as of such time. The Seller and the Consolidated Forecast Entities shall have in all material respects performed all obligations and complied with all covenants and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing Date, and the Seller shall have delivered to the Buyer a certificate of the Seller to such effect, dated the Closing Date, in the form of Exhibit J (the "Form of the Seller's Certificate") attached hereto, subject to any bring-down to reflect the then current state of facts.

6.2.2. Consents. The Seller shall have obtained (and provided evidence to the Buyer of receipt of) any Approvals of third parties set forth on the Seller's Disclosure Schedule.

6.2.3. FIRPTA Affidavit. The Seller shall have executed and delivered affidavits in a form reasonably satisfactory to the Buyer providing, among other things, under penalty of perjury, its U.S. taxpayer identification number and that it is not a "foreign person" within the meaning of Sections 1445 and 7701 of the Code;

6.2.4. Opinion of Counsel. O'Melveny & Myers LLP, legal counsel for the Seller, shall have delivered to the Buyer a legal opinion substantially in the form of Exhibit K (the "Form of OM&M Legal Opinion") attached hereto.

6.2.5. Seller's Certificates. The Seller shall have caused to be delivered to the Buyer certificates, in a form reasonably satisfactory to the Buyer, which shall include:

(a) copies of the resolutions that the board of directors of the Seller and the partners thereof adopting and approving the execution, delivery, and performance of this Agreement and each agreement, certificate, instrument and other document to be delivered pursuant thereto to which they are party;

(b) incumbency certificates setting forth the names, offices and signatures of the Persons signing on behalf of them; and

(c) an officer's certificate of the Seller which certifies that each of the transactions contemplated by the Transfer have been completed on or prior to the Closing Date.

6.2.6. Other. The Seller shall have delivered to the Buyer such other certificates as the Buyer may reasonably request to effect the transactions contemplated hereby; provided, however, the Seller shall not be obligated to undertake any step which would create obligations or liabilities not specifically set forth in this Agreement, including, without limitation, any obligations or liabilities to any third-parties.

6.2.7. Disclosure Documents. The Seller shall have delivered to the Buyer copies of the Seller's SEC Reports.

6.2.8. Title Insurance. The Title Company shall be in a position

to issue Title Policies to the Buyer with respect to the Real Property, which policies shall be subject only to the Permitted Encumbrances.

6.2.9. Lot Option Agreement. Previti shall have validly executed and delivered the Lot Option Agreement.

6.2.10. Non-Competition and Option Agreement. Premier shall have validly executed and delivered the Non-Competition and Option Agreement.

6.2.11. ROFO Agreement. Previti shall have validly executed and delivered the ROFO Agreement.

6.2.12. Park Meadows Option Agreement. Previti shall have validly executed and delivered the Park Meadows Option Agreement.

6.2.13. Consulting Agreement. Previti shall have validly executed and delivered the Consulting Agreement.

6.2.14. Forecast Development Option and Purchase Agreement. Forecast Development shall have validly executed and delivered the Forecast Development Option and Purchase Agreement.

6.2.15. Indemnification and Release Agreement. Previti and the Seller shall have validly executed and delivered the Indemnification and Release Agreement.

6.3 Conditions to Obligations of the Seller. The obligations of the Seller to effect the Closing shall be subject to the following conditions, except to the extent waived by the Seller in writing:

6.3.1. Representations and Warranties and Covenants of the Buyer. The representations and warranties of the Buyer herein contained (as qualified by matters set forth as exceptions thereto in the Buyer's Disclosure Schedule) shall be true in all material respects at the Effective Date and at the Closing Date, as applicable, with the same effect as though made at and as of such time; the Buyer shall have in all material respects performed all obligations and complied with all covenants and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing Date. The Buyer shall have delivered to the Seller a certificate of the Buyer to such effect, dated the Closing Date, the form of which appears as Exhibit L (the "Form of the Buyer's Certificate") attached hereto.

6.3.2. Consents. The Buyer shall have obtained any and all Approvals of third parties that are necessary in order to consummate the transactions contemplated hereby, including, without limitation, the Approvals set forth on the Buyer's Disclosure Schedule.

6.3.3. Opinion of Counsel. The Seller shall receive at the Closing from Simpson, Thacher & Bartlett, an opinion dated the Closing Date, in form and substance substantially as set forth in Exhibit M (the "Form of the ST&B's Legal Opinion") attached hereto.

6.3.4. Assumption of Guarantees. The Buyer shall have assumed the guarantees identified in Schedule 6.3.4 attached hereto by an instrument acceptable to the Seller that fully and completely releases the Seller that is a guarantor thereunder and each partner or shareholder, as applicable, of the Seller, from any liability under such guarantees.

6.3.5. Assumption of Liabilities. The Buyer shall have assumed all of the Liabilities of the Seller with respect to the Assets (other than the Excluded Liabilities) pursuant to an assignment and assumption agreement in the form attached hereto as Exhibit N (the "Form of Assignment and Assumption Agreement"). Nothing contained herein or therein shall require the Buyer to assume the Excluded Liabilities.

6.3.6. Secretary's Certificate. The Buyer shall have delivered to the Seller a certificate, in a form acceptable to the Seller, which shall include:

- (a) a copy of the Buyer's certificate of incorporation certified by the Secretary of State of the State of Delaware not more than five (5) business days before the Closing Date;
- (b) a long-form good standing certificate from the Secretary of State of the State of Delaware, dated no earlier than five (5) business days before the Closing Date, stating that the Buyer is in existence and in good standing under the laws of the State of Delaware;
- (c) a copy of the resolutions that the Buyer's Board or executive committees of the Buyer adopted approving the execution, delivery and performance of this Agreement and the transactions contemplated hereby and each agreement, certificate, instrument or other document to be delivered pursuant hereto to which it is a party; and
- (d) an incumbency certificate setting forth the names, offices and signatures of all of the officers signing on behalf of the Buyer.

6.3.7. Change of Ownership Filings. The Buyer shall have completed and filed all "Change of Ownership" statements with each county in which any Assets are located.

6.3.8. Purchase Price. The Buyer shall have delivered to the Seller (a) the Cash Purchase Portion (less the Option Consideration) by wire transfer of immediately available federal funds to such account or accounts as shall be specified in instructions from the Representative prior to the Closing Date, and (b) stock certificates evidencing all of the Buyer's Shares.

6.3.9. Listing of the Buyer's Shares. The Buyer's Shares shall have been listed on the New York Stock Exchange, subject to official notice of issuance, and the Buyer shall have delivered evidence of such authorization to the Seller.

6.3.10. Other Matters. The Buyer shall have delivered to the Seller such other certificates, documents and instruments as the Seller may reasonably request to effect the transactions contemplated hereby.

6.3.11. Lot Option Agreement. The Buyer shall have validly executed and delivered the Lot Option Agreement.

6.3.12. Non-Competition and Option Agreement. The Buyer shall have validly executed and delivered the Non-Competition and Option Agreement.

6.3.13. ROFO Agreement. The Buyer shall have validly executed and delivered the ROFO Agreement.

6.3.14. Park Meadows Option Agreement. The Buyer shall have validly executed and delivered the Park Meadows Option Agreement.

6.3.15. Consulting Agreement. The Buyer shall have validly executed and delivered the Consulting Agreement.

6.3.16. Forecast Development Option and Purchase Agreement. The Buyer shall have validly executed and delivered the Forecast Development Option and Purchase Agreement.

6.3.17. Indemnification and Release Agreement. The Buyer shall have validly executed and delivered the Indemnification and Release Agreement.

6.3.18. Satisfaction of Debt. The Buyer shall have satisfied all of the Debt pursuant to Section 1.12.

SECTION 7. TERMINATION OF OBLIGATIONS; SURVIVAL

7.1 Termination of Agreement. Anything in this Agreement to the contrary notwithstanding, this Agreement and the transactions contemplated by this Agreement (a) shall terminate if the Closing (including, without limitation, the Seller's receipt of the Purchase Price) does not occur on or before 10:00 a.m. (Pacific Time) on February 1, 2002, unless extended by mutual consent in writing of the Buyer and the Seller, and (b) otherwise may be terminated at any time before the Closing as follows and in no other manner:

7.1.1. Mutual Consent. By mutual consent in writing of the Buyer and the Seller.

7.1.2. Conditions to the Buyer's Performance Not Met. By the Buyer, by written notice to the Seller, if any event occurs or condition exists which would render impossible the satisfaction of one or more conditions to the obligations of the Buyer to consummate the transactions contemplated by this Agreement as set forth in Section 6.1 or 6.2. Notwithstanding the foregoing, the Buyer may not terminate this Agreement pursuant to this Section 7.1.2 if such failure of condition resulted, in whole or in part, from the breach by the Buyer of any of its obligations under this Agreement.

7.1.3. Conditions to the Seller's Performance Not Met. By the Seller, by written notice to the Buyer, if any event occurs or condition exists which would render impossible the satisfaction of one or more conditions to the obligations of the Seller to consummate the transactions contemplated by this Agreement as set forth in Section 6.1 or 6.3. Notwithstanding the foregoing, the Seller may not terminate this Agreement pursuant to this Section 7.1.3 if such failure of condition resulted, in whole or in part, from the breach by the Seller of any of its obligations under this Agreement.

7.1.4. Material Breach. By the Buyer or the Seller if there has been a material misrepresentation or other material breach by the other in its representations, warranties or covenants set forth in this Agreement; provided, however, that if such breach is susceptible to cure, the breaching Party shall have ten (10) business days in which to cure such breach after actual receipt of written notice from the other Party of its intention to terminate this Agreement if such breach continues.

7.2 Effect of Termination. In the event that this Agreement shall be terminated pursuant to Section 7.1, all further obligations of the Parties under this Agreement shall terminate without further liability of any Party to any other, except that the obligations of the Parties contained in Sections 10.9, 10.14 and 10.16 and the Buyer's indemnification obligations pursuant to Section 4.1 shall survive any such termination. A termination under Section 7.1 shall not relieve any Party of any liability that may otherwise exist for a willful breach of, or for any willful misrepresentation under, this Agreement, or be deemed to constitute a waiver of any available remedy (including specific performance if available) for any such breach; provided, however, that the Buyer shall not have the right to pursue any form of injunctive relief against Previtl, the Seller or any of the Consolidated Forecast Entities. Additionally, no termination shall give rise to the release of the Buyer from any Loss or indemnities provided to the Seller under this Agreement with respect to any of the Buyer's (or its agents) due diligence.

7.3 Effect of Closing Over Known Unsatisfied Conditions.

7.3.1. Waiver. Except with respect to matters bearing on the Buyer's Shares, if either the Buyer or the Seller elects to proceed with the Closing, each and every such condition that is unsatisfied at the Closing Date shall be deemed to be waived. Such decision shall, to the extent the waiving party had knowledge as of the time of the Closing with respect thereto, constitute a waiver of any liability for breach of, or misrepresentation under, this Agreement in connection with such unsatisfied condition(s) and such breach of a representation or warranty in favor of the other.

7.3.2. Effect of Waiver. If the Buyer shall waive or be deemed to have waived any condition set forth in Section 6.1 or 6.2, the Buyer shall be deemed to have (a) fully released and forever discharged the Seller and its Affiliates, the Representative, partners, shareholders, officers, directors, agents and representatives from and on account of all claims, demands or charges (known or unknown) with respect to the waived condition and, to the extent that the Buyer had knowledge as of the time of the Closing with respect thereto, any facts or circumstances giving rise to or in respect of such waived condition, and (b) waived any opinion or certificate contemplated by Section 6.1 or 6.2 with respect to such matters. THE BUYER, AFTER CONSULTATION WITH LEGAL COUNSEL AND WITH FULL KNOWLEDGE OF THE CONSEQUENCES OF ITS ACTIONS, WAIVES THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS

SETTLEMENT WITH THE DEBTOR."

Buyer's Initials:

SECTION 8. INDEMNIFICATION

8.1 Indemnification by Seller and Previti.

8.1.1. Ownership of the Assets. The Seller and Previti shall jointly and severally indemnify, defend and hold harmless the Buyer and its officers, directors, stockholders and Affiliates from and against any and all material Losses, whether or not involving a third-party claim, directly based upon or directly arising from any material breach of the representations or warranties made by the Seller under Section 2.1.1 only (and no other agreement); provided, however, that the Seller's and Previti's indemnification obligations hereunder shall exist only with respect to Losses of which the Seller and Previti are timely notified in accordance with Section 8.3.1.

8.1.2. Indemnification for Actual Fraud. The Seller and Previti, as to matters concerning the Consolidated Forecast Entities, shall jointly and severally indemnify, defend and hold harmless the Buyer and its officers, directors, stockholders and Affiliates from and against any and all Losses, whether or not involving a third-party claim (but expressly excluding all homeowner allegations of fraud or similar claims or class action claims), that are not reflected in the Financial Statements or on the Seller's Disclosure Schedule, as a result of, or based upon or arising from, any fraudulent misrepresentation made by the Seller in Section 2 (including, without limitation, fraudulent misrepresentations made by the Seller in Section 2.13 regarding actually asserted and existing homeowner fraud claims); provided, however, that the Seller's and Previti's indemnification obligations hereunder shall exist only with respect to Losses of which the Seller and Previti are timely notified in accordance with Section 8.3.1; provided, further, any indemnification claim hereunder shall be filed in accordance with Section 10.10 by the Buyer within ninety (90) days after the Buyer's discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Such fraudulent misrepresentation under this Section 8.1.2 (a) must constitute "actual fraud" under the California Civil Code, (b) shall be determined based only on the actual (not imputed or constructive) knowledge of any of the Executive Officers, and (c) must be the subject of a final, non-appealable judgment.

8.1.3. Tax Indemnification. From and after the Closing Date, the Seller and Previti shall jointly and severally indemnify, defend and hold the Buyer harmless from and against any and all Taxes (including ad valorem taxes) with respect to the Assets for which the Buyer is liable, or that result in Encumbrances on any of the Assets:

(a) for any Tax period of the Seller that ends on or before the Closing Date;

(b) relating to or arising out of the Excluded Liabilities;

and
(c) any taxes asserted against the Buyer or the Consolidated Forecast Entities due to liability directly resulting from the Transfer.

The Seller's and Previti's indemnification obligations under this Section 8.1.3 shall terminate upon the expiration of the applicable statute of limitations on assessment of the relevant Tax. The Seller's and Previti's liability under this Section 8.1.3 shall include any Losses with respect to the reasonable, necessary and actually incurred out-of-pocket costs and expenses of the Buyer directly incurred in responding to an examination, audit, administrative or court proceeding, or other procedure in which a Tax authority seeks to propose an adjustment, that if pursued successfully, would give rise to a liability for Taxes for which the Buyer would be eligible for indemnification under this Section 8.1.3. For purposes of this Section 8.1.3, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of such Tax which relates to the portion of such Tax period ending on the Closing Date shall (i) in the case of any Taxes, other than Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in the entire Tax period, and (ii) in the case of any Tax based upon or related to income or receipts (including franchise Taxes to the extent based upon income, receipts or earned surplus) be deemed equal to the amount which would be payable if the relevant Tax period ended on the Closing Date for the Seller.

8.2 Indemnification by the Buyer. The Buyer shall indemnify and hold harmless Previti, the Seller, each of the Consolidated Forecast Entities and their officers, directors, employees, stockholders and Affiliates from and against any material Losses, whether or not involving a third-party claim, that are not reflected on the Buyer's Disclosure Schedule as a result of, or based upon or arising from, any fraudulent misrepresentation made by the Buyer under Section 3; provided, however, that the Buyer's indemnification obligations pursuant to this Section 8.2 shall exist only with respect to Losses of which the Buyer is timely notified in accordance with Section 8.3.1; provided, further, any indemnification claim hereunder shall be filed in accordance with Section 10.10 by the Seller or such Person within ninety (90) days after such Person's discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Such fraudulent misrepresentation under this Section 8.2 (a) must constitute "actual fraud" under the California Civil Code, (b) shall be determined based on the actual (not imputed or constructive) knowledge of the Buyer, and (c) must be the subject of a final, non-appealable judgment. Nothing herein shall limit the Buyer's liabilities (and indemnification obligations) with respect to any matter pertaining to the Buyer's Shares, including, without limitation, the disposition thereof, or any obligation of the Buyer under Section 5.5.4 or Section 5.6.

8.3 Procedure.

8.3.1. Notice. Any Indemnified Party with respect to any Loss shall give written notice to the Indemnifying Party, and such notice shall (a) describe in reasonable detail the nature of the claim of Loss, (b) provide a copy of all papers served (and/or delivered) with respect to such claim (and/or any examination, audit or other procedure), if any, (c) set forth the basis of the Indemnified Party's request for indemnification under this Agreement, and (d) provide a waiver of any right to receive indemnification for such Loss under the Securities Purchase Agreement. Such notice to the Indemnifying Party shall be delivered by the Indemnified Party within thirty (30) days of the Indemnified Party's knowledge of such Loss and prior to the expiration of the applicable statutory period; provided, however, that any delay by the Indemnified Party beyond the aforesaid thirty (30) day period shall not waive the Indemnified Party's claim regarding such Loss, except to the extent such delay prejudices (or could reasonably be expected to lead to the prejudice of) the Indemnifying Party's ability to effectively defend such claim, but in no event shall such notice be delayed by more than ninety (90) days of the Indemnified Party's knowledge of such Loss.

8.3.2. Defense. If any claim, demand or liability is asserted by any third party against any Indemnified Party, the Indemnifying Party shall have the right and shall upon the written request of the Indemnified Party, defend any Actions brought against the Indemnified Party in respect of any Indemnifiable Claims with counsel of its choice reasonably acceptable to the Indemnified Party and, in the case of a Tax-related Action, tax advisors of its choice reasonably acceptable to the Indemnified Party. In any such action or proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at its own expense unless (a) the Indemnifying Party and the Indemnified Party mutually agree in writing to the retention of such counsel, or (b) the named parties to any such suit, action or proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party, and in the reasonable judgment of the Indemnified Party, representation of the Indemnifying Party and the Indemnified Party by the same counsel would be inadvisable due to potential conflicts of interests between them. The Parties shall cooperate and may participate in the defense of all third-party claims which may give rise to Indemnifiable Claims hereunder. If the Indemnifying Party assumes the defense, (i) it shall be conclusively established for purposes of this Agreement that the claims made in the Action are within the scope of and subject to indemnification, but only if the Indemnifying Party assumed the defense pursuant to clause (a) above and not clause (b), and (ii) no compromise or settlement of such claims may be effected by the Indemnifying Party without the Indemnified Party's written consent (which consent shall not be unreasonably withheld) unless there is no finding or admission of any violation of legal requirement or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Party, or the exclusive relief provided is monetary damages that are paid in full by the Indemnifying Party. If written notice is given to an Indemnifying Party of the commencement of any Action and the Indemnifying Party does not, within twenty (20) days after the Indemnified Party's written notice is given, give written notice to the Indemnified Party of its election to assume the defense of such Action, the Indemnifying Party shall be bound by any determination made in such Action or any compromise or settlement effected by the Indemnified Party. In connection with the defense of any claim, each Party shall make available to the Party controlling such defense, any books, records or other documents within its control that are reasonably requested in the course of or necessary or appropriate for such defense.

8.3.3. Insurance Matters. The amount of any Loss for which indemnification is provided under Section 8.1 or 8.2 shall be net of, and subject to, any insurance proceeds received and the amount of any related deductible with respect to such Loss under any insurance policy maintained by the Buyer or the Seller. The Parties agree that, simultaneously with their actions to obtain indemnification for a Loss from the Indemnifying Party under this Agreement, the Indemnified Party shall use commercially reasonable efforts to recover any insurance proceeds that may be obtainable with respect to such Loss. The Seller shall reasonably cooperate, at no expense to the Seller, with the Buyer in the Buyer's efforts to seek to obtain insurance to cover any breaches or misrepresentations in the Seller's representation and warranties contained in this Agreement, if any. If such insurance proceeds or other contributions or reductions to the amount payable by the Indemnifying Party under this Section 8 is made available or otherwise determined after payment by the Indemnifying Party of any amount otherwise required to be paid to an Indemnified Party pursuant to this Section 8, the Indemnified Party shall repay to the Indemnifying Party promptly after such determination (and in any event within ten (10) days after determination of the Indemnifying Party's right to receive such insurance proceeds), any amount the Indemnifying Party would not have had to pay pursuant to this Section 8 had such determination been made at the time of such payment.

8.3.4. Indemnification in the Securities Purchase Agreement. Any payment to an Indemnified Party under Section 8.1 or 8.2 otherwise due and payable hereunder shall be decreased to the extent of any indemnification proceeds received under Section 8 of the Securities Purchase Agreement by the Indemnified Party with respect to the same Loss. Neither the Buyer nor the Seller shall have any right to receive indemnification payments under both this Agreement and the Securities Purchase Agreement for the same Loss.

8.3.5. Tax Treatment of Indemnification Payments. Any payment under Section 8.1 shall be treated as an adjustment to the Purchase Price.

8.4 Survival.

8.4.1. The Seller. The indemnification obligations of Previti under Sections 8.1.1 and 8.1.2 shall survive the Closing and terminate at the expiration of the applicable statutory period. The indemnification

obligations of Previti under Section 8.1.3 shall survive indefinitely.
8.4.2. The Buyer. The indemnification obligations of the Buyer under Sections 5.5.4, 5.6, 8.2 and the final sentence of 4.1 shall survive the Closing and shall terminate at the expiration of the applicable statutory period.

8.5 Indemnification Thresholds. Neither the Seller nor Previti shall be obligated to indemnify the Buyer pursuant to Section 8.1 until the aggregate amount of Losses for which such indemnification would otherwise be available under this Agreement or under the Securities Purchase Agreement is in excess of Six Hundred Fifty Thousand Dollars (\$650,000), in which event Previti or the Seller, as applicable, shall be obligated to indemnify the Buyer for all material Losses from the first dollar. The Buyer shall not be obligated to indemnify the Seller pursuant to Section 8.2 until the aggregate amount of Losses for which such indemnification would otherwise be available is in excess of Six Hundred Fifty Thousand Dollars (\$650,000) in which event the Buyer shall be obligated to indemnify Previti, the Seller or any of the Consolidated Forecast Entities for all Losses from the first dollar; provided, however, nothing herein shall limit the Buyer's liabilities (and indemnification obligations) with respect to the Buyer's indemnification obligations contained in Section 4.1 or with respect to any matter pertaining to the Buyer's Shares, including, without limitation, the disposition thereof, or any obligation of the Buyer under Section 5.5.4 or Section 5.6.
8.6 Seller Jointly and Severally Liable. The Seller and Previti hereby agree to be jointly and severally liable for any Loss for which Previti or any Securities Seller is liable under Section 8 of the Securities Purchase Agreement.

SECTION 9. LIMITATION OF REMEDIES

9.1 Breach of Representations. The indemnification obligations provided in Sections 8.1 and 8.2 shall be the sole and exclusive remedies available to any Party from any other Party or from any of the Consolidated Forecast Entities with respect to any Loss resulting from, or based upon or arising from, any breach of any of the representations or warranties made under this Agreement.

9.2 No Other Warranties. Except as expressly set forth in this Agreement and in the Securities Purchase Agreement or the Collateral Agreements, none of Previti, the Seller, their counsel, sales agents, nor any of their Affiliates or attorney of Previti, the Seller, their counsel, broker, or sales agents, nor any other party related in any way to any of the foregoing (each, a "Seller Party," and collectively, the "Seller Parties") have or shall be deemed to have made any verbal or written representations, warranties, promises or guarantees (whether express, implied, statutory or otherwise) to the Buyer with respect to the Assets or any other matters.

9.3 No Personal Liability of Any Other Person. Except as specifically set forth herein, no Person (including, without limitation, the Seller) shall have any liability to the Buyer (or any Affiliate thereof) arising under this Agreement or in connection with the transactions contemplated under this Agreement (or any other related agreements). Moreover, notwithstanding anything else in this Agreement to the contrary, no officer, director or employee of any of the Consolidated Forecast Entities shall have any liability to the Buyer (or any Affiliate thereof) whatsoever, excepting solely as it may pertain to Previti pursuant to Sections 8.1.1, 8.1.2 and 8.1.3.

9.4 Failure to Perform Obligations. Except as otherwise specifically set forth herein, the Parties agree that the performance obligations of each of the Parties contained herein shall survive Closing, and except as otherwise specifically set forth herein, nothing contained in this Agreement shall restrict or limit either Party's ability to bring or maintain an Action at Law or in equity with respect thereto.

SECTION 10. GENERAL

10.1 Amendments; Waivers. This Agreement and any Schedule or Exhibit attached hereto may be amended only by agreement in writing of all Parties. No waiver of any provision nor consent to any exception to the terms of this Agreement shall be effective unless in writing and signed by the Party to be bound and then only to the specific purpose, extent and instance so provided by an authorized representative thereof.

10.2 Schedules; Exhibits; Integration. Each Schedule and Exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute a part of this Agreement, although Schedules need not be attached to each copy of this Agreement. This Agreement, together with such Schedules and Exhibits, constitutes the entire agreement among the Parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings of the Parties in connection therewith. Without limiting the effect of the foregoing provisions of this Section 10.2, except as expressly set forth in this Agreement, none of the Parties is making or shall be deemed to have made any representation, warranty or covenant of any kind, either express or implied.

10.3 Efforts; Further Assurances. Each Party shall use its commercially reasonable efforts to cause all conditions to its obligations hereunder to be timely satisfied and to perform and fulfill all obligations on its part to be performed and fulfilled under this Agreement. The Parties shall reasonably cooperate with each other in such actions and in securing requisite Approvals. Each Party shall execute and deliver both before and after the Closing such further certificates and other documents and take such other actions as any other Party may reasonably request in furtherance of and as contemplated by this Agreement to consummate or implement the transactions contemplated hereby or to evidence such events or matters. Nothing herein shall modify, amend or extend the Closing Date.

10.4 Governing Law. This Agreement, the legal relations between the Parties and any Action, whether contractual or non-contractual, instituted by any Party with respect to matters arising under or growing out of or in connection with or in respect of this Agreement, including, without

limitation, the negotiation, execution, interpretation, coverage, scope, performance, breach, termination, validity, or enforceability of this Agreement, shall be governed by and construed in accordance with the Laws of the State of California applicable to contracts made and performed in such State and without regard to conflicts of law doctrines.

10.5 Transfer; Successors and Assigns. Except as contemplated herein, in the Securities Purchase Agreement or any Collateral Agreement, the Buyer may not assign or transfer this Agreement or any of the rights hereunder without the Seller's prior written consent, which consent shall not be required in the a case of a proposed assignment or transfer to an Affiliate of the Buyer so long as the Buyer (a) provides complete copies of all relevant documentation, (b) remains fully liable under this Agreement without any further documentation, and (c) unconditionally guarantees (i) any and all of the obligations and performance of the proposed assignee under this Agreement, and (ii) any and all of the Buyer's obligations under the Securities Purchase Agreement and the Collateral Agreements. In the event the Seller consents to any such assignment or transfer, the Seller may elect in its sole discretion, to pursue any of its remedies solely against the Buyer, or against the Buyer and the assignee or transferee. Any attempted assignment in violation of this Section 10.5 shall be void.

10.6 Headings. The Table of Contents and the descriptive headings of the Sections, subsections and other subdivisions of this Agreement and of the Exhibits and Schedules are for convenience only and do not constitute a part of this Agreement.

10.7 Counterparts. This Agreement may be executed in any number of identical counterparts, each of which when executed and delivered shall be an original, but all such counterparts shall constitute but one and the same instrument. Any signature page of this Agreement may be from any counterpart without impairing the legal effect of any signatures thereof, and may be attached to another counterpart, identical in form thereto, but having attached to it one or more additional signature pages. Delivery by any Party or its respective representatives of telecopied (counterpart) signature pages shall be as binding an execution and delivery of this Agreement by such Party as if the other Party had received the actual physical copy of the entire Agreement with an ink signature from such Party.

10.8 Publicity and Reports. The Seller and the Buyer shall coordinate all publicity relating to the transactions contemplated by this Agreement and no Party shall issue any press release, publicity statement or other public notice relating to this Agreement, or the transactions contemplated by this Agreement, without consulting with, and receiving approval from (which approval shall not be unreasonably withheld or delayed), the other Party, except to the extent that a particular action is required by applicable Law or the rules of any national securities exchange; provided, however, in such instance, the applicable Party shall use commercially reasonable efforts to inform the other of such action in writing in advance.

10.9 Confidentiality. All information disclosed by any Party (or its representatives) whether before or after the Effective Date, in connection with the transactions contemplated by, or the discussions and negotiations preceding, this Agreement to any other Party (or its representatives) shall be kept confidential by such other Party and its representatives and shall not be used by any such Persons other than as contemplated by this Agreement, except (a) to the extent that such information was known by the recipient when received, (b) to the extent that such information is or hereafter becomes lawfully obtainable from other sources, (c) to the extent that such information is necessary or appropriate to disclose to a Governmental Entity having jurisdiction over the disclosing Party, (d) as may otherwise be required by Law, or (e) to the extent such duty of confidentiality is waived in writing by the other Party. If a Party discloses any information related to this Agreement or the transactions contemplated hereunder pursuant to any of clauses (a) through (e) above, then such Party shall provide the other Party with written notice of such disclosure. If this Agreement is terminated in accordance with its terms, each Party shall return upon written request from the other Party all documents (and reproductions thereof) received by it or its representatives from such other Party (and, in the case of reproductions, all such reproductions made by the receiving Party) that include information not within exceptions set forth in clauses (a) through (e) above, unless the recipients provide assurances reasonably satisfactory to the requesting Party that such documents have been destroyed.

10.10 Appointment of Reference; Waiver of Jury Trial. Any action brought to interpret or enforce this Agreement may be tried by the reference procedures set forth in California Code of Civil Procedure Section 638 et seq. upon motion by any party to the appropriate Superior Court. A single referee that is an active judge shall be appointed by the presiding judge of the appropriate Superior Court, and the Action shall be placed on the expedited reference calendar. Each of the Seller and the Buyer hereby waives the right to trial by jury. During the pendency of the expedited reference proceeding, the Seller shall pay one-half of the cost of the referee and the Buyer shall pay the other half of such cost. Upon the conclusion of the referenced proceeding, the losing party shall pay all remaining unpaid costs of the referenced proceeding and shall reimburse the prevailing party (as shall be determined by the referee) for such costs previously paid by the prevailing party. Such reimbursement shall be included in any judgment or final order issued in the referenced proceeding, which judgment or order shall be non-appealable.

10.11 Parties in Interest. This Agreement shall be binding upon and inure to the benefit of each Party, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except for Section 10.5 (which is intended to be for the benefit of the persons provided for therein and may be enforced by such persons).

10.12 Knowledge Convention. Statements in this Agreement or in any

Schedule, Exhibit, certificate or other documents delivered to any Party pursuant to this Agreement made "to the Seller's knowledge" (or words of similar intent or effect) shall be deemed to be made to the actual (not implied or constructive) knowledge of the applicable Executive Officers and shall not include any other Person's knowledge. The reference to the applicable Executive Officers shall not imply and shall not give rise to any personal liability of such persons. Statements in this Agreement or in any Schedule, Exhibit, certificate or other documents delivered to any Party pursuant to this Agreement stating the "Seller's expectations" (or words of similar intent or effect) shall be deemed to refer to the actual expectations of Previti and shall not include any other Person's expectations or any guarantee thereof.

10.13 Notices. Except as otherwise expressly provided herein, all notices, requests, approvals, consents and demands to or upon the respective Parties hereto to be effective shall be in writing (and shall be delivered by hand, or nationally recognized courier service), and shall be deemed to have been duly given or made when delivered by hand, or, in the case of a nationally recognized courier service, one (1) business day after delivery to such courier service, addressed as follows, or to such other address as may be hereafter notified by the respective Parties hereto:

If to the Buyer, to:

Hovnanian Enterprises, Inc.

10 Highway 35

P.O. Box 500

Red Bank, New Jersey 07701

Attn: Peter Reinhart, Esq.

Telephone: (732) 747-7800

Telecopy: (732) 747-6835

and:

Hovnanian Enterprises, Inc.

1802 Brightseat Road

Landover, Maryland 20785-4235

Attn: Mr. Geaton A. DeCesaris, Jr.

Telephone: (301) 772-8900

Telecopy: (301) 772-1380

with a copy to:

Simpson Thacher & Bartlett

10 Universal City Plaza

Suite 1850

Los Angeles, California 94608

Attn: Daniel Clivner, Esq.

Telephone: (818) 755-9613

Telecopy: (818) 755-7009

If to Seller or Premier, to:

10670 Civic Center Drive

Rancho Cucamonga, California 91730

Attn: Mr. James P. Previti (marked "Woodlands - Personal & Confidential" and sent only after personal (not voice-mail) notice to Mr. Previti)

Telephone: (909) 987-7788

Telecopy: (909) 980-7305

with a copy to:

10670 Civic Center Drive

Rancho Cucamonga, California 91730

Attn: Larry R. Day, Esq. (marked "Woodlands - Personal & Confidential" and sent only after personal (not voice-mail) notice to Mr. Day)

Telephone: (909) 987-7788

Telecopy: (909) 987-8958

and:

O'Melveny & Myers LLP

Embarcadero Center West

275 Battery Street, Suite 2600

San Francisco, California 94111-3305

Attn: Peter T. Healy, Esq.

Telephone: (415) 984-8833

Telecopy: (415) 984-8701

10.14 Expenses. Except as otherwise expressly set forth herein, the Seller and the Buyer shall each pay its own expenses incident to the negotiation, preparation and performance of this Agreement and the transactions contemplated hereby, including, without limitation, the fees, expenses and disbursements of their respective advisors, accountants, auditors and counsel. The Parties agree that the Seller shall pay the costs and expenses incurred in connection with the Title Policies; provided, however, that the Buyer agrees that it shall be solely responsible for any additional costs relating to any extended coverage or endorsements beyond that afforded by the Title Policy. The Parties agree that the Buyer shall pay the costs of the filing fee associated with a filing under the Hart-Scott-Rodino Act, if applicable. The Seller's expenses incurred prior to the Closing and not otherwise specifically allocated by this Agreement shall be paid by the Seller or by its Affiliates.

10.15 Remedies; Waiver. To the extent permitted by Law, all rights and remedies existing under this Agreement are cumulative to and not exclusive of, any rights or remedies otherwise available under applicable Law. No failure or delay in exercising any right hereunder shall be deemed a waiver thereof, nor shall any single or partial exercise preclude any further or other exercise of such or any other right.

10.16 Attorneys' Fees. In the event of any Action by any Party arising under or out of, in connection with or in respect of, this Agreement or the transactions contemplated hereby, the prevailing Party shall be entitled to reasonable attorney's fees, costs and expenses incurred in such Action.

Attorney's fees incurred in enforcing any judgment in respect of this Agreement are recoverable as a separate item. The Parties intend that the preceding sentence be severable from the other provisions of this Agreement, survive any judgment and, to the maximum extent permitted by Law, not be deemed merged into such judgment.

10.17 Representation by Counsel; Interpretation. The Seller and the Buyer each acknowledge that each Party has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of Law, including, without limitation, Section 1654 of the California Civil Code, or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the Buyer and the Seller.

10.18 Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable by any Governmental Entity, the remaining provisions of this Agreement shall remain in full force and effect provided that the economic and legal substance of the transactions contemplated is not affected in any manner materially adverse to any Party. In the event of any such determination, the Parties agree to negotiate in good faith to modify this Agreement to fulfill as closely as possible the original intents and purposes hereof. To the extent permitted by Law, the Parties hereby to the same extent waive any provision of Law that renders any provision hereof prohibited or unenforceable in any respect.

10.19 No Offset by Buyer. Notwithstanding anything in this Agreement to the contrary, neither the Buyer nor anyone claiming through the Buyer shall have any rights of offset under this Agreement or otherwise, in the event of any breach hereunder by the Seller, Previti or any Consolidated Forecast Entity, or any Affiliate thereof, including, without limitation, any right of offset or excuse to Buyer's performance respecting Buyer's obligations regarding the Buyer's Shares (including, without limitation, the disposition thereof), the price protective provisions set forth in Section 1.4.5, the adjustments to the Purchase Price set forth in Section 1.6, the indemnification provisions of Sections 5.6 and 8.2 or under the Securities Purchase Agreement or any of the Collateral Agreements.

10.20 No Offset by the Seller or Previti. Notwithstanding anything in this Agreement to the contrary, but expressly excepting any actions and/or inactions by the Buyer or its directors, officers, employees, representatives or agents that are directly related to the obligation of the Seller, Previti, or anyone claiming through any of them, none of the Seller, Previti, nor anyone claiming through them shall have any rights of offset under this Agreement or otherwise, in the event of any breach hereunder by the Buyer, or any Affiliate thereof, including, without limitation, any right of offset or excuse to the Seller's or Previti's performance respecting the indemnification provisions of Section 8.1 or under the Securities Purchase Agreement or any of the Collateral Agreements.

10.21 Cross Default with Securities Purchase Agreement.

10.21.1. Effectiveness of this Agreement. This Agreement shall not be operable or effective unless and until the Buyer, the Securities Sellers and Previti validly execute and deliver to the other parties thereto the Securities Purchase Agreement.

10.21.2. Default by Buyer. A default by the Buyer under the Securities Purchase Agreement shall constitute a default by the Buyer under this Agreement.

10.21.3. Default by Securities Sellers or Previti. A default by the Securities Sellers and/or Previti under the Securities Purchase Agreement shall constitute a default by Seller and/or Previti, as applicable, under this Agreement.

10.21.4. Termination. In the event the Securities Purchase Agreement is terminated pursuant to the terms thereof, this Agreement shall be deemed terminated as of the date of such termination of the Securities Purchase Agreement, at which time this Agreement shall be of no further force or effect except with respect to those obligations, which, pursuant to the express provision of this Agreement, are to survive the termination of this Agreement. (The remainder of this page intentionally left blank.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

"BUYER"

HOVNANIAN ENTERPRISES, INC., a Delaware corporation

By: /S/Geaton DeCesaris, Jr.
Its: President of Homebuilding Operations

"SELLER"

THE FORECAST GROUP, L.P., a California limited partnership

By: /S/Larry R. Day
Its: Executive Vice President

"PREVITI"

JAMES P. PREVITI, an individual

By: /S/James P. Peviti

SECURITIES PURCHASE AGREEMENT

Sellers: FORECAST PP2, LLC
 FORECAST HOMES, INC.

Buyer: HOVNANIAN ENTERPRISES, INC.

Dated: January 4, 2002

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Schedule 6.3.5	Assumption of Guarantees

Buyer's Disclosure Schedule

Sellers' Disclosure Schedule

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT is entered into as of January 2, 2002 (the "Effective Date"), by and among (a) HOVNANIAN ENTERPRISES, INC., a Delaware corporation (the "Buyer"), (b)(i) FORECAST HOMES, INC., a California corporation ("Forecast Homes"), and (ii) FORECAST PP2, LLC, a Delaware limited liability company ("Forecast PP2") (each, a "Seller," and collectively, the "Sellers"), and (c) JAMES P. PREVITI, an individual ("Previti").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. Prior to the Effective Date, The Forecast Group, L.P., a California limited partnership (the "Group"), transferred certain of its tangible assets to a certain entity (such transfer of tangible assets shall be referred to as the "Asset Transfer").

B. On or before January 9, 2002, the Group shall have transferred its intangible assets to Securities Partnership, L.P., a California limited partnership (the "Securities Partnership") (such transfer of intangible assets shall be referred to as the "Securities Transfer").

C. As of the Effective Date, (a) Forecast Homes is the sole general partner of Securities Partnership, and (b) Forecast PP2 is the sole limited partner of Securities Partnership.

D. Simultaneously herewith, the Buyer, the Group, and Previti are entering into an agreement (the "Asset Purchase Agreement") pursuant to which the Group shall sell certain of its assets to the Buyer.

E. Prior to the Effective Date, the Buyer shall have delivered to the Sellers a copy of the resolutions adopted by the Buyer's Board approving the execution, delivery and performance of this Agreement and the transactions contemplated hereby and each agreement, certificate, instrument or other document to be delivered pursuant hereto to which the Buyer is a party.

F. At the Closing (and as a condition thereto), the Buyer and Premier Group, Inc., a California corporation ("Premier"), and Prestige Homes, L.P., a California limited partnership ("Prestige") shall enter into an agreement (the "Non-Competition and Option Agreement") pursuant to which Premier shall agree, as more particularly set forth therein, to certain restrictions on its ability to (a) compete with the Buyer in the Homebuilding Business, and (b) solicit certain persons for employment.

G. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into a lot option agreement (the "Lot Option Agreement") pursuant to which the Buyer shall have the option to purchase certain real property described therein.

H. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into an agreement (the "ROFO Agreement") pursuant to which Previti shall grant to the Buyer an option/right of first offer with respect to certain real property.

I. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into an option agreement (the "Park Meadows Option Agreement") pursuant to which the Buyer shall have the option to purchase certain real property described therein.

J. At the Closing (and as a condition thereto), the Buyer and Previti shall enter into a consulting agreement (the "Consulting Agreement") pursuant to which Previti shall provide certain consulting services to the Buyer with respect to the Homebuilding Business.

K. At the Closing (and as a condition thereto), the Buyer and Forecast Development, L.P., a California limited partnership ("Forecast Development"), shall enter into an agreement (the "Forecast Development Option and Purchase Agreement") pursuant to which Forecast Development shall grant to the Buyer an option to purchase Forecast Development's ownership interest in Premier.

L. At the Closing (and as a condition thereto), the Buyer, Previti and the Sellers shall enter into an indemnification and release agreement (the "Indemnification and Release Agreement") in the form attached hereto as Exhibit A (the "Form of Indemnification and Release Agreement") pursuant to which (i) the Buyer shall indemnify and release the Sellers with respect to any claims with respect to the Assets and the Securities, and (ii) the Sellers and Previti shall indemnify and release the Buyer with respect to any claims regarding Excluded Assets.

M. Subject to the terms and conditions of this Agreement, the Sellers desire to sell and the Buyer desires to buy all of the partnership interests in Securities Partnership (the "Securities") at the Closing in consideration for, among other things, the Purchase Price.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the Parties, the Parties to this Agreement, intending to be legally bound, agree as follows:

SECTION 1. DEFINITIONS; PURCHASE AND SALE; CLOSING

1.1 Definitions.

1.1.1 General. For all purposes of this Agreement, except as otherwise expressly provided herein:

(a) the terms defined in this Section 1 have the meanings assigned to them in this Section 1 and include the plural as well as the singular;

(b) all accounting terms not otherwise defined in this Agreement have the meanings assigned to them under GAAP;

(c) unless otherwise specified, all references in this Agreement to designated "Sections," subsections and other subdivisions are to the designated Sections, subsections and other subdivisions of the body of this Agreement;

(d) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms;

(e) the words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, subsection or other subdivision; and

(f) the words "made available" shall mean a document that (i) is filed with the SEC and accessible on the SEC's website as of the Effective Date, or (ii) has been placed in the data room accessible by the Buyer and its representatives for purposes of conducting its due diligence investigation on or before October 22, 2001.

1.1.2 Definitions. As used in this Agreement and the Exhibits and Schedules delivered pursuant to this Agreement, the following definitions shall apply:

(a) "Action" means any action, complaint, claim, demand, accusation, petition, investigation, suit or other proceeding, whether civil, criminal, administrative or investigative, in law or in equity, or before any arbitrator or Governmental Entity.

(b) "Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, a specified Person.

(c) "Affiliate Agreements" shall have the meaning set forth in Section 2.10.1.

(d) "Agreement" means this Securities Purchase Agreement by and among the Buyer, the Sellers and Previti, as the same may be amended or supplemented from time to time in accordance with its terms, together with all of the Exhibits and Schedules attached hereto or incorporated herein by reference.

(e) "Approval" means any approval, authorization, consent, qualification or registration, or any waiver of any of the foregoing, required to be obtained from, or any notice, statement or other communication required to be filed with or delivered to, any Governmental Entity or any other Person.

(f) "Asset Purchase Agreement" shall have the meaning set forth in Recital D.

(g) "Asset Transfer" shall have the meaning set forth in Recital A.

(h) "Assets" shall have the meaning set forth in the Asset Purchase Agreement.

(i) "Assignments and Assumption Agreement" shall have the meaning set forth in Section 6.3.4.

(j) "Auditors" means Ernst & Young LLP, independent

public accountants to the Group.

(k) "Buyer" shall have the meaning set forth in the introductory paragraph of this Agreement.

(l) "Buyer's Board" shall mean the board of directors of the Buyer.

(m) "Change of Control" shall mean, in a transaction or series of related transactions, (i) the liquidation, winding up, or dissolution of the Buyer, whether voluntary or involuntary, (ii) the sale of all or substantially all of the assets of the Buyer, (iii) the reorganization or recapitalization of the Buyer, or (iv) the sale, merger, or consolidation of the Buyer in which the holders of the securities of the Buyer immediately prior to such transaction(s) hold less than fifty percent (50%) of the voting power of the surviving entity after such transaction(s).

(n) "Closing" means the consummation of the purchase and sale of the Securities pursuant to the terms of this Agreement.

(o) "Closing Date" shall mean January --, 2002 or such other date as the Parties may mutually agree in writing.

(p) "Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(q) "Collateral Agreements" means, collectively, the Lot Option Agreement, the ROFO Agreement, the Non-Competition and Option Agreement, the Park Meadows Option Agreement, the Consulting Agreement, the Forecast Development Option and Purchase Agreement, the Assignment and Assumption Agreement and the Indemnification and Release Agreement.

(r) "Company Names" shall mean the registered trademarks "Forecast," "The Forecast Group," "America's Home," "New Beginnings" and "Homes for a New Generation."

(s) "Consolidated Forecast Entities" shall mean, collectively, the entities listed on Schedule 1.1 (the "Consolidated Forecast Entities") attached hereto.

(t) "Consulting Agreement" shall have the meaning set forth in Recital J.

(u) "Contract" means any agreement, arrangement, bond, order, commitment, franchise, indemnity, indenture, instrument, lease, license, sales and purchase order or obligation or understanding, inclusive of amendments, express or implied, whether or not in writing, entered into by at least the Buyer, Previti, the Sellers or any Consolidated Forecast Entity, as applicable, specifically excluding, however, the Collateral Agreements.

(v) "Contract Property" shall have the meaning set forth in Section 2.27.

(w) "Controlled Entity" means any entity (i) in which the direct or indirect beneficial ownership (as described in Rule 13d-3 under the Exchange Act) of at least fifty-one percent (51%) of its voting securities is held by Previti, or (ii) with respect to which Previti has the contractual right to exercise control.

(x) "Day" shall mean Larry R. Day, a natural person.

(y) "days" shall mean calendar days, unless specifically provided to the contrary in a particular instance in this Agreement.

(z) "Debt" shall have the meaning set forth in Section 1.8.

(aa) "Disclosure Schedule" means a disclosure schedule attached to this Agreement and prepared by or on behalf of the Buyer or the Sellers, as applicable, which disclosure schedules set forth with specificity exceptions to the representations and warranties of the Buyer and the Sellers, respectively, contained in this Agreement.

(bb) "Effective Date" means the date this Agreement is duly authorized, executed and delivered by each Party to the other, as more particularly set forth in the introductory paragraph of this Agreement.

(cc) "Employed Group" shall have the meaning set forth in Section 2.5.6.

(dd) "Encumbrance" means any claim, mortgage, charge, title restriction, title defect, easement, encumbrance, lease, covenant, security interest, hypothecation, lien, option, pledge, rights of others, or restriction of any kind, imposed by Contract or Law, except for any restrictions on transfer generally arising under any applicable federal or state securities law.

(ee) "Equity Securities" means any capital stock or other equity interest or any securities convertible into or exchangeable for capital stock or any other rights, warrants or options to acquire any of the foregoing securities.

(ff) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the related regulations and published interpretations.

(gg) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder

(hh) "Excluded Assets" shall mean, collectively, the Hold-Back Property and the Previti Projects.

(ii) "Excluded Employees" shall have the meaning set forth in Section 4.2.3.

(jj) "Excluded Liabilities" shall mean any and all known and unknown Liabilities (i) associated with the Excluded Assets or arising as a result of or in connection with the ownership or use of the Excluded Assets by the Sellers, including, without limitation, under any Environmental Law and (ii) of the Sellers, Previti or any of their Affiliates relating to, pertaining to, or arising out of the Assets with respect to income or other Taxes for periods or portions thereof ending on or prior to the Closing Date, including, without limitation, any Taxes arising in connection with the consummation of the transactions contemplated hereby.

(kk) "Executive Officers" means (i) with respect to the Sellers, collectively, Messrs. Previti, Day, Glankler and Richard Munkvold and (ii) with respect to the Buyer, collectively, Messrs. Ara Hovnanian,

Geaton DeCesaris, Peter Reinhart and Larry Sorsby.

(ll) "Exhibit" means an exhibit attached to, or incorporated by reference in, this Agreement.

(mm) "Final Balance Sheet" shall have the meaning set forth in Section 1.6.2 of the Asset Purchase Agreement.

(nn) "Financial Statements" shall have the meaning set forth in Section 2.4.1.

(oo) "Forecast Development Option and Purchase Agreement" shall have the meaning set forth in Recital K.

(pp) "Forecast Employee Plan" shall have the meaning set forth in Section 2.18.1.

(qq) "Forecast 401(k) Plan" shall have the meaning set forth in Section 5.7.2.

(rr) "Forecast Homes" has the meaning set forth in the introductory paragraph of this Agreement.

(ss) "Forecast PP2" shall have the meaning set forth in the introductory paragraph of this Agreement.

(tt) "GAAP" means generally accepted accounting principles in the United States, as in effect from time to time, consistently applied.

(uu) "Glankler" shall mean Frank Glankler, a natural person.

(vv) "Governmental Entity" means any government or any agency, bureau, board, commission, court, department, official, political subdivision, tribunal or other instrumentality of any government, whether federal, state or local, domestic or foreign.

(ww) "Group" has the meaning set forth in Recital A.

(xx) "Group's SEC Reports" shall have the meaning set forth in Section 2.21.

(yy) "Hart-Scott-Rodino Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the related regulations and published interpretations.

(zz) "Hold-Back Property" shall have the meaning set forth in the Asset Purchase Agreement.

(aaa) "Homebuilding Business" shall have the meaning set forth in the Asset Purchase Agreement.

(bbb) "Indemnifiable Claim" means any Loss for or against which any party is entitled to indemnification as set forth in Section 8.

(ccc) "Indemnification and Release Agreement" shall have the meaning set forth in Recital L.

(ddd) "Indemnified Party" means the party entitled to indemnity as set forth in Section 8.

(eee) "Indemnifying Party" means the party obligated to provide indemnification as set forth in Section 8.

(fff) "Intangible Property" means any trade secret, secret process or other confidential information or know-how and any and all Marks.

(ggg) "Intangible Rights" shall have the meaning set forth in Section 1.2.

(hhh) "Intercompany Obligations" shall have the meaning set forth in Section 2.26.

(iii) "IRS" means the Internal Revenue Service or any successor entity.

(jjj) "knowledge of the Buyer" and words of similar import and effect shall have the meaning set forth in Section 10.12.

(kkk) "knowledge of the Sellers" and words of similar import and effect shall have the meaning set forth in Section 10.12.

(lll) "Park Meadows Option Agreement" shall have the meaning set forth in Recital I.

(mmm) "Land Purchase Contracts" shall have the meaning set forth in Section 2.27.

(nnn) "Law" means any constitutional provision, statute or other law, rule, regulation, or interpretation of any Governmental Entity and any Order.

(ooo) "Liability" means any liability or obligation of any kind, character or description, known or unknown, contingent or otherwise, whether liquidated or unliquidated, secured or unsecured and/or joint or several.

(ppp) "Loss" means any cost, damage, disbursement, expense, liability, loss, deficiency, obligation, penalty or settlement of any kind or nature, contingent or otherwise, that is not recaptured through insurance proceeds or any other form of rebate, credit or reimbursement, including, without limitation, interest or other carrying costs, penalties, reasonable legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement.

(qqq) "Lot Option Agreement" shall have the meaning set forth in Recital G.

(rrr) "Mark" means any brand name, copyright, patent, service mark, trademark, tradename and all registrations or application for registration of any of the foregoing.

(sss) "material adverse effect" means, with respect to a Person or the Homebuilding Business, as applicable, any change or effect that has resulted or could reasonably be expected to result in Losses, together with any other change or effect, suffered in excess of \$500,000; provided, however, that a decline or forecasted decline in general economic conditions or matters generally affecting homebuilding businesses in one or more real estate markets in which such Person conducts business or operates or any Real Property is located, or homebuilding companies in general (including, without limitation, the cost or availability of energy or energy-related products, changes in or affecting interest rates, securities markets, accounting principles, practices or conventions, applicable laws and regulations, homebuilding starts, closings, building and/or permit moratoria, zoning

changes or comparable events or events in the nature of the foregoing) shall not be deemed to have a material adverse effect.

(ttt) "Material Contract" shall have the meaning set forth in Section 2.10.1.

(uuu) "Non-Competition and Option Agreement" shall have the meaning set forth in Recital F.

(vvv) "Office Lease" shall have the meaning set forth in Section 5.8.

(www) "Order" means any decree, injunction, judgment, order, ruling, assessment or writ.

(xxx) "Party" means any party to this Agreement.

(yyy) "Permissible Condominium Projects" shall have the meaning set forth in the Asset Purchase Agreement.

(zzz) "Permit" means any license, permit, franchise, certificate of authority, order or any waiver of the foregoing, required to be issued by any Governmental Entity in relation to the Securities.

(aaaa) "Person" means any association, corporation, individual, partnership, limited liability company, trust or any other entity or organization, including any Governmental Entity.

(bbbb) "Policies" shall have the meaning set forth in Section 2.16.1.

(cccc) "Premier" shall have the meaning set forth in Recital F.

(dddd) "Previti" has the meaning set forth in the introductory paragraph of this Agreement.

(eeee) "Previti Project" shall have the meaning set forth in the Asset Purchase Agreement.

(ffff) "Purchase Price" shall have the meaning set forth in Section 1.3.

(gggg) "Recital" shall mean one of the introductory paragraphs to this Agreement.

(hhhh) "Representative" shall mean Previti (and any designee or nominee so named by Previti).

(iiii) "ROFO Agreement" shall have the meaning set forth in Recital H.

(jjjj) "Salomon" shall mean Salomon Smith Barney Inc.

(kkkk) "Schedule" means any schedule attached to, or incorporated by reference in, this Agreement.

(llll) "SEC" shall mean the United States Securities and Exchange Commission.

(mmmm) "Securities" shall have the meaning set forth in Recital L.

(nnnn) "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(oooo) "Securities Partnership" shall have the meaning set forth in Recital B.

(pppp) "Securities Transfer" shall have the meaning set forth in Recital B.

(qqqq) "Seller" has the meaning set forth in the introductory paragraph of this Agreement.

(rrrr) "Subsidiary" means any Person in which the applicable Person has a direct or indirect equity or ownership interest in excess of ten percent (10%).

(ssss) "Tax" means any foreign, federal, state, county or local income, sales and use, excise, franchise, real and personal property, transfer, gross receipt, capital stock, production, business and occupation, disability, employment, payroll, severance or withholding tax or charge imposed by any Governmental Entity, and any interest and/or penalties (civil or criminal) or addition to tax related thereto or to the nonpayment thereof.

(tttt) "Tax Indemnities" shall have the meaning set forth in Section 8.1.3.

(uuuu) "Tax Proceeding" shall have the meaning set forth in Section 5.4.1.

(vvvv) "Tax Return" means a report, return or other information required to be supplied to a Governmental Entity with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes the Sellers, Previti the Group or Securities Partnership, including any amendments thereof.

(wwww) "WARN Act" means the Worker Adjustment and Retraining Notification Act.

(xxxx) "Wells Fargo" shall mean Wells Fargo Home Mortgage Company.

1.2 Transfer of the Securities by the Sellers. Subject to the terms and conditions of this Agreement, the Sellers shall sell all of the Securities outstanding on the Closing Date to the Buyer at the Closing by executing and delivering to the Buyer or its nominee an assignment agreement, in the form attached hereto as Exhibit B (the "Form of Partnership Interest Assignment"). In addition, the Sellers shall assign to the Buyer those certain intangible rights listed on Schedule 1.2 (the "Intangible Rights").

1.3 Purchase of the Securities by the Buyer. Subject to the terms and conditions of this Agreement, the Sellers shall sell the Securities and assign the Intangible Rights to the Buyer for a purchase price of Forty-Two Million Five Hundred Thousand Dollars (\$42,500,000) (the "Purchase Price"), all of which shall be payable in cash.

1.4 Closing. The Closing will take place (a) at the offices of O'Melveny & Myers LLP, 610 Newport Center Drive, Newport Beach, California 92660, at 10:00 a.m. (Pacific Time) on January --, 2002 or (b) on such other date or at such other location as the Representative and the Buyer may mutually agree in writing. In no case shall the Closing occur after the date specified in Section 7.1, unless extended by the mutual written agreement of the Parties as provided in Section 7.1. At the Closing, the Buyer shall (i)

pay the Purchase Price to the Sellers in cash by wire transfer of immediately available federal funds to such account(s) as shall be specified in instructions from the Representative to the Buyer at least three (3) business days prior to the Closing, and (ii) execute any and all documents that the Sellers and any other interested party in the transactions contemplated hereunder shall deem necessary to perfect the intentions of the Parties to this Agreement.

1.5 Purchase Price Allocation. Each Party agrees that (a) the Purchase Price being paid by the Buyer for the Securities and the assignment of the Intangible Rights shall be allocated among the Sellers as set forth in Schedule 1.5 prepared in accordance with tax rules under Section 1060 and Section 755 of the Code (the "Allocation of Purchase Price Among the Sellers"), and (b) none of the Parties shall cause to be filed any Tax Return or otherwise take any position for federal or state income Tax purposes which is materially inconsistent with the allocations set forth in Schedule 1.5. Each Party acknowledges that the treatment of the transactions evidenced by this Agreement for federal income Tax purposes may not correspond to the technical requirements for GAAP, and each Party reserves the right to report the transactions evidenced by this Agreement for GAAP in a manner different than the reporting for federal income Tax purposes.

1.6 Further Assurances. At any time and from time to time after the Closing Date, upon the written request of the Buyer or the Sellers to the other, as applicable, and without any cost or expense to the responding Party, the Buyer and the Sellers, as applicable, shall execute and deliver such instruments of conveyance, assignment and transfer and other documents as the Buyer or the Seller, as applicable, may reasonably request to (a) transfer to and vest in the Buyer (or any of its Subsidiaries), and to put the Buyer (or any of its Subsidiaries) in possession of the Securities, or (b) to otherwise carry out the intent and purposes of this Agreement.

1.7 Representative. Each Seller hereby appoints the Representative to represent such Seller in connection with any part or all of the transactions contemplated by this Agreement and to take any and all action on its behalf under this Agreement that may be taken or received by such Seller as to any or all of the transactions contemplated under the terms of this Agreement. Without giving notice to any Seller, the Representative shall have full and irrevocable authority on behalf of each Seller to (a) deal with the Buyer, (b) accept and give notices and other communications relating to this Agreement, (c) settle any disputes relating to this Agreement, (d) waive any condition to the obligations of the Sellers included in this Agreement, (e) execute any document or instrument that the Representative may deem necessary or desirable in the exercise of the authority granted under this Section 1.7, and (f) act in connection with all matters arising out of, based upon, or in connection with, this Agreement and the transactions contemplated hereby. Each Seller understands and agrees that the Representative has been appointed as the Representative of the other Seller. The Buyer shall be entitled to rely on the advice, information, instructions and decisions of the Representative evidenced by a writing signed by him without any obligation independently to verify, authenticate or seek the confirmation or approval of the Representative's advice, information, instructions or decisions or any other facts from any Seller or any other Person. Any certificate to be delivered by the Sellers at the Closing may be executed and delivered by the Representative on behalf of all of the Sellers.

1.8 Satisfaction of Debt. The Parties agree that the Buyer shall, simultaneous with the Closing, and as a condition thereto, satisfy any and all outstanding debt listed on Schedule 1.8 attached hereto (the "Debt") without any credit or reduction in the Purchase Price payable to the Seller under this Agreement or the Asset Purchase Agreement.

SECTION 2. REPRESENTATIONS AND WARRANTIES OF THE SELLERS

The Parties agree that the sale of the Securities shall be without representation or warranty by the Sellers, express or implied, except as specifically set forth in this Agreement. Other than with respect to the representations and warranties contained in Sections 2.1.1, 2.1.2, 2.2 and 2.7 (as such survival is limited by Section 8.4.1), none of the representations and warranties contained herein shall survive the Closing; provided, however, that to the extent that the making of any such representation or warranty constituted actual fraud (and as further limited by Section 8.1.2) on the part of the Sellers, the Buyer's right to promptly bring any Action against the Sellers thereunder and to such extent shall survive the Closing and shall remain in full force and effect until the date that is ninety (90) days after the expiration of the applicable statutory period; provided, however, such Action shall be filed in accordance with Section 10.10 by the Buyer within ninety (90) days after the Buyer's knowledge thereof or the claim (and the applicable remedy) shall be automatically waived. Except as otherwise specifically indicated on the Seller's Disclosure Schedule as to the particular section as to which an exception is being disclosed, the Sellers represent and warrant to the Buyer as follows:

2.1 The Group; the Sellers.

2.1.1 Ownership at the Closing. At the Closing, each Seller shall have good and marketable title to, and sole record and beneficial ownership of, all of the Securities set forth opposite its name on Schedule 2.1.1 (the "Ownership Schedule"), all of which are to be transferred to the Buyer by each Seller pursuant to this Agreement free and clear of all Encumbrances.

2.1.2 Transfer of Unencumbered Title to the Securities. Upon the Closing, the Sellers shall transfer to the Buyer legal and beneficial ownership of, and all right to vote, all of the Securities, free and clear of all Encumbrances.

2.1.3 Formation; Power and Authority. The Securities Partnership is a duly formed and validly existing limited partnership, in good standing, under the Laws of the State of California with the power under the California

Revised Limited Partnership Act and its partnership agreement to own, lease and operate its properties and to carry on its business as now conducted and is duly qualified to do business in the jurisdictions listed on the Seller's Disclosure Schedule, except where the failure to so qualify will not have a material adverse effect. Forecast Homes has been duly incorporated and is validly existing in good standing under the Laws of the State of California and has corporate power and authority to enter into this Agreement and to consent to the transfer of the Securities to the Buyer. Forecast PP2 has been duly formed and is validly existing in good standing as a limited liability company under the Laws of the State of Delaware, with the power under the limited liability company statute of the State of Delaware and its limited liability company agreement to enter into this Agreement, perform its obligations hereunder and to transfer, convey and sell to the Buyer at the Closing the Securities to be sold to the Buyer by such Seller. The Sellers are duly qualified or registered to transact business in each jurisdiction in which they conduct businesses, except where the failure, individually or in the aggregate, to be so qualified or registered could not reasonably be expected to have a material adverse effect on the assets, businesses operations, earnings, properties or condition of the Seller. The Sellers have made available to the Buyer true, correct and complete copies of all organizational or constituent documents of each of the Sellers and the Consolidated Forecast Entities.

2.1.4 Authorization. The execution, delivery and performance of this Agreement and the transactions contemplated hereby by each Seller have been duly and validly authorized by such Seller's board of directors (or other comparable governing body) and, if necessary, the shareholders of such Seller, and by all other necessary corporate or partnership action on the part of such Seller. This Agreement has been duly executed and delivered by each Seller and constitutes the legal, valid and binding obligation of each Seller, enforceable against each Seller in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or limiting creditors' rights generally and equitable principles.

2.2 Capitalization. Schedule 2.1.1 lists the sole general partner and the sole limited partner of the Securities Partnership, together with their percentage interests in the Securities Partnership, as of the Effective Date. All such interests in Securities Partnership have been duly authorized and validly issued, free of any pre-emptive rights or other Encumbrances and are fully paid, with no obligation to make any contribution to the capital of the Securities Partnership or other liability attaching to the ownership of such interests, except for the liability of the sole general partner of the Securities Partnership under the partnership agreement of the Securities Partnership and the California Revised Limited Partnership Act. As of the Closing Date, there shall not be any (a) outstanding options, warrants, Contracts or other rights to subscribe for or purchase, or Contracts or other obligations to issue or rights to acquire, any interest in the Securities Partnership, or to restructure or recapitalize the Securities Partnership, or (b) outstanding Contracts to repurchase, redeem or otherwise acquire any interest in the Securities Partnership.

2.3 Subsidiaries. Except as set forth on the Sellers' Disclosure Schedule, Securities Partnership does not directly or indirectly own any beneficial or record interest in any corporation, partnership, joint venture, trust or other Person other than ordinary cash-management investments.

2.4 Financial Statements; Changes; Contingencies.

2.4.1 Audited Financial Statements. For financial reporting purposes, the financial statements of the Group are attached to Schedule 2.4.1 (the "Financial Statements of the Group"). The Sellers have delivered to the Buyer audited balance sheets for the Group at October 31, 2001, 2000 and 1999 and the related audited statements of operations, equity and cash flows for the years ended October 31, 2001, 2000 and 1999 (the "Financial Statements"). The Financial Statements have been prepared in conformity with GAAP as applicable to an Exchange Act reporting company with registered equity securities (except for changes, if any, required by GAAP and disclosed therein) and present fairly, in all material respects, the financial position of the Group at October 31, 2001, 2000 and 1999 and the results for the years then ended.

2.4.2 No Undisclosed Liabilities. Except as set forth on Schedule 2.4.1, to the Seller's knowledge, the Consolidated Forecast Entities shall have no material Liabilities (contingent or otherwise) or obligations, in each case that are required to be disclosed by GAAP, other than (a) the Liabilities reflected in the most recent Financial Statements, (b) Liabilities incurred since the date thereof in the ordinary course of business generally consistent with past practices that cannot, individually, in the aggregate, reasonably be expected to have a material adverse effect, and (c) Liabilities specifically delineated as to nature and amount on the Seller's Disclosure Schedule.

2.5 No Material Adverse Changes. Except as set forth on Schedule 2.4.1 and resulting from the Asset Transfer, from and after October 31, 2001, there has not been, occurred or arisen, whether or not in the ordinary course of business:

2.5.1 to the Sellers' knowledge, any change in or event affecting the Consolidated Forecast Entities that has had a material adverse effect on the Consolidated Forecast Entities, taken as a whole;

2.5.2 to the Sellers' knowledge, any strike or other labor dispute pertaining to the Homebuilding Business;

2.5.3 to the Sellers' knowledge, any Loss (whether or not covered by insurance) of any property of the Consolidated Forecast Entities (including, without limitation, the Assets) that has involved a material Loss or Losses to the Consolidated Forecast Entities, taken as a whole, or with respect to such Property in excess of all applicable insurance coverage (excepting deductible amounts);

2.5.4 any declaration, set aside or payment of any distribution with respect to Securities Partnership's partnership or other equity interests (whether in cash or in kind) or redemption, purchase or other acquisition by Securities Partnership of any of its partnership or other equity interests;

2.5.5 any capital expenditure (or series of related capital expenditures) by any Consolidated Forecast Entity (a)outside the ordinary course of business generally consistent with past practices, or (b)for assets other than land in excess of Fifty Thousand Dollars (\$50,000);

2.5.6 other than one-time bonuses paid prior to the Closing Date, and compensation increases for individuals earning less than One Hundred Thousand Dollars (\$100,000) on an annualized basis, any (a) percentage increase in the bonus, salaries, fringe benefits or other compensation paid by any Consolidated Forecast Entity to any of its partners, members, officers, managers, employees, agents or consultants (collectively, the "Employed Group") or made any other change in the employment terms for any of the Employed Group outside the ordinary course of business or inconsistent with past practices, (b)grant of severance or termination pay to any present or former member of the Employed Group outside the ordinary course of business, (c)loan or advance of money or other property by any Consolidated Forecast Entity to any present or former member of the Employed Group, or (d)establishment, adoption, entrance into, material amendment or termination of any Forecast Employee Plan. Nothing in this Section 2.5.6 shall serve to prevent the Group, Sellers, Previti or any Consolidated Forecast Entity from extending any existing Forecast Employee Plan, or substituting another provider for any existing Forecast Employee Plan or other service utilized in providing for employee payroll activities or Employee Plans;

2.5.7 any material delay or postponement of the payment of any accounts payable or other liabilities by any Consolidated Forecast Entity in a manner inconsistent with their ordinary course of business or any occasional or recurring past practices;

2.5.8 any assumption, creation, guarantee or incurrence by any Consolidated Forecast Entity of any indebtedness, whether absolute or contingent (other than to finance the acquisition, development or construction of real property or in the ordinary course of business generally in accordance with past practices);

2.5.9 any settlement of any lawsuit by, or any initiation of, any lawsuit against, any Consolidated Forecast Entity, other than those (a) Orders or Actions that are set forth on the Sellers' Disclosure Schedule, and (b) settlements, lawsuits and/or Actions that, individually or in the aggregate, could not reasonably be expected to have a material adverse effect upon the Securities Partnership, the Assets or the Consolidated Forecast Entities, taken as a whole;

2.5.10 any change, in any material respect, in any of the accounting practices or principles used by the Consolidated Forecast Entities;

2.5.11 the making of any loans, advances, capital contributions or investments made by the Consolidated Forecast Entities in or to any Person outside the ordinary course of business generally consistent with past practices;

2.5.12 any acquisition (by merger, consolidation or acquisition of stock or assets) by any Consolidated Forecast Entity of any corporation, limited liability company, partnership or other business organization or division thereof or substantially all of the assets thereof;

2.5.13 any material settlement, material agreement or material arrangement concerning any alleged construction defect of any home constructed or sold by any Consolidated Forecast Entity, whether or not such alleged defect were covered by or subject to any warranty provided by such Consolidated Forecast Entity, involving an individual amount in excess of One Hundred Thousand Dollars (\$100,000); or

2.5.14 any Encumbrance, transfer, lease, license or other disposition of any Asset or of the assets of any Consolidated Forecast Entity or the making of any loans, advances, capital contributions or investments by the Consolidated Forecast Entities in or to any Person other than in the ordinary course of business generally in accordance with past practices.

2.6 Absence of Certain Changes. Except as set forth on Schedule 2.4.1, from and after October 31, 2001, the Consolidated Forecast Entities have (a)used commercially reasonable efforts to preserve their business and goodwill, including the goodwill of their customers, employees, subcontractors, suppliers and other Persons having material business relations with them, and (b)maintained their intangible assets in a commercially reasonable manner generally consistent with past practices.

2.7 Taxes.

2.7.1 Filing of Returns. Except as provided on the Sellers' Disclosure Schedule, all Tax Returns required to be filed by or on behalf of any Consolidated Forecast Entity have been duly and timely filed (taking into account any extensions), and, to Previti's knowledge, such Tax Returns are true, correct and complete in all material respects and have been prepared in accordance with applicable Laws. Except as provided on the Sellers' Disclosure Schedule, all Taxes (whether or not shown as payable on the Tax Returns or on subsequent assessments with respect thereto) have been paid in full and no other Taxes or penalties are payable by any Consolidated Forecast Entity or the Sellers (as such Taxes related to the income of such Consolidated Forecast Entity) with respect to items or periods covered by such Tax Returns (whether or not shown or reportable on such Tax Returns) or with respect to any period or portion thereof ending on or prior to the Closing Date other than Taxes which are not yet due. Each of the Consolidated Forecast Entities has withheld and paid over all Taxes required to have been withheld and paid over, and complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or

owing to any employee, creditor, independent contractor or other third party. Except as set forth on the Sellers' Disclosure Schedule, an extension of time, within which to file any such Tax Return which has not been filed, has not expired.

2.7.2 Liens. There are no liens on any of the assets of the Consolidated Forecast Entities with respect to Taxes, other than liens for (a) Taxes not yet due and payable, or (b) Taxes that are being contested in good faith through appropriate procedures and/or proceedings and for which adequate reserves have been established.

2.7.3 Tax Returns. Except as set forth on the Seller's Disclosure Schedule, the Sellers have made available to the Buyer true and complete copies of (a) all income tax audit reports, statements of deficiencies, closing or other agreements received by or on behalf of the Consolidated Forecast Entities relating to Taxes, and (b) all Tax Returns for the Consolidated Forecast Entities for all periods from and after the Group's 1999 taxable year. None of the Consolidated Forecast Entities has ever been a member of an affiliated group filing consolidated Tax Returns. The Consolidated Forecast Entities do not do business in or derive income from any state, local, territorial or foreign Taxing jurisdiction other than those for which all Tax Returns have been furnished to the Buyer.

2.7.4 Tax Deficiencies; Audits; Statutes of Limitations. The Tax Returns of any Consolidated Forecast Entity are not currently being audited by a government or taxing authority with jurisdiction, nor, is any such audit pending or threatened (either in writing or verbally, formally or informally). No deficiencies exist or are expected to be asserted with respect to Taxes of any Consolidated Forecast Entity. Except as set forth on the Sellers' Disclosure Schedule, none of the Consolidated Forecast Entities has received notice (either in writing or verbally, formally or informally) or, to the Sellers' knowledge, expects to receive notice that it has not filed a Tax Return or paid Taxes required to be filed or paid by it. None of the Consolidated Forecast Entities is a party to any action or proceeding for assessment or collection of Taxes, or, has such event been asserted or threatened (either in writing or verbally, formally or informally) against any Consolidated Forecast Entity or any of its assets (including, without limitation, the Assets). No waiver or extension of any statute of limitations is in effect with respect to Taxes or Tax Returns of any Consolidated Forecast Entity.

2.7.5 Special Tax Status. None of the Consolidated Forecast Entities is a "foreign person" (as that term is defined in Section 1445 of the Code). None of the Consolidated Forecast Entities has filed a consent under Section 341(f) of the Code concerning collapsible corporations. None of the Consolidated Forecast Entities has made any payments, is obligated to make any payments, or is a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Section 280G of the Code. None of the Consolidated Forecast Entities is required to recognize an adjustment to income under Section 481 of the Code for any Tax period following the Closing Date. None of the Sellers or the Securities Partnership is liable for Taxes pursuant to Treasury Regulation Section 1.1502-6 (or any comparable provision of state, local or foreign Tax law), as a transferee or successor, by contract or otherwise, or is currently under any contractual obligation to indemnify any person with respect to any amount of Taxes, or is a party to any tax sharing agreement or any other agreement providing for payments by any of the Sellers or the Securities Partnership with respect to Taxes.

2.7.6 No Withholding. The transactions contemplated in this Agreement are not subject to the withholding provisions of Section 3406 of the Code, subchapter A of Chapter 3 of the Code or of any other provision of Law.

2.7.7 Valid Partnership Status. The Securities Partnership and any subsidiary of the Securities Partnership, if any, will, for tax purposes, be treated as a partnership for all periods of its existence.

2.8 Compliance with Applicable Laws. Except as set forth on the Sellers' Disclosure Schedule, to the Sellers' knowledge, (a) each Consolidated Forecast Entity has complied and is in compliance, in all material respects, with all applicable Laws in the conduct of its business, including, without limitation, the Homebuilding Business, and (b) no Governmental Entity has filed, commenced or, to the Seller's knowledge, threatened an Action against any Consolidated Forecast Entity alleging a failure to so comply, nor has any Governmental Entity indicated in writing an intention to commence the same.

2.9 Absence of Unethical Business Practices. No Consolidated Forecast Entity has directly or indirectly given or agreed to give any gift or similar benefit to any customer, subcontractor, supplier, government employee or other Person who was or is in a possible position to help or hinder any Consolidated Forecast Entity, which gift or benefit might subject such Consolidated Forecast Entity to any criminal proceedings in any material respect.

2.10 Material Contracts.

2.10.1 The Consolidated Forecast Entities. The Sellers' Disclosure Schedule lists each Contract (each, a "Material Contract," and collectively, the "Material Contracts") that, as of the Effective Date: (a) shall obligate the successor owner of any of the Assets to pay a contractor or subcontractor an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) over a one (1)-year period; (b) shall obligate the successor owner of any of the Assets to pay to any party other than a contractor or subcontractor an amount in excess of Fifty Thousand Dollars (\$50,000) over a one (1)-year period; (c) represents an indenture, loan or credit agreement in excess of Fifty Thousand Dollars (\$50,000), or provides for or evidences a loan or extension of credit, a letter of credit or any security or guaranty in excess of Fifty Thousand Dollars (\$50,000) in respect thereof, to which

any Consolidated Forecast Entity or any of its properties or assets is a party or bound;

(d) expressly limits or restricts the ability of any Consolidated Forecast Entity or an equityholder or Affiliate thereof to compete or otherwise to generally conduct its business in any manner or place;

(e) provides a guaranty or indemnity (other than indemnities that are provided in the ordinary course of business consistent with past practice, e.g., mechanics lien indemnities, among others) by any Consolidated Forecast Entity;

(f) other than those that are available due to information arising in relation to a resolution of the board of directors of any Consolidated Forecast Entity or the written approval of the president of any Consolidated Forecast Entity, grants a power of attorney, agency or similar authority to another Person or entity;

(g) contains a right of first refusal or first offer or other preemptive right obligation on the part of any Consolidated Forecast Entity, except as otherwise set forth in this Agreement (or any other related agreements);

(h) obligates any Consolidated Forecast Entity to construct for, or sell a residence or other building or improvement to, any Person;

(i) represents a Contract under which any Person provides services to any Consolidated Forecast Entity in connection with the construction of single-family, for-sale residences or the development of real property which is not terminable by such Consolidated Forecast Entity without further liability on not more than thirty (30) days' notice, except as otherwise set forth in this Agreement;

(j) represents a Contract under which any Person provides material to any Consolidated Forecast Entity in connection with the construction of single-family, for-sale residences or the development of real property and which is not terminable by such Consolidated Forecast Entity without further liability within thirty (30) days' notice or less;

(k) represents a lease Contract of at least one (1) years' duration beyond the Effective Date in which any Consolidated Forecast Entity is the lessor or the lessee of any personal property, or holds or operates any equipment, machinery, vehicle or other tangible personal property owned by a third party that is directly and currently used in connection with the Homebuilding Business, except for the AS-400 hardware computer system;

(l) represents (i) a sales agency, broker or finder Contract, (ii) a loan origination or customer referral Contract that involves an aggregate payment in excess of Fifty Thousand Dollars (\$50,000), (iii) a consulting, advisory, marketing, management and other service agreements that are not terminable by the Consolidated Forecast Entities without further liability on not more than thirty (30) days' notice and provides for annual payments per individual agreement exceeding Fifty Thousand Dollars (\$50,000), or (iv) a performance, completion, surety or other bond or performance guarantee of more than Fifty Thousand Dollars (\$50,000) in each instance to which any Consolidated Forecast Entity is a party or bound;

(m) the termination, breach, default, repudiation, nonperformance or loss of or default in the counterparty's performance of which could reasonably be expected to have a material adverse effect on the Consolidated Forecast Entities, taken as a whole;

(n) is between or among or affects any Consolidated Forecast Entity, on the one hand, and any officer, director or manager of any Consolidated Forecast Entity, any Seller, any Controlled Entity or any of their Affiliates on the other hand (collectively, "Affiliate Agreements"); and

(o) that relates to the development of any single-family, for-sale residences.

True, correct and complete copies of such Material Contracts, including all amendments and supplements, if any, have been made available to the Buyer.

2.10.2 No Breach. To the Sellers' knowledge, each Consolidated Forecast Entity has duly performed, in all material respects, all of its obligations arising under each Material Contract listed on the Sellers' Disclosure Schedule to the extent that such obligations to perform have accrued. Except as specifically set forth on the Sellers' Disclosure Schedule, to the Sellers' knowledge, no breach or default, alleged breach or default (or notice of same), or event which would (with the passage of time, notice or both) constitute a breach or default thereunder in any material respect by any Consolidated Forecast Entity, or any other party or obligor with respect thereto, has occurred under any Material Contract or will occur as a result of this Agreement. Except as set forth on the Sellers' Disclosure Schedule, to the Seller's knowledge, no person shall have the contractual right to terminate or repudiate any Material Contract on less than twenty (20) days' notice as a result of the consummation of the transactions contemplated by this Agreement.

2.11 Adequacy of Assets. The assets of the Securities Partnership and the Assets include all assets and properties of every kind and description, real, personal or mixed, tangible or intangible, the use of which is reasonably necessary to enable the Buyer to conduct the Homebuilding Business substantially as conducted prior to the Effective Date.

2.12 Intangible Property. The Securities Partnership has the rights to and ownership of all Intangible Property required for use in connection with the Homebuilding Business as conducted prior to the Effective Date. The Consolidated Forecast Entities do not use any Intangible Property by consent or license of any other Person (other than those governmental agencies who may grant such rights and/or licenses) and none of the Consolidated Forecast Entities is required to or do make any payments to others (other than those governmental agencies who may grant such rights and/or licenses) with respect

to any Intangible Property. To the Sellers' knowledge, the Intangible Property is not being infringed by any Person and the Intangible Property or any use by the Consolidated Forecast Entities of any such property does not conflict with or infringe the rights of any Person. To the Seller's knowledge, the Consolidated Forecast Entities have taken all reasonable steps to protect, maintain and safeguard the Intangible Property and have made all filings and executed all agreements necessary in connection therewith, including obtaining registrations for certain of the Company Names from the United States Patent and Trademark Office. No Action is pending or has been rendered, or to the Sellers' knowledge, has been threatened in writing by any Person or Governmental Entity which would limit, cancel or question the validity, enforceability, ownership or use of any Intangible Property, including the Company Names. The Consolidated Forecast Entities have the right to use, in a manner substantially consistent with occasional or recurring past practice, all housing plans, blueprints, elevation drawings and specifications being used by any Consolidated Forecast Entity prior to the Effective Date in the Homebuilding Business.

2.13 Labor Relations. Except as set forth on Schedule 2.13, (a) none of the Consolidated Forecast Entities is a party to, nor bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is any such contract or agreement presently being negotiated; (b) none of the Consolidated Forecast Entities is the subject of any proceeding asserting that it has committed an unfair labor practice or seeking to compel it to bargain with any labor organization as to wages or conditions of employment, nor, to the Sellers' knowledge, is any such proceeding threatened; (c) there is no strike, work stoppage, slowdown or, to the Sellers' knowledge, similar labor dispute involving the Consolidated Forecast Entities pending or threatened; (d) no material grievance is pending or, to the Sellers' knowledge, threatened; (e) no representation exists respecting any of the employees of the Consolidated Forecast Entities within the past two (2) years, nor, to the Sellers' knowledge, are there any campaigns currently being conducted to authorize representation by any labor organizations; (f) all of the Consolidated Forecast Entities are in material compliance with all applicable Laws, agreements, contracts and policies relating to employment, employment practices, wages, hours, terms and conditions of employment, except for failures to so comply, if any, that individually or in the aggregate could not reasonably be expected to have a material adverse effect on the Consolidated Forecast Entities, taken as a whole; (g) no Consolidated Forecast Entity is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Entity relating to employees or employment practices; (h) each Consolidated Forecast Entity has complied in all material respects with their material payment obligations to all employees thereof in respect of all wages, salaries, commissions, bonuses, benefits and other compensation due and payable to such employees under any policy, practice, agreement, plan, program or any statute or other Law; (i) no Consolidated Forecast Entity is liable for any material severance pay or other payments to any employee or former employee arising from the termination of employment under any benefit or severance policy, practice, agreement, plan or program of the Consolidated Forecast Entities, nor will any Consolidated Forecast Entity have any liability which exists or arises, or may be deemed to exist or arise, under any applicable Law or otherwise, as a result of the termination by any Consolidated Forecast Entity of any persons employed by it on or prior to the Closing Date; (j) no Consolidated Forecast Entity has closed any plant or facility, effectuated any layoffs of employees or implemented any early retirement, separation or window program within the past five (5) years that was subject to the WARN Act, nor has any such entity planned or announced any such action or program for the future; and (k) each Consolidated Forecast Entity is in material compliance with its notice obligations under the WARN Act.

2.14 Minute Books. To the Seller's knowledge, the minute books of Securities Partnership contain a complete and accurate summary of all material actions and proceedings taken through the Effective Date by the partners of Securities Partnership, and such minute books contain true and complete copies of the constituent documents of Securities Partnership and all related amendments.

2.15 Accounting Records. The Securities Partnership maintains (a) books, records and accounts that accurately and fairly reflect their assets and transactions, and (b) a system of internal accounting controls that have been reviewed by the Auditors and which the Group and Securities Partnership reasonably believe are sufficient to provide reasonable assurance that (i) transactions are accurately and promptly recorded to permit the preparation of fairly presented financial statements, (ii) transactions are executed in accordance with management's general or specific authorization, and (iii) access to the Assets is permitted only in accordance with management's general or specific authorization.

2.16 Insurance.

2.16.1 Policies; Defaults. The Sellers' Disclosure Schedule lists all insurance policies and bonds in excess of a face amount of One Hundred Thousand Dollars (\$100,000) with respect to the Consolidated Forecast Entities (the "Policies"). Except as set forth on Schedule 2.16.1, to the Sellers' knowledge, no material disagreement or dispute exists between any of the insurers and any Consolidated Forecast Entity or any Affiliate thereof, other than with respect to whether not the standard ISO insurance contract provisions apply to the North American Capacity ("NAC") policy for calendar year 2001 (it being the position of the Consolidated Forecast Entities that it does and it being the position of NAC that it does not). The Consolidated Forecast Entities believe that this dispute relates only to the scope of insurance coverage and not the obligation of NAC to defend and indemnify the Consolidated Forecast Entities, NAC having already undertaken such defense and indemnity in a number of cases now pending, subject to defense

arrangements undertaken in accordance with applicable reservation of rights; provided, however, nothing herein shall constitute a waiver of any Consolidated Forecast Entity's rights against such insurers. To the Sellers' knowledge, no Consolidated Forecast Entity is in material default under any such Policy or bond. No Consolidated Forecast Entity has received any written notice from any insurer (inclusive of any successors-in-interest of such insurers or any replacement insurers) or agent of any intent to cancel or not renew any such Policy or bond.

2.16.2 Claims. There is no material claim by any Consolidated Forecast Entity pending under any of the Policies as to which coverage has been denied to it in writing by any of the issuers of the Policies covering such claim. To the Sellers' knowledge, there has been no occurrence that may form the basis of a material claim that is by or on behalf of any Consolidated Forecast Entity under any such Policy that has not been made or tendered. To Seller's knowledge, no coverage as to any material claim under any of such Policies has been denied by the underwriters of such Policy, excluding any qualifications regarding the underwriters' reservation of rights. All premiums currently due and payable under all the Policies have been paid in all material respects.

2.17 Employees. The Buyer has been provided with a list of the names of all employees (including those on leave of absence or layoff status) of each Consolidated Forecast Entity employed as of the Effective Date engaged in the Homebuilding Business, their job title, employment date and their aggregate annual cash compensation (all such information shall be accurate as of the Effective Date). As of the Effective Date, except as set forth on the Sellers' Disclosure Schedule, (a) the Consolidated Forecast Entities do not have any outstanding loan from or to any Affiliate, or any agent, employee, or officer of any Consolidated Forecast Entity, and (b) no material representations, warranties or covenants have been made to, or agreements have been reached with, any employee in material variance with the provisions of the employee manual with respect to their employment, compensation or benefits. Except with respect to the Excluded Employees, no executive or employee has given written notice as of the Effective Date of their plans to terminate employment with any Consolidated Forecast Entity during the twelve (12) months subsequent to the Effective Date. The Sellers' Disclosure Schedule sets forth a list of each employee of the Group who has a management, employment or bonus contract, or contract for personal services between any Seller and any officer, consultant, employee, or agent of any Seller.

2.18 Employee Benefit Plans.

2.18.1 Employee Benefit Plans, Collective Bargaining and Employee Agreements, and Similar Arrangements.

(a) Except with respect to the Excluded Employees, the Sellers' Disclosure Schedule contains a true and complete list of all employee benefit, bonus, auto allowance, consulting, change in control, fringe benefit plans and collective bargaining, employment or severance agreements or other similar arrangements, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise), whether formal or informal, oral or written, legally binding or not, under which any current or former member of the Employed Group has any present or future right to benefits sponsored or maintained by any Consolidated Forecast Entity or to which any Consolidated Forecast Entity is a party, is required to make any contribution, or by which any of them is bound, or with respect to which any of them has any liability or obligation, including, without limitation, (i) any profit-sharing, deferred compensation, bonus, stock option, stock purchase, or other equity-based compensation, pension, retainer, consulting, retirement, severance, plant closing, loan or loan guarantee, change in control, welfare or incentive plan, agreement or arrangement, (ii) any plan, agreement or arrangement providing for "fringe benefits" or perquisites to any current or former member of the Employed Group, officers, directors or agents, including, without limitation, benefits relating to automobiles, clubs, vacation, child care, parenting, sabbatical, sick leave, medical, dental, hospitalization, life insurance and other types of insurance, (iii) any written employment agreement, or (iv) any other "employee benefit plan" (within the meaning of Sections 3(3) and 3(37) of ERISA, including, without limitation, multiemployer plans) (each, a "Forecast Employee Plan," and collectively, the "Forecast Employee Plans").

(b) The Sellers have made available to the Buyer true and complete copies of (i) all material documents and existing written summary plan descriptions (and written descriptions of any oral Forecast Employee Plans) with respect to the plans, agreements and arrangements listed on the Sellers' Disclosure Schedule, (ii) each trust agreement, annuity or insurance contract, or other funding instrument, if any, pertaining to each Forecast Employee Plan, (iii) the most recent annual report (IRS Form 5500 Series), including all schedules to such reports, if applicable, filed with respect to each Forecast Employee Plan for which such a filing is required, (iv) the most recent determination letter, if applicable, and (v) the most recent plan audits, financial statements, and accountant's opinion (with footnotes) for each Forecast Employee Plan.

(c) To the Sellers' knowledge, other than the Auditor's inquiries respecting certain of Previt's individually directed off-balance sheet 401(k) retirement plan investments: (i) each Forecast Employee Plan has been established and administered in material compliance with the applicable provisions of ERISA (as amended through the Effective Date), the regulations and published authorities thereunder, and all other applicable Laws; (ii) each Consolidated Forecast Entity has administered each Forecast Employee Plan substantially in accordance with its terms and have performed all of its obligations under all such plans, agreements and arrangements; (iii) each Forecast Employee Plan that is intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable determination letter as

to its qualification, and to the Sellers' knowledge, nothing has occurred, whether by action or failure to act, that could reasonably be expected to cause the loss of such qualification; (iv) for each Forecast Employee Plan with respect to which Form 5500 has been filed, no material change has occurred with respect to the matters covered by the most recent Form 5500 since the date thereof; (v) all benefits due under each Forecast Employee Plan have been timely paid; and (vi) there are no Actions (other than routine uncontested claims for benefits) pending or, to the Sellers' knowledge, threatened against such plans or their assets, or arising out of such plans, agreements or arrangements and no facts or circumstances exist that reasonably could give rise to any such Actions.

2.18.2 Qualified Plans. None of the Forecast Employee Plans is, and no Consolidated Forecast Entity or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of organizations within the meaning of Sections 414(b), (c), (m) or (o) of the Code) has or in the past three (3) years has had any obligation with respect to, a stock bonus, pension or profit-sharing plan within the meaning of Section 401(a) of the Code, or an employee pension benefit plan within the meaning of Section 3(2) of ERISA.

2.18.3 Health Plans. To the Sellers' knowledge, (a) all group health plans of the Consolidated Forecast Entities have been operated in substantial compliance with the group health plan continuation coverage requirements of Section 162(k) and Section 4980B of the Code and Title I of ERISA to the extent such requirements are applicable, and (b) except as required by Section 4980B of the Code, no Forecast Employee Plan provides for any post-employment coverage.

2.18.4 Other Plans. To the Sellers' knowledge, none of the Forecast Employee Plans is, and no Consolidated Forecast Entity has in the past three (3) years sponsored or contributed to, a multi-employer plan (as defined in Section 3(37) of ERISA), a multiple employer plan, any plan subject to the minimum funding provisions of ERISA or the Code or a voluntary employees' beneficiary association as defined in Section 501(c) of the Code. No Forecast Employee Plan provides retiree welfare benefits and no Consolidated Forecast Entity has any obligations to provide retiree welfare benefits.

2.18.5 Joint and Several Liability. With respect to each current Forecast Employee Plan maintained, or contributed to by any entity which either is currently or was previously under common control with any Consolidated Forecast Entity as determined under Section 414 of the Code or Section 3(5) of ERISA, to the Sellers' knowledge, no event has occurred and no condition exists that after the Effective Date could reasonably subject the Buyer or any Consolidated Forecast Entity, directly or indirectly, by reason of their affiliation with any member of their controlled group to any Tax, fine, lien, penalty or other liability (including liability under any indemnification agreement) under applicable laws, rules and regulations imposed by ERISA.

2.18.6 Contributions. To the Sellers' knowledge, (a) all material contributions and material payments to or with respect to each Forecast Employee Plan have been timely made, and (b) the Consolidated Forecast Entities have made adequate provision for reserves to satisfy all contributions and payments that have not been made because they are not yet due under the terms of such Forecast Employee Plan or related arrangement, document or applicable Law.

2.18.7 No Change in Control Triggers. Except as set forth on the Sellers' Disclosure Schedule, no Forecast Employee Plan provides for any accelerated payments, deemed satisfaction of goals or conditions, new or increased benefits, forgiveness or modification of loans or vesting conditioned in whole or in part upon a change in control of any Consolidated Forecast Entity, or otherwise as a result of the execution of this Agreement or the transactions contemplated by this Agreement.

2.18.8 No Benefits Increases. No agreement, commitment or obligation exists to increase any benefits under any Forecast Employee Plan or to adopt any new Forecast Employee Plan.

2.18.9 No Audits or Prohibited Transactions. To the Sellers' knowledge, (a) no audit or investigation by any Governmental Entity is pending regarding any Forecast Employee Plan, and (b) no person acting on behalf of any Consolidated Forecast Entity dealing with any Forecast Employee Plan has intentionally and knowingly engaged in any prohibited transactions (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or knowingly committed any breach of a fiduciary duty.

2.18.10 No Unfunded Benefits. No Forecast Employee Plan has any unfunded accrued benefits that are not fully reflected in the Financial Statements (including, without limitation, any accruals or reserves or other provisions for any liabilities that may be triggered upon any change in control of any Consolidated Forecast Entity) and, to the Seller's knowledge, no "reportable event" (as such term is defined in ERISA section 4043) or "accumulated funding deficiency" (as such term is defined in ERISA section 302 and Code section 412 (whether or not waived)) has occurred with respect to any Seller Employee Plan.

2.19 No Brokers or Finders. Other than Salomon, no agent, broker, finder, or investment or commercial banker, or other Person or firm acting on behalf of the Sellers in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement is or will be entitled to any brokerage or finder's or similar fee or other commission as a result of this Agreement or the transactions contemplated hereunder; provided, however, that (a) the Buyer shall have full responsibility for any other Person claiming through the Buyer, if any, and (b) the Sellers shall have full responsibility for Salomon.

2.20 Accounts Receivable. Except as set forth on the Sellers' Disclosure Schedule, the accounts and notes receivable reflected in the Financial Statements and all accounts and notes receivable of any

Consolidated Forecast Entity arising prior to the Effective Date, other than accounts and notes receivable from Affiliates and accounts and notes receivable collected since then in the ordinary course of business substantially in accordance with past practices, (a) arose from bona fide sales or contracting transactions by the Consolidated Forecast Entities in the ordinary course of business or substantially in accordance with past practices, (b) represent bona fide indebtedness of the respective debtors, and (c) to the Sellers' knowledge, are collectible in full in accordance with their terms at their recorded amounts as of their respective due dates, subject only to the reserve for bad debts set forth in the Financial Statements, and are not subject to any defense or offset.

2.21 SEC Reports. The Sellers have made available to the Buyer, in the form filed with the SEC, except to the extent permitted by Regulation S-T, the Group's (a) Annual Report on Form 10-K for the fiscal year October 31, 2001, (b) any Current Reports on Form 8-K filed by it after October 31, 2001, and (c) any amendments and supplements to any such reports filed by the Group with the SEC (collectively, the "Group's SEC Reports"). The Group has timely made all filings applicable to the Group with the SEC required by the Exchange Act. As of their respective dates, each of the Group's SEC Reports did not contain any untrue statement of a material fact applicable to the Group or omit to state a material fact applicable to the Group required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.22 Information Generally. The information prepared by the Sellers and thereafter made available by the Sellers to the Buyer in or pursuant to this Agreement or in or pursuant to the Schedules or Exhibits hereto does not and will not, as of the date provided, contain any untrue statement of a material fact, and does not and will not, as of the date provided, omit to state a material fact necessary to make the statements or facts contained herein or therein, in light of the circumstances under which they were made, not misleading.

2.23 No Conflicts; Government Approvals; Third-Party Consents. Except as set forth on the Sellers' Disclosure Schedule, the execution, delivery and performance of this Agreement by the Sellers and the consummation of any of the transactions contemplated hereby will not, to the Sellers' knowledge, (a) violate, or constitute a material breach or material default (whether upon lapse of time or notice or both) under, or results in any material augmentation or acceleration of rights, benefits or obligations (including prepayment obligations, penalties, fees or charges related to any indebtedness) of any party under, the constituent documents of any Consolidated Forecast Entity or any Contract listed on the Sellers' Disclosure Schedule, or (b) violate any Law or Order applicable to any Consolidated Forecast Entity or any of its properties or assets, except for such violations, breaches or defaults that cannot reasonably be expected, individually or in the aggregate, to have a material adverse effect on the Consolidated Forecast Entities taken as a whole, or the Assets. Except as set forth on the Sellers' Disclosure Schedule, this Agreement and/or as required under the Hart-Scott-Rodino Act, the execution and delivery of this Agreement by the Sellers and the performance of this Agreement by the Sellers shall not require a filing or registration with, or the issuance of any Permit or Approval by, any other Person or Governmental Entity.

2.24 Legal Proceedings. Except as set forth on the Sellers' Disclosure Schedule, (a) no Order or Action is pending or, to the Sellers' knowledge, threatened against the Sellers, any Intangible Property or any Consolidated Forecast Entity or any of the Consolidated Forecast Entities properties or assets that, if resolved unfavorably against such property or Person, individually or when aggregated with one or more other such Orders or Actions, would have a material adverse effect on such Person or property or would materially and adversely affect the Sellers' ability to materially perform this Agreement, (b) the Sellers do not reasonably expect any of such Orders or Actions, individually or in the aggregate, to have a material adverse effect on the Consolidated Forecast Entities, taken as a whole, (c) no Action is pending against the Seller or any Consolidated Forecast Entity that would prevent the execution, delivery or performance of this Agreement by any Seller or the transfer, conveyance and sale of the Securities to be sold by the Sellers to the Buyer pursuant to the terms hereof, and (d) the Seller is not a party to, subject to or bound by any Law or Order.

2.25 Receipt of Agreements; Access to Information. The Sellers have received and read this Agreement. The Buyer has provided the Sellers within a reasonable time period prior to the date hereof the opportunity to obtain information which the Buyer possesses or can acquire without unreasonable effort or expense with respect to the Buyer, and the Sellers have received all additional information with respect to the Buyer that they have requested.

2.26 Intercompany Obligations. All Contracts, liabilities or other obligations or business relationships between each Consolidated Forecast Entity, on the one hand, and any of the Sellers, Previti or any Controlled Entity, on the other hand (the "Intercompany Obligations"), have been, or prior to the Effective Date shall be, reconciled with Schedule 2.26 (the "Intercompany Obligations"), and none of the same shall appear on the Final Balance Sheet. As of the Effective Date, other than pursuant to this Agreement, no Consolidated Forecast Entity will have any Contract, Liability or other obligation with or to any Affiliate or Seller (except as otherwise contemplated under this Agreement or any other related agreements).

2.27 Land Purchase Contracts. The Sellers' Disclosure Schedule lists all Contracts to which each Consolidated Forecast Entity is a party pursuant to which such Consolidated Forecast Entity is obligated to or has an option or other right to purchase any developed or undeveloped real property (the "Contract Property") as of the Effective Date (the "Land Purchase Contracts"). True and correct copies of all Land Purchase Contracts have

been made available to the Buyer. The Sellers' Disclosure Schedule also sets forth an identifying description or, if available, the street address of each parcel of Contract Property or another description thereof sufficient to identify the Contract Property subject thereto.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Parties agree that the purchase of the Securities shall be without representation or warranty by the Buyer, express or implied, except as specifically set forth in this Agreement. None of the representations and warranties contained herein shall survive Closing; provided, however, that to the extent that the making of any such representation or warranty constituted actual fraud (and as further limited by Section 8.2) on the part of the Buyer, the Seller's right to promptly bring an Action against the Buyer thereunder and to such extent shall survive the Closing and shall remain in full force and effect until the date that is ninety (90) days after the expiration of the applicable statutory period; provided, however, such Action shall be filed in accordance with Section 10.10 by the Seller within ninety (90) days after the Seller's actual discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Except as otherwise indicated on the Buyer's Disclosure Schedule as to the particular section as to which an exception is being disclosed, the Buyer represents and warrants to the Sellers and Previtii as follows:

3.1 Organization and Related Matters. The Buyer is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, with the necessary corporate power and authority (a) to own and operate its business as now being conducted and as presently proposed to be conducted, and (b) to execute, deliver and perform this Agreement.

3.2 Authorization. The execution, delivery and performance of this Agreement by the Buyer have been duly and validly authorized by the Buyer's Board and by all other necessary corporate action on the part of the Buyer, including, without limitation, the requisite vote of the holders of the capital stock of the Buyer, and no other corporate proceedings on the part of the Buyer are necessary to authorize this Agreement or the transactions contemplated hereunder. This Agreement has been duly and validly executed and delivered by the Buyer and constitutes the legal, valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or limiting creditors' rights generally and equitable principles.

3.3 No Conflicts; Government Approvals; Third-Party Consents. Except as set forth on the Buyer's Disclosure Schedule, the execution, delivery and performance of this Agreement by the Buyer will not, to the Buyer's knowledge, violate the provisions of, or constitute a breach or default (whether upon lapse of time and/or the occurrence of any act or event or otherwise) under (a) the constituent documents of the Buyer or any of its Subsidiaries, or (b) any Law or Order to which the Buyer or its Subsidiaries or any of their assets is subject, except for such violations, breaches or defaults that cannot reasonably be expected to be materially adverse to the Buyer and its Subsidiaries, taken as a whole. Except as set forth with specificity on the Buyer's Disclosure Schedule and/or as required under the Hart-Scott-Rodino Act, the execution and delivery of this Agreement by the Buyer and the performance of this Agreement by the Buyer will not require a filing or registration with, or the issuance of any Permit or Approval by, any other third party or Governmental Entity.

3.4 Investment Representation. The Buyer is acquiring the Securities from the Sellers for the Buyer's own account, for investment purposes only and not with a view to or for sale in connection with the public distribution thereof. The Buyer is an "accredited investor" within the meaning of Rule 501(a) under the Securities Act, or has such knowledge and experience in financial and business matters that the Buyer is capable of evaluating the merits and risks of, and the Buyer is able to bear the economic risk of and lack of liquidity inherent in, acquiring the Securities. The Buyer acknowledges that the Securities have not been and will not be registered under the Securities Act or qualified under any state securities or blue sky laws. The Buyer does not currently own, beneficially or of record, any portion of the Securities.

3.5 No Brokers or Finders. No agent, broker, finder, or investment or commercial broker, or other person or firm acting on behalf of the Buyer in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement is or will be entitled to any brokerage or finder's or similar fee or other commission as a result of this Agreement or the transactions contemplated hereunder; provided, however, that (a) the Sellers shall have full responsibility for Salomon, and (b) the Buyer shall have full responsibility for obligations to any other Person claiming through the Buyer.

SECTION 4. COVENANTS PRIOR TO CLOSING

4.1 Access. The Sellers shall afford and cause the Securities Partnership and the Consolidated Forecast Entities to afford the Buyer, its agents and its attorneys reasonable access during normal business hours, upon advance written notice and in such manner as will not unreasonably interfere with the usual day-to-day conduct of the Securities Partnership's or the Consolidated Forecast Entities' respective businesses, to the offices, properties and financial records of each Consolidated Forecast Entity and the Securities Partnership as the Buyer may reasonably request from time to time.

4.2 Preservation of Business Prior to the Closing Date. During the period beginning on the Effective Date and ending on the Closing Date:

4.2.1 Conduct of Business. Except as otherwise set forth on the Sellers' Disclosure Schedule, the Sellers shall cause the Consolidated Forecast Entities and the Securities Partnership to conduct the Homebuilding Business in the ordinary course of business.

4.2.2 Goodwill. The Sellers shall use commercially reasonable efforts to preserve the goodwill of customers, suppliers and others having

business relations with any Consolidated Forecast Entity.

4.2.3 Employees. The Sellers and the Buyer shall consult with each other concerning, and the Sellers shall act in a commercially reasonable manner (at no cost to the Sellers) to assist the Buyer in seeking to keep available to the Buyer, the services of the employees of the Consolidated Forecast Entities and any officers of the Consolidated Forecast Entities, other than the employees listed on Schedule 4.2.3 (the "Excluded Employees"), whom the Sellers are free to solicit for new employment at any time; provided, however, the Buyer understands and agrees that the Sellers cannot assure and, therefore, are not obligated to assure, that existing employees maintain their employee status. Following the Effective Date, neither the Sellers nor the Consolidated Forecast Entities shall, without the Buyer's prior written consent, (a) increase the compensation or fringe benefits or any present or former director, officer or employee of any Consolidated Forecast Entity (except for increases in salary or wages in the ordinary course of business consistent with past practices and one-time bonuses paid prior to the Closing Date), (b) grant any severance or termination pay to any present or former director, officer or employee of any Consolidated Forecast Entity, (c) lend or advance any money or other property to any present or former director, officer or employee of any Consolidated Forecast Entity, or (d) establish, adopt or enter into any Forecast Employee Plan or any plan, agreement, program, policy, trust, fund or other arrangement that would be a Forecast Employee Plan if it were in existence as of the date of this Agreement.

4.3 Notification of Certain Matters. The Sellers shall give prompt written notice to the Buyer, and the Buyer shall give prompt written notice to the Sellers, of such Party's respective knowledge of (a) the occurrence, or failure to occur, of any event that would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material adverse respect at any time between the Effective Date and the Closing Date, and (b) any failure of the Buyer or the Sellers, as the case may be, to comply with or satisfy, in any material respect, any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that any event, occurrence or failure of occurrence of which a party shall notify the other party under clause (a) above shall not be deemed a breach or default with respect to any provision of this Agreement.

4.4 Approvals. Prior to Closing, the Sellers and the Buyer each agree to cooperate and use commercially reasonable efforts to obtain all (and shall promptly prepare all registrations, filings and applications, requests and notices preliminary to all) Approvals that may be necessary to consummate the transactions contemplated by this Agreement, including, without limitation, the Approvals listed on the Sellers' Disclosure Schedule (which shall be obtained at the Sellers' expense) and the Buyer's Disclosure Schedule (which shall be obtained at the Buyer's expense). To the extent that the Approval of a third party with respect to any material Contract is required in connection with the transactions contemplated by this Agreement but is not obtained prior to the Closing Date, the Sellers shall (but without limitation) on the Buyer's rights under Section 6.2 and without any cost to the Sellers) attempt in a commercially reasonable manner to assist the Buyer in obtaining for the Buyer the benefits of each such Contract.

4.5 No Shop. During the time period beginning on the Effective Date and ending on the Closing Date, none of the Consolidated Forecast Entities nor any Affiliates thereof shall directly or indirectly solicit, initiate or participate in any negotiations with any Person other than the Buyer concerning any merger or sale of substantially all of the assets, sale of equity interests or similar transactions involving the Consolidated Forecast Entities, or directly or indirectly disclose any non-public information to any Person with respect to this transaction other than the Buyer, its employees, advisors and other representatives. If either Party seeks to assert a breach of the provisions under this Section 4.5, such aggrieved Party must (a) provide the other Party with written notice of such intended action within thirty (30) days of such aggrieved Party's knowledge of the basis for such breach, and (b) file and serve an action within forty-five (45) days of such aggrieved Party's knowledge of such breach.

4.6 Financial Statements. Prior to the Effective Date, each Party shall provide the other Party with the financial statements incorporated in such Party's (or the Group's, if applicable) Form 10-K filed with the SEC (such financial statements shall be certified by such Party's (or the Group's, if applicable) independent public accountants) for the three (3) fiscal years immediately preceding the Effective Date. Prior to the Closing Date, upon the explicit written direction of the Buyer received by the Sellers from the Buyer prior to the Effective Date, the Sellers shall provide the Buyer with financial statements related to the Homebuilding Business in such form and content and for such time periods as shall be required for the Buyer's SEC filings in connection with the Buyer's reporting to the SEC of the Buyer's purchase of the Securities. With reference to such requirement, the Buyer shall concurrently reference the applicable SEC requirement (including, without limitation, the applicable rule or SEC comment) as to the content thereof.

4.7 Intercompany Obligations. Prior to the Effective Date, the Sellers shall cause all Intercompany Obligations to be reconciled with Schedule 2.26.

4.8 Tax Status of Securities Partnership. From the Effective Date through the Closing Date, the Sellers shall continue to treat Securities Partnership as a partnership for tax purposes. Any Subsidiaries of the Securities Partnership that are partnerships will similarly continue to be treated for tax purposes or partnerships through the Closing Date.

SECTION 5. ADDITIONAL CONTINUING COVENANTS

5.1 Non-Competition. The Sellers agree to be bound by the terms and provisions of Section 5.1 of the Asset Purchase Agreement to the same extent as Previti as if they were parties thereto.

5.2 Nondisclosure of Proprietary Data. Each of Previt and the Sellers agrees that it will not, and will cause the Consolidated Forecast Entities to not (a) divulge or otherwise disclose any trade secret or other proprietary data concerning the business or policies of Securities Partnership as they relate to Securities Partnership, or (b) divulge or otherwise disclose to Persons other than the Buyer, any confidential information concerning the business or policies of Securities Partnership as they relate to Securities Partnership, except, in each case, (i) to the extent that such information is or hereafter becomes lawfully obtainable from other sources, (ii) to the extent that such information is necessary or appropriate to disclose to a Governmental Entity having jurisdiction over the disclosing Party, (iii) as may otherwise be required by Law, or (iv) to the extent such duty of confidentiality is waived in writing by the Buyer.

5.3 Tax Returns.

5.3.1 Sellers' Preparation. The Sellers shall cause to be prepared and timely filed (or provided to the Buyer for execution and filing, if applicable) when due (taking into account all extensions properly obtained) all Tax Returns of Securities Partnership for taxable periods beginning before the Closing Date and ending on or prior to the Closing Date. All Tax Returns described in this Section 5.3.1 shall be provided to the Buyer for its information only not less than twenty (20) days prior to the proposed filing date and shall be prepared and filed in a manner substantially consistent with past practice and/or on the advice of the Sellers' professional advisors or as otherwise required by Law. On such Tax Returns, no position shall be taken, election made or method adopted without the Buyer's written consent (which shall not be unreasonably withheld or delayed) that is materially inconsistent with positions taken, elections made or methods used in preparing and filing similar Tax Returns in prior periods (provided that no positions shall be taken, elections made or methods used which would have the effect of deferring income to periods after the Closing Date or accelerating deductions to periods before the Closing Date).

5.3.2 Buyers' Preparation. The Buyer shall cause to be prepared and timely filed (subject to applicable extension rights) all Tax Returns of Securities Partnership that are not described in Section 5.3.1 above. The relevant portion of any such Tax Return prepared by the Buyer or its Affiliates which includes any allocation of the Purchase Price under Section 1060 or Section 755 of the Code shall be provided to the Sellers for their review and approval (which approval shall not be unreasonably withheld or delayed) not less than twenty (20) days prior to the proposed filing date and shall be prepared and filed in a manner substantially similar to or substantially consistent with past practice and/or on the advice of the Buyer's professional advisors in keeping with the terms set out in Section 1.5 of this Agreement or as otherwise required by Law.

5.4 Tax Cooperation.

5.4.1 Tax Proceedings. After the Closing Date, the Sellers and the Buyer shall, and shall cause their respective Affiliates to, cooperate in a commercially reasonable manner with each other in the preparation and filing of all Tax Returns and any Tax investigation, audit or other proceeding with respect to the Securities Partnership (a "Tax Proceeding") and shall provide, or cause to be provided, any records and other information in their possession or control or in the control of their agents reasonably requested by such other Party in connection therewith as well as access to, and the cooperation of, their respective Auditors at each Party's request. The Buyer shall notify the Sellers in writing promptly upon receipt by the Buyer or any Affiliate of any notice of any pending or threatened audits or assessments relating to Taxes with respect to the Securities Partnership other than Taxes as to which the Sellers have no indemnification obligation or other liability relating to Taxes. Failure to provide such notice shall not affect the Sellers' indemnification obligations under Section 8.1.3 unless such failure materially prejudices the Sellers. The Sellers shall have the right to control the handling and disposition of such audit and any administrative or court proceeding relating thereto (and to employ counsel of their choice at the shared expense of both Parties) to the extent that such audit or proceeding could result in increased Tax liabilities of the Sellers for the period covered by the Tax Proceeding or an increase in their indemnification obligations to the Buyer under this Agreement; provided, however, that the Buyer shall have the right to participate in the Tax Proceeding and to employ counsel of its choice at its expense. The Sellers shall not agree to any settlement concerning Taxes of the Securities Partnership for any taxable period which would result in an increase of more than One Million Dollars (\$1,000,000) in Taxes of the Buyer or the Securities Partnership for any taxable period ending after the Closing Date, without the prior written consent of the Buyer. Except in the case of the Buyer to the extent such costs are indemnified by the Sellers, the Buyer and the Sellers shall bear their respective costs and expenses in connection with any Tax Proceeding. Any information obtained pursuant to this Section 5.4 or pursuant to any other Section of this Agreement providing for the sharing of information or the review of any Tax Return or other information relating to Taxes shall be subject to Section 10.9.

5.4.2 Interim Closing of Books. The Sellers' distributive share of the Securities Partnership's income, gain, loss and deduction for the taxable year of the Securities Partnership that includes the Closing Date shall be determined on the basis of an interim closing of the books of the Securities Partnership as of the close of business on the Closing Date and shall not be based upon a proration of such items for the entire taxable year.

5.5 Section 754 Election. With respect to the Tax year in which the Closing occurs, the Securities Partnership and any of its subsidiaries which are treated as partnerships for income tax purposes will have a valid election under Section 754 in effect (and any comparable election under state law).

5.6 Cooperation. After the Closing Date, the Buyer shall afford the Sellers, and their respective accountants, counsel and other representatives, reasonable access during normal business hours to the books and records of the Group and/or Securities Partnership for the period prior to the Closing Date that relate to Tax matters or any third-party claims against the Sellers relating to the business of the Group and/or Securities Partnership during any such periods. The Sellers, or their respective representatives, may, at such Seller's own expense, make copies of such books and records. The Buyer understands that there are certain 2001, 2000 and 1999 tax returns for entities associated with the Group for which Tax Returns have not yet been prepared, and that such tax returns are identified on the Sellers' Disclosure Schedule. The Buyer agrees after the Closing to, upon reasonable prior notice which may be written or oral, give the Sellers' accountants and tax accountants access to the information needed to prepare such returns and the Buyer shall cause Securities Partnership's accounting personnel to be made available to the Sellers and their advisors for this purpose.

5.7 Employees and Employee Benefits.

5.7.1 Eligibility for Buyers; Recognition of Employee Service Plans. The Buyer shall make available to employees of any Consolidated Forecast Entity who continue employment with the Buyer access and a right to participate in all of the benefit plans, programs, and policies sponsored by the Buyer for the benefit of its employees generally, to the extent they would otherwise be eligible under such plans, at benefit levels in the aggregate that are the same as are generally applicable to other similarly situated employees of the Buyer, including, without limitation, to receive credit for all of their service prior to the Closing Date with any Consolidated Forecast Entity under all employee benefit plans, programs and policies sponsored by the Buyer for the benefit of employees generally to the same extent such service was credited under the Forecast Employee Plans.

5.7.2 401(k) Plan. The Sellers shall cause the Group's 401(k) Plan (the "Forecast 401(k) Plan") to be stopped immediately after the Closing Date, except for any parallel plans that may be associated with the Forecast 401(k) Plan. The Buyers shall promptly file (and Seller's shall provide any written consent or agreement to such action as is necessary to perfect such termination) an application with the IRS for approval of plan termination and shall promptly terminate the Forecast 401(k) Plan upon receipt of such approval. The Sellers shall, with respect to all employees who are participants in the Forecast 401(k) Plan, contribute and allocate to the accounts of such participants all employer contributions (including matching contributions with respect to all employee contributions and salary deferrals) that would otherwise have been made to the Forecast 401(k) Plan for the 2001 plan year (with respect to the time period prior to Closing Date) but for the cessation of the Forecast 401(k) Plan, regardless of whether or not such participants are credited with a year of service for such plan year or are employed by the Group on the last day of the plan year.

5.7.3 Employees Generally. The Buyer acknowledges that it intends to use commercially reasonable efforts to continue the employment of the current non-executive employees of the Consolidated Forecast Entities for a period of at least six (6) months after the Closing Date, provided that nothing contained herein shall be construed as requiring the Buyer or the Securities Partnership to continue the employment or position of any specific Person.

5.8 Assumption of Office Lease. In the event that the assumption of the tenant's entire interest in that certain office lease dated as of November 7, 2000 (and the amendment to such lease dated as of June 18, 2001) wherein PRF is the landlord and the Group is the tenant for space being constructed by Previti (the "Office Lease") is not accomplished by operation of Law at the Closing, the Buyer shall assume the tenant's entire interest in that Office Lease. Subject to the approval of Wells Fargo, the terms of the Office Lease may be adjusted as it pertains to the demised premises to provide space for offices for Previti (and/or Previti's Affiliates) and Wells Fargo. For so long as Glankler (or his successor), as regional manager of the Buyer, is reasonably satisfied that the prices and services of Wells Fargo are reasonably comparable to the prices and services of the competitors of Wells Fargo, then the Buyer shall continue to engage Wells Fargo for a period of at least one (1) year after the Closing Date in the capacity engaged by the Group as of immediately prior to the Closing Date.

5.9 Use of Name. The assets acquired by the Buyer under this Agreement shall include the exclusive use of the "Forecast Homes" name; provided, however, notwithstanding anything stated herein, Previti shall have the right to continue to use the name "Forecast" in connection with (a) its business arrangements with Premier Homes, Inc., and (b) all of Previti's non-homebuilding entities. The Buyer shall have the exclusive right to use the name "Forecast Homes" in homebuilding activities for so long as the Buyer uses such name on a reasonably regular basis, e.g., the Buyer has failed to use such name for a period of twelve (12) consecutive months or more. As of the Closing Date, the Sellers shall have all intangible rights used in the Homebuilding Business as of the Effective Date.

5.10 Change of Control. The Buyer shall not enter into any agreement with any third party to effect or obligate itself to effect a Change of Control unless the surviving entity of such contemplated Change of Control transaction shall agree to assume all of the Buyer's obligations under this Agreement (and any other related agreements).

5.11 Insurance. The Sellers and Previti shall assign the Policies for the benefit of Buyer on or as promptly after the Closing as possible.

SECTION 6. CONDITIONS OF PURCHASE

6.1 General Conditions. The obligations of the Parties to effect the Closing shall be subject to the following conditions, except to the extent waived in writing by all Parties:

6.1.1 No Orders; Legal Proceedings. No Law or Order shall have been enacted, entered, issued or enforced by any Governmental Entity, nor

shall any Action have been instituted and remain pending at what would otherwise be the Closing Date, which prohibits or restricts or would (if successful) prohibit or materially restrict the transactions contemplated by this Agreement. No Governmental Entity shall have notified any Party that consummation of the transactions contemplated by this Agreement would constitute a violation of any Laws of any jurisdiction or that it intends to commence proceedings to restrain or prohibit such transactions or force divestiture or rescission, unless such Governmental Entity shall have withdrawn such notice and abandoned any such proceedings prior to the time which otherwise would have been the Closing Date.

6.1.2 Approvals. All Approvals required to be obtained from any Governmental Entity to consummate the transactions contemplated by this Agreement shall have been received or obtained on or prior to the Closing Date.

6.1.3 Hart-Scott-Rodino Act Approvals. If applicable, all waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act shall have been expired or otherwise been terminated.

6.1.4 No Prohibition. No Action, suit or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction or before any arbitrator wherein an unfavorable result would (a) prevent consummation of any of the transactions contemplated hereby, or (b) cause any of the transactions contemplated hereby to be rescinded following consummation.

6.1.5 Asset Purchase Agreement. All of the Closing conditions set forth in the Asset Purchase Agreement have been satisfied or waived by the parties thereto.

6.2 Conditions to Obligations of the Buyer. The obligations of the Buyer to effect the Closing shall be subject to the following conditions, except to the extent waived in writing by the Buyer:

6.2.1 Representations and Warranties and Covenants of the Sellers. The representations and warranties of the Sellers contained in this Agreement (as qualified by matters set forth as exceptions thereto in the Sellers' Disclosure Schedule and as otherwise permitted by the terms of this Agreement) shall be true in all material respects at the Effective Date and at the Closing Date, as applicable, with the same effect as though made at and as of such time; provided, however, that if for any reason this condition cannot be satisfied because of an event, condition, occurrence or failure of occurrence, or as a result of Seller's obtaining knowledge of same, between the Option Date and the Effective Date, the fact that this condition could not be satisfied shall not be deemed a breach of this Agreement by the Seller. The Sellers shall have in all material respects performed all obligations and complied with all covenants and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing Date, and the Sellers shall have delivered to the Buyer a certificate of the Sellers to such effect, dated the Closing Date, in the form of Exhibit C (the "Form of the Sellers' Certificate") attached hereto.

6.2.2 Consents. The Sellers shall have obtained (and provided satisfactory evidence to the Buyer of receipt of) any Approvals of third parties set forth on the Sellers' Disclosure Schedule, including without limitation, that of Premier.

6.2.3 Delivery of the Securities. The Sellers shall have executed the Partnership Interests Assignment and shall have delivered the Securities and/or any and all instruments representing the same to the Buyer, free of any and all Encumbrances, along with any necessary or appropriate stock powers or endorsements.

6.2.4 FIRPTA Affidavits. Each of the Sellers shall have executed and delivered affidavits in a form reasonably satisfactory to the Buyer, providing, among other things, under penalty of perjury, their respective U.S. taxpayer identification numbers and that none of them is a "foreign person" within the meaning of Sections 1445 and 7701 of the Code.

6.2.5 Opinion of Counsel. O'Melveny & Myers LLP, legal counsel for the Sellers, shall have delivered to the Buyer a legal opinion substantially in the form of Exhibit D (the "Form of OM&M Legal Opinion") attached hereto.

6.2.6 Sellers' Certificates. The Sellers shall have caused to be delivered to the Buyer certificates, in a form reasonably satisfactory to the Buyer, which shall include:

(a) copies of the resolutions that the boards of directors of the Sellers, the partners and the shareholders thereof adopting and approving the execution, delivery, and performance of this Agreement and each agreement, certificate, instrument and other document to be delivered pursuant thereto to which they are party; and

(b) incumbency certificates setting forth the names, offices, and signatures of the Persons signing on behalf of the Sellers.

6.2.7 Other. The Sellers shall have delivered to the Buyer such other certificates as the Buyer may reasonably request to effect the transactions contemplated hereby; provided, however, the Sellers shall not be obligated to undertake any step which would create obligations or liabilities not specifically set forth in this Agreement, including, without limitation, any obligations or liabilities to any third-parties.

6.2.8 Disclosure Documents. The Sellers shall have delivered to the Buyer copies of the Group's SEC Reports.

6.2.9 Non-Competition and Option Agreement. Premier shall have validly executed and delivered the Non-Competition and Option Agreement.

6.2.10 Lot Option Agreement. Previti shall have validly executed and delivered the Lot Option Agreement.

6.2.11 ROFO Agreement. Previti shall have validly executed and delivered the ROFO Agreement.

6.2.12 Park Meadows Option Agreement. Previti shall have validly executed and delivered the Park Meadows Option Agreement.

6.2.13 Consulting Agreement. Previti shall have validly

executed and delivered the Consulting Agreement.

6.2.14 Forecast Development Option and Purchase Agreement.

Forecast Development shall have validly executed and delivered the Forecast Development Option and Purchase Agreement.

6.2.15 Indemnification and Release Agreement. The Sellers

and Previti shall have validly executed and delivered the Indemnification and Release Agreement.

6.3 Conditions to Obligations of the Sellers. The obligations of the Sellers to effect the Closing shall be subject to the following conditions, except to the extent waived by the Sellers in writing:

6.3.1 Representations and Warranties and Covenants of the Buyer.

The representations and warranties of the Buyer herein contained (as qualified by matters set forth as exceptions thereto in the Buyer's Disclosure Schedule) shall be true in all material respects at the Effective Date and at the Closing Date, as applicable, with the same effect as though made at and as of such time; the Buyer shall have in all material respects performed all obligations and complied with all covenants and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing Date. The Buyer shall have delivered to the Sellers a certificate of the Buyer to such effect, dated the Closing Date, the form of which appears as Exhibit E (the "Form of the Buyer's Certificate") attached hereto.

6.3.2 Consents. The Buyer shall have obtained any and all Approvals of third parties that are necessary in order to consummate the transactions contemplated hereby, including, without limitation, the Approvals set forth on the Buyer's Disclosure Schedule.

6.3.3 Opinion of Counsel. Simpson Thacher & Bartlett, legal counsel for the Buyer, shall have delivered to the Sellers a legal opinion substantially in the form of Exhibit F (the "Form of ST&B Legal Opinion") attached hereto.

6.3.4 Assumption of Liabilities. The Buyer shall have assumed all of the Liabilities of each of the Consolidated Forecast Entities with respect to the Homebuilding Business pursuant to an assignment and assumption agreement in the form of Exhibit G (the "Form of Assignment and Assumption Agreement") attached hereto. Nothing contained therein shall require the Buyer to assume the Excluded Liabilities.

6.3.5 Assumption of Guarantees. The Buyer shall have assumed the guarantees identified in Schedule 6.3.5 (the "Assumption of Guarantees") by an instrument acceptable to the Sellers that fully and completely releases each Seller that is a guarantor thereunder and each partner or shareholder, as applicable, of each such Seller, from any liability under such guarantees.

6.3.6 Secretary's Certificate. The Buyer shall have delivered to the Sellers a certificate, in a form acceptable to the Sellers, which shall include:

(a) a long-form good standing certificate from the Secretary of State of the State of Delaware, dated no earlier than five (5) business days before the Closing Date, stating that the Buyer is in existence and in good standing under the laws of the State of Delaware;

(b) a copy of the resolutions of the boards of directors or executive committees of the Buyer adopted approving the execution, delivery, and performance of this Agreement and the transactions contemplated hereby and each agreement, certificate, instrument or other document to be delivered pursuant hereto to which it is a party; and

(c) an incumbency certificate setting forth the names, offices, and signatures of all of the officers signing on behalf of the Buyer.

6.3.7 Purchase Price. The Buyer shall have delivered to the Sellers the Purchase Price by wire transfer of immediately available federal funds to such account or accounts as shall be specified in instructions from the Representative prior to the Closing Date.

6.3.8 Office Lease. The Buyer shall have assumed the Office Lease.

6.3.9 Other Matters. The Buyer shall have delivered to the Sellers such other certificates, documents and instruments as the Sellers may reasonably request to effect the transactions contemplated hereby.

6.3.10 Lot Option Agreement. The Buyer shall have validly executed and delivered the Lot Option Agreement.

6.3.11 Non-Competition and Option Agreement. The Buyer shall have validly executed and delivered the Non-Competition and Option Agreement.

6.3.12 ROFO Agreement. The Buyer shall have validly executed and delivered the ROFO Agreement.

6.3.13 Park Meadows Option Agreement. The Buyer shall have validly executed and delivered the Park Meadows Option Agreement.

6.3.14 Consulting Agreement. The Buyer shall have validly executed and delivered the Consulting Agreement.

6.3.15 Forecast Development Option and Purchase Agreement. Forecast Development shall have validly executed and delivered the Forecast Development Option and Purchase Agreement.

6.3.16 Indemnification and Release Agreement. The Buyer shall have validly executed and delivered the Indemnification and Release Agreement.

6.3.17 Satisfaction of Debt. The Buyer shall have satisfied all of the Debt in accordance with Section 1.8.

SECTION 7. TERMINATION OF OBLIGATIONS; SURVIVAL

7.1 Termination of Agreement. Anything in this Agreement to the contrary notwithstanding, this Agreement and the transactions contemplated by this Agreement shall terminate if the Closing (including, without limitation, the Sellers' receipt of the Purchase Price) does not occur on or before 10:00 a.m. (Pacific Time) on February 1, 2002, unless extended by mutual consent in writing of the Buyer and the Sellers, and otherwise may be terminated at any

time before the Closing as follows and in no other manner:

7.1.1 Mutual Consent. By mutual consent in writing of the Buyer and the Sellers.

7.1.2 Conditions to the Buyer's Performance Not Met. By the Buyer, by written notice to the Sellers, if any event occurs or condition exists which would render impossible the satisfaction of one or more conditions to the obligations of the Buyer to consummate the transactions contemplated by this Agreement as set forth in Section 6.1 or 6.2. Notwithstanding the foregoing, the Buyer may not terminate this Agreement pursuant to this Section 7.1.2 if such failure of condition resulted, in whole or in part, from the breach by the Buyer of any of its obligations under this Agreement.

7.1.3 Conditions to the Sellers' Performance Not Met. By the Sellers, by written notice to the Buyer, if any event occurs or condition exists which would render impossible the satisfaction of one or more conditions to the obligation of any Seller to consummate the transactions contemplated by this Agreement. Notwithstanding the foregoing, the Sellers may not terminate this Agreement pursuant to this Section 7.1.3 if such failure of condition resulted, in whole or in part, from the breach by the Sellers of any of their obligations under this Agreement.

7.1.4 Material Breach. By the Buyer or the Sellers if there has been a material misrepresentation or other material breach by the other in its representations, warranties or covenants set forth in this Agreement; provided, however, that if such breach is susceptible to cure, the breaching Party shall have ten (10) business days after actual receipt of written notice from the other Party of its intention to terminate this Agreement if such breach continues in which to cure such breach.

7.2 Effect of Termination. In the event that this Agreement shall be terminated pursuant to Section 7.1, all further obligations of the Parties under this Agreement shall terminate without further liability of any Party to any other, except that the obligations of the Parties contained in Sections 10.9, 10.14 and 10.16 shall survive any such termination. A termination under Section 7.1 shall not relieve any Party of any liability that may otherwise exist for a willful breach of, or for any willful misrepresentation under, this Agreement, or be deemed to constitute a waiver of any available remedy (including specific performance if available) for any such breach; provided, however, that the Buyer shall not have the right to pursue any form of injunctive relief against Previti, any of the Sellers or any of the Consolidated Forecast Entities. Additionally, no termination shall give rise to the release of the Buyer from any loss, cost, claims, damages or indemnities provided to the Sellers under this Agreement with respect to any of the Buyer's (or its agents) due diligence.

7.3 Effect of Closing Over Known Unsatisfied Conditions.

7.3.1 Waiver. If either the Buyer or the Sellers elect to proceed with the Closing, each and every such condition that is unsatisfied at the Closing Date shall be deemed to be waived. Such decision shall, to the extent the waiving party had knowledge as of the time of Closing with respect thereto, constitute a waiver of any liability for breach of, or misrepresentation under, this Agreement in connection with such unsatisfied condition(s).

7.3.2 Effect of Waiver. If the Buyer shall waive or be deemed to have waived any condition set forth in Section 6.1 or 6.2 in accordance with Section 7.3.1, the Buyer shall be deemed to have (a) fully released and forever discharged the Sellers and their Affiliates, the Representative, partners, shareholders, officers, directors, agents and representatives from and on account of all claims, demands or charges (known or unknown) with respect to the waived condition and, to the extent that the Buyer had knowledge as of the time of the Closing with respect thereto, any facts or circumstances giving rise to or in respect of such waived condition, and (b) waived any opinion or certificate contemplated by Section 6.1 or 6.2 with respect to such matters. THE BUYER, AFTER CONSULTATION WITH LEGAL COUNSEL AND WITH FULL KNOWLEDGE OF THE CONSEQUENCES OF ITS ACTIONS, WAIVES THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Buyer's Initials: ---

SECTION 8. INDEMNIFICATION

8.1 Indemnification by the Sellers and Previti.

8.1.1 Ownership of the Securities. Sellers and Previti shall jointly and severally indemnify, defend and hold harmless the Buyer and its officers, directors, stockholders and Affiliates from and against any and all material Losses, whether or not involving a third-party claim, directly based upon or directly arising from any material breach of the representations or warranties made by any Seller under Sections 2.1.1, 2.1.2 and 2.2 of this Agreement only (and no other agreement); provided, however, that Sellers' and Previti's indemnification obligations hereunder shall exist only with respect to Losses of which Previti is timely notified in accordance with Section 8.3.1.

8.1.2 Indemnification for Actual Fraud. Sellers and Previti, as to matters concerning the Consolidated Forecast Entities, shall jointly and severally indemnify, defend and hold harmless the Buyer and its officers, directors, stockholders and Affiliates from and against any and all Losses, whether or not involving a third-party claim (but expressly excluding all homeowner allegations of fraud or similar claims or class action claims), that are not reflected in the Financial Statements or on the Seller's Disclosure Schedule, as a result of, or based upon or arising from, any fraudulent misrepresentation made by the Sellers in Section 2 (including, without limitation, fraudulent misrepresentations made by the Group under

Section 2.13 of the Asset Purchase Agreement regarding actually asserted and existing homeowner fraud claims); provided, however, that Previti's indemnification obligations hereunder shall exist only with respect to Losses of which Previti is timely notified in accordance with Section 8.3.1; and provided, further, any indemnification claim hereunder shall be filed in accordance with Section 10.10 by the Buyer within ninety (90) days after the Buyer's discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Such fraudulent misrepresentation under this Section 8.1.2 (a) must constitute "actual fraud" under the California Civil Code, (b) shall be determined based only on the actual (not imputed or constructive) knowledge of any of the Executive Officers, and (c) must be the subject of a final, non-appealable judgment.

8.1.3 Tax Indemnification by Previti. From and after the Closing Date, Sellers and Previti shall jointly and severally indemnify, defend and hold the Buyer harmless from and against any and all Taxes incurred in periods or with respect to periods prior to the Closing Date for which the Buyer or its Affiliates or Securities Partnership (the "Tax Indemnitees") are liable (including, without limitation, any obligation to contribute to the payment of any Taxes determined on a consolidated, combined or unitary basis with respect to the Securities Partnership), or that result in Encumbrances on any assets of the Tax Indemnitees, in each case to the extent that they are not reflected in the Final Balance Sheet:

(a) for any Tax period of the Securities Partnership that ends on or before the Closing Date;

(b) arising from the Securities Transfer and/or the Asset Transfer and any other transfers, exchanges or transaction related thereto undertaken by the Seller, Securities Partnership, any former holders of limited partnership interests in the Group, in connection with and prior to the purchase contemplated by this Agreement and the Asset Purchase Agreement.

(c) with respect to any Tax period of the Securities Partnership beginning before the Closing Date but ending after the Closing Date, but only that portion of such Taxes that relates to the portion of the Tax period ending on and including the Closing Date;

(d) arising under any Tax sharing agreement or similar arrangement, whether or not written, as a transferee or successor by contract or otherwise;

(e) resulting by reason of the several liability of the Securities Partnership pursuant to Treasury Regulations Section 1.1502-6 or by reason of the Securities Partnership having been a member of any consolidated, combined or unitary group on or prior to the Closing Date; or

(f) resulting from the Sellers' fraudulent actions in connection with any covenant or breach of any of its representations or warranties relating to Taxes set forth in Sections 2.7, 5.3, 5.4 and 5.5.

Previti's indemnification obligations under this Section 8.1.3 shall automatically terminate upon the expiration of the applicable statutory period. Previti's liability under this Section 8.1.3 shall include any Losses of the Tax Indemnitees incurred in responding to an examination, audit, administrative or court proceeding, or other procedure in which a Tax authority seeks to propose an adjustment, that if pursued successfully, would give rise to a liability for Taxes for which a Tax Indemnitee would be eligible for indemnification under this Section 8.1.3. For purposes of this Section 8.1.3, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of such Tax which relates to the portion of such Tax period ending on the Closing Date shall (i) in the case of any Taxes, other than Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in the entire Tax period, and (ii) in the case of any Tax based upon or related to income or receipts (including franchise Taxes to the extent based upon income, receipts or earned surplus) be deemed equal to the amount which would be payable if the relevant Tax period ended on the Closing Date for the Sellers and Securities Partnership.

8.2 Indemnification by the Buyer. The Buyer shall indemnify and hold harmless Previti, the Sellers, each of the Consolidated Forecast Entities and their officers, directors, employees, stockholders and Affiliates from and against any material Losses, whether or not involving a third-party claim, that are not reflected on the Buyer's Disclosure Schedule as a result of, or based upon or arising from, any fraudulent misrepresentation made by the Buyer under Section 3 of this Agreement; provided, however, that the Buyer's indemnification obligations pursuant to this Section 8.2 shall exist only with respect to Losses of which the Buyer is timely notified in accordance with Section 8.3.1; and provided, further, any indemnification claim hereunder shall be filed in accordance with Section 10.10 by the Seller or such Person within sixty (60) days after such Person's actual discovery thereof or the claim (and the applicable remedy) shall automatically be waived. Such fraudulent misrepresentation under this Section 8.2 (a) must constitute "actual fraud" under the California Civil Code, (b) shall be determined based on the actual (not imputed or constructive) knowledge of the Buyer, and (c) must be the subject of a final, non-appealable judgment. Nothing herein shall limit the Buyer's liabilities (and indemnification obligations) with respect to any matter pertaining to the Buyer's Shares, including, without limitation, the disposition thereof, or any obligation of the Buyer under Section 5.6.

8.3 Procedure.

8.3.1 Notice. Any Indemnified Party with respect to any Loss shall give written notice to the Indemnifying Party, and such notice shall

(a) describe in reasonable detail the nature of the claim of Loss, (b) provide a copy of all papers served (and/or delivered) with respect to such claim (and/or any examination, audit or other procedure), if any, (c) set

forth the basis of the Indemnified Party's request for indemnification under this Agreement, and (d) provide a waiver of any right to receive indemnification for such Loss under the Asset Purchase Agreement. Such notice to the Indemnifying Party shall be delivered by the Indemnified Party within thirty (30) days of the Indemnified Party's actual knowledge of such Loss and prior to the expiration of the applicable statutory period; provided, however, that any delay by the Indemnified Party beyond the aforesaid thirty (30) day period shall not waive the Indemnified Party's claim regarding such Loss, except to the extent such delay prejudices (or could reasonably be expected to lead to the prejudice of) the Indemnifying Party's ability to effectively defend such claim, but in no event shall such notice be delayed by more than ninety (90) days of the Indemnified Party's knowledge of such Loss.

8.3.2 Defense. If any claim, demand or liability is asserted by any third party against any Indemnified Party, the Indemnifying Party shall have the right and shall upon the written request of the Indemnified Party, defend any Actions brought against the Indemnified Party in respect of any Indemnifiable Claims with counsel of its choice reasonably acceptable to the Indemnified Party and, in the case of a Tax-related Action, tax advisors of its choice reasonably acceptable to the Indemnified Party. In any such action or proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at its own expense unless (a) the Indemnifying Party and the Indemnified Party mutually agree in writing to the retention of such counsel, or (b) the named parties to any such suit, action or proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party, and in the reasonable judgment of the Indemnified Party, representation of the Indemnifying Party and the Indemnified Party by the same counsel would be inadvisable due to potential conflicts of interests between them. The Parties shall cooperate and may participate in the defense of all third-party claims which may give rise to Indemnifiable Claims hereunder. If the Indemnifying Party assumes the defense (i) it shall be conclusively established for purposes of this Agreement that the claims made in the Action are within the scope of and subject to indemnification but only if the Indemnifying Party assumed the defense pursuant to clause (a) above and not clause (b); and (ii) no compromise or settlement of such claims may be effected by the Indemnifying Party without the Indemnified Party's written consent (which consent shall not be unreasonably withheld) unless there is no finding or admission of any violation of legal requirement or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Party, or the exclusive relief provided is monetary damages that are paid in full by the Indemnifying Party. If written notice is given to an Indemnifying Party of the commencement of any Action and the Indemnifying Party does not, within twenty (20) days after the Indemnified Party's written notice is given, give written notice to the Indemnified Party of its election to assume the defense of such Action, the Indemnifying Party shall be bound by any determination made in such Action or any compromise or settlement effected by the Indemnified Party. In connection with the defense of any claim, each Party shall make available to the Party controlling such defense, any books, records or other documents within its control that are reasonably requested in the course of or necessary or appropriate for such defense.

8.3.3 Insurance Matters. The amount of any Loss for which indemnification is provided under Section 8.1 or 8.2 shall be net of, and subject to, any insurance proceeds received and the amount of any related deductible with respect to such Loss under any insurance policy maintained by the Buyer, the Securities Partnership, any Consolidated Forecast Entity or any of the Sellers. The Parties agree that, on or prior to seeking indemnification for a Loss from the Indemnifying Party under the Agreement, the Indemnified Party shall use commercially reasonable efforts to recover any insurance proceeds that may be obtainable with respect to such Loss. The Sellers shall reasonably cooperate, at no expense to the Sellers, with the Buyer in the Buyer's efforts to seek to obtain insurance to cover any breaches or misrepresentations in the Sellers' representation and warranties contained in this Agreement, if any. If such insurance proceeds or other contributions or reductions to the amount payable by the Indemnifying Party under this Section 8 is made available or otherwise determined after payment by the Indemnifying Party of any amount otherwise required to be paid to an Indemnified Party pursuant to this Section 8, the Indemnified Party shall repay to the Indemnifying Party promptly after such determination (and in any event within ten (10) days after determination of the Indemnifying Party's right to receive such insurance proceeds), any amount the Indemnifying Party would not have had to pay pursuant to this Section 8 had such determination been made at the time of such payment.

8.3.4 Indemnification in the Asset Purchase Agreement. Any payment to an Indemnified Party under Sections 8.1 or 8.2 otherwise due and payable hereunder shall be decreased to the extent of any indemnification proceeds received under Section 8 of the Asset Purchase Agreement by the Indemnified Party with respect to the same Loss. Neither the Buyer nor the Seller shall have any right to receive indemnification payments under both this Agreement and the Asset Purchase Agreement for the same Loss.

8.3.5 Tax Treatment of Indemnification Payments. Any payment under Section 8.1 shall be treated as an adjustment to the Purchase Price.

8.4 Survival.

8.4.1 The Sellers. The indemnification obligations of Previti under Sections 8.1.1 and 8.1.2 shall survive the Closing and terminate upon the expiration of the applicable statutory period. The indemnification obligations of Previti under Section 8.1.3 shall survive indefinitely.

8.4.2 The Buyer. The indemnification obligations of the Buyer under Section 8.2 shall survive the Closing and shall remain in full force and effect for the applicable statutory period.

8.5 Limitation of Remedies. Neither Previti nor any Consolidated Forecast Entity shall be obligated to indemnify the Buyer pursuant to Section 8.1 until the aggregate amount of Losses for which such indemnification would otherwise be available under this Agreement and under the Asset Purchase Agreement is in excess of Six Hundred Fifty Thousand Dollars (\$650,000), in which event Previti shall be obligated to indemnify the Buyer only for all Losses from the first dollar. The Buyer shall not be obligated to indemnify the Sellers and/or Previti pursuant to Section 8.2 until the aggregate amount of all Losses for which such indemnification would otherwise be available under this Agreement and the Asset Purchase Agreement is in excess of Six Hundred Fifty Thousand Dollars (\$650,000), in which event the Buyer shall be obligated to indemnify the Sellers only for Losses from the first dollar; provided, however, nothing herein shall limit the Buyer's liabilities (and indemnification obligations) with respect to the Buyer's indemnification obligations contained in Section 4.1 of the Asset Purchase Agreement or with respect to any matter pertaining to the Buyer's Shares (as defined in the Asset Purchase Agreement), including, without limitation, the disposition thereof, or any obligation of the Buyer under Section 5.6 of the Asset Purchase Agreement.

8.6 Sellers Jointly and Severally Liable. The Sellers and Previti hereby agree to be jointly and severally liable for any Loss for which Previti or Forecast Group, L.P. is liable under Section 8 of the Asset Purchase Agreement.

SECTION 9. LIMITATION OF REMEDIES

9.1 Breach of Representations. The indemnification obligations provided in Sections 8.1 and 8.2 shall be the sole and exclusive remedies available to any Party from any other Party or from any of the Consolidated Forecast Entities with respect to any Loss resulting from, or based upon or arising from, any breach of any of the representations or warranties made under this Agreement.

9.2 No Other Warranties. Except as expressly set forth in this Agreement and in the Asset Purchase Agreement or the Collateral Agreements, none of Previti, the Sellers, their counsel, sales agents, nor any of their Affiliates or attorneys of Previti, Seller, their counsel, broker, or sales agents, nor any other party related in any way to any of the foregoing (each, a "Seller Party," and collectively, the "Seller Parties") have or shall be deemed to have made any verbal or written representations, warranties, promises or guarantees (whether express, implied, statutory or otherwise) to the Buyer with respect to the Securities or any other matters.

9.3 No Personal Liability of Any Other Person. Except as specifically set forth herein, no Person (including, without limitation, the Sellers) shall have any liability to the Buyer (or any Affiliate thereof) arising under this Agreement or in connection with the transactions contemplated under this Agreement (or any other related agreements). Moreover, notwithstanding anything else in this Agreement to the contrary, no officer, director or employee of any of the Consolidated Forecast Entities shall have any liability to the Buyer (or any Affiliate thereof) whatsoever, excepting solely as it may pertain to Previti pursuant to Sections 5.1, 8.1.1, 8.1.2 and 8.1.3.

9.4 Failure to Perform Obligations. Except as otherwise specifically set forth herein, the Parties agree that the performance obligations of each of the Parties contained herein shall survive Closing, and except as otherwise specifically set forth herein nothing contained in this Agreement shall restrict or limit either Party's ability to bring or maintain an Action at Law or in equity with respect thereto.

SECTION 10. GENERAL

10.1 Amendments; Waivers. This Agreement and any Schedule or Exhibit attached hereto may be amended only by agreement in writing of all Parties. No waiver of any provision nor consent to any exception to the terms of this Agreement shall be effective unless in writing and signed by the Party to be bound and then only to the specific purpose, extent and instance so provided by an authorized representative thereof.

10.2 Schedules; Exhibits; Integration. Each Schedule and Exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute a part of this Agreement, although Schedules need not be attached to each copy of this Agreement. This Agreement, together with such Schedules and Exhibits, constitutes the entire agreement among the Parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings of the Parties in connection therewith. Without limiting the effect of the foregoing provisions of this Section 10.2, except as expressly set forth in this Agreement, none of the Parties is making or shall be deemed to have made any representation, warranty or covenant of any kind, either express or implied.

10.3 Efforts; Further Assurances. Each Party shall use its commercially reasonable efforts to cause all conditions to its obligations hereunder to be timely satisfied and to perform and fulfill all obligations on its part to be performed and fulfilled under this Agreement. The Parties shall reasonably cooperate with each other in such actions and in securing requisite Approvals. Each Party shall execute and deliver both before and after the Closing such further certificates and other documents and take such other actions as any other Party may reasonably request in furtherance of and as contemplated by this Agreement to consummate or implement the transactions contemplated hereby or to evidence such events or matters. Nothing herein shall modify, amend or extend the Closing Date.

10.4 Governing Law. This Agreement, the legal relations between the Parties and any Action, whether contractual or non-contractual, instituted by any Party with respect to matters arising under or growing out of or in connection with or in respect of this Agreement, including, without limitation, the negotiation, execution, interpretation, coverage, scope, performance, breach, termination, validity, or enforceability of this Agreement, shall be governed by and construed in accordance with the Laws of

the State of California applicable to contracts made and performed in such State and without regard to conflicts of law doctrines.

10.5 Transfer; Successors and Assigns. The Buyer may not assign or transfer this Agreement or any of the rights hereunder without the Sellers' prior written consent, which consent shall not be required in the case of a proposed assignment or transfer to an Affiliate of the Buyer so long as the Buyer (a) provides complete copies of all relevant documentation, (b) remains fully liable under this Agreement without any further documentation, and (c) unconditionally guarantees (i) any and all of the obligations and performance of the proposed assignee under this Agreement, and (ii) any and all of the Buyer's obligations under the Asset Purchase Agreement and the Collateral Agreements. In the event the Sellers consents to any such assignment or transfer, the Sellers may elect in their sole discretion, to pursue any of its remedies solely against the Buyer, or against the Buyer and the assignee or transferee. Any attempted assignment in violation of this Section 10.5 shall be void.

10.6 Headings. The Table of Contents and the descriptive headings of the Sections, subsections and other subdivisions of this Agreement and of the Exhibits and Schedules are for convenience only and do not constitute a part of this Agreement.

10.7 Counterparts. This Agreement may be executed in any number of identical counterparts, each of which when executed and delivered shall be an original, but all such counterparts shall constitute but one and the same instrument. Any signature page of this Agreement may be detached from any counterpart without impairing the legal effect of any signatures thereof, and may be attached to another counterpart, identical in form thereto, but having attached to it one or more additional signature pages. Delivery by any Party or its respective representatives of telecopied (counterpart) signature pages shall be as binding an execution and delivery of this Agreement by such Party as if the other Party had received the actual physical copy of the entire Agreement with an ink signature from such Party.

10.8 Publicity and Reports. The Sellers and the Buyer shall coordinate all publicity relating to the transactions contemplated by this Agreement and no Party shall issue any press release, publicity statement or other public notice relating to this Agreement, or the transactions contemplated by this Agreement, without consulting with, and receiving approval from (which approval shall not be unreasonably withheld or delayed), the other Party, except to the extent that a particular action is required by applicable Law or the rules or regulations of any national securities exchange; provided, however, in such instance, the applicable Party shall use commercially reasonable efforts to inform the other Party of such action in writing in advance.

10.9 Confidentiality. All information disclosed by any Party (or its representatives) whether before or after the Effective Date, in connection with the transactions contemplated by, or the discussions and negotiations preceding, this Agreement to any other Party (or its representatives) shall be kept confidential by such other Party and its representatives and shall not be used by any such Persons other than as contemplated by this Agreement, except (a) to the extent that such information was known by the recipient when received, (b) to the extent that such information is or hereafter becomes lawfully obtainable from other sources, (c) to the extent that such information is necessary or appropriate to disclose to a Governmental Entity having jurisdiction over the disclosing Party, (d) as may otherwise be required by Law, or (e) to the extent such duty of confidentiality is waived in writing by the other Party. If a Party discloses any information related to this Agreement or the transactions contemplated hereunder pursuant to any of clauses (a) through (e) above, then such Party shall provide the other Party with written notice of such disclosure. If this Agreement is terminated in accordance with its terms, each Party shall return upon written request from the other Party all documents (and reproductions thereof) received by it or its representatives from such other Party (and, in the case of reproductions, all such reproductions made by the receiving Party) that include information not within exceptions (a) through (e) above, unless the recipients provide assurances reasonably satisfactory to the requesting Party that such documents have been destroyed.

10.10 Appointment of Referee; Waiver of Jury Trial. Any Action brought to interpret or enforce this Agreement may be tried by the reference procedures set forth in California Code of Civil Procedure Section 638 et seq. upon motion by any party to the appropriate Superior Court. A single referee that is an active judge shall be appointed by the presiding judge of the appropriate Superior Court, and the Action shall be placed on the expedited reference calendar. Each of the Sellers and the Buyer hereby waives the right to trial by jury. During the pendency of the expedited reference proceeding, the Sellers and the Buyer shall each pay one-half of the cost of the referee. Upon the conclusion of the referenced proceeding, the losing party shall pay all remaining unpaid costs of the referenced proceeding and shall reimburse the prevailing party (as shall be determined by the referee) for such costs previously paid by the prevailing party. Such reimbursement shall be included in any judgment or final order issued in the referenced proceeding, which judgment or Order shall be final, binding and non-appealable.

10.11 Parties in Interest. This Agreement shall be binding upon and inure to the benefit of each Party, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except for Section 10.5 (which is intended to be for the benefit of the persons provided for therein and may be enforced by such persons).

10.12 Knowledge Convention. Statements in this Agreement or in any Schedule, Exhibit, certificate or other documents delivered to any Party pursuant to this Agreement made "to the Sellers' knowledge" or "to the applicable tax paying Seller's knowledge" (or words of similar intent or

effect) shall be deemed to be made to the actual (not implied or constructive) knowledge of the applicable Executive Officers and shall not include any other Person's knowledge. The reference to the foregoing individuals' names shall not imply and shall not give rise to any personal liability of such persons. Statements in this Agreement or in any Schedule, Exhibit, certificate or other documents delivered to any Party pursuant to this Agreement stating the "Sellers' expectations" (or words of similar intent or effect) shall be deemed to refer to the actual expectations of Previti and shall not include any other Person's expectations or any guarantee thereof.

10.13 Notices. Except as otherwise expressly provided herein, all notices, requests, approvals, consents and demands to or upon the respective Parties hereto to be effective shall be in writing (and shall be delivered by hand, or nationally recognized courier service), and shall be deemed to have been duly given or made when delivered by hand, or, in the case of a nationally recognized courier service, one (1) business day after delivery to such courier service, addressed as follows, or to such other address as may be hereafter notified by the respective Parties hereto:

If to the Buyer, to:

Hovnanian Enterprises, Inc.

10 Highway 35

P.O. Box 500

Red Bank, New Jersey 07701

Attn: Peter Reinhart, Esq.

Telephone: (732) 747-7800

Telecopy: (732) 747-6835

and:

Hovnanian Enterprises, Inc.

1802 Brightseat Road

Landover, Maryland 20785-4235

Attn: Mr. Geaton A. DeCesaris Jr.

Telephone: (301) 772-8900

Telecopy: (301) 772-1380

with a copy to:

Simpson Thacher & Bartlett

10 Universal City Plaza

Suite 1850

Los Angeles, California 94608

Attn: Daniel Clivner, Esq.

Telephone: (818) 755-9613

Telecopy: (818) 755-7009

If to one or more Sellers, to:

10670 Civic Center Drive

Rancho Cucamonga, California 91730

Attn: Mr. James P. Previti (marked "Woodlands - Personal &

Confidential" and sent only after personal (not voice-mail)

notice to Mr. Previti)

Telephone: (909) 987-7788

Telecopy: (909) 980-7305

with a copy to:

10670 Civic Center Drive

Rancho Cucamonga, California 91730

Attn: Larry R. Day, Esq. (marked "Woodlands - Personal &

Confidential" and sent only after personal (not voice-mail)

notice to Mr. Day)

Telephone: (909) 987-7788

Telecopy: (909) 987-8958

and:

O'Melveny & Myers LLP

Embarcadero Center West

275 Battery Street, Suite 2600

San Francisco, California 94111-3305

Attn: Peter T. Healy, Esq.

Telephone: (415) 984-8833

Telecopy: (415) 984-8701

10.14 Expenses. Except as otherwise expressly set forth herein, the Sellers and the Buyer shall each pay their own expenses incident to the negotiation, preparation and performance of this Agreement and the transactions contemplated hereby, including, without limitation, the fees, expenses and disbursements of their respective advisors, accountants, auditors and counsel. Each Seller's expenses incurred prior to the Closing and not otherwise specifically allocated by this Agreement shall be paid by the Sellers or by its Affiliates.

10.15 Remedies; Waiver. To the extent permitted by Law, all rights and remedies existing under this Agreement are cumulative to and not exclusive of, any rights or remedies otherwise available under applicable Law. No failure on the part of any Party to exercise or delay in exercising any right hereunder shall be deemed a waiver thereof, nor shall any single or partial exercise preclude any further or other exercise of such or any other right.

10.16 Attorneys' Fees. In the event of any Action by any Party arising under or out of, in connection with or in respect of, this Agreement or the transactions contemplated hereby, the prevailing Party shall be entitled to reasonable attorney's fees, costs and expenses incurred in such Action.

Attorney's fees incurred in enforcing any judgment in respect of this Agreement are recoverable as a separate item. The Parties intend that the preceding sentence be severable from the other provisions of this Agreement, survive any judgment and, to the maximum extent permitted by law, not be deemed merged into such judgment.

10.17 Representation by Counsel; Interpretation. The Sellers and the Buyer each acknowledge that each Party has been represented by counsel in

connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of Law, including, without limitation, Section 1654 of the California Civil Code, or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the Buyer and the Sellers.

10.18 Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable by any Governmental Entity, the remaining provisions of this Agreement shall remain in full force and effect provided that the economic and legal substance of the transactions contemplated is not affected in any manner materially adverse to any Party. In the event of any such determination, the Parties agree to negotiate in good faith to modify this Agreement to fulfill as closely as possible the original intents and purposes hereof. To the extent permitted by Law, the Parties hereby to the same extent waive any provision of Law that renders any provision hereof prohibited or unenforceable in any respect.

10.19 No Offset. Notwithstanding anything in this Agreement to the contrary, neither the Buyer nor anyone claiming through the Buyer shall have any rights of offset under this Agreement or otherwise, in the event of any breach hereunder by the Sellers (or any Seller) or Previti, or any Affiliate thereof, including, without limitation, any right of offset or excuse to Buyer's performance respecting Buyer's obligations hereunder or under the Asset Purchase Agreement or any of the Collateral Agreements.

10.20 No Offset by the Sellers or Previti. Notwithstanding anything in this Agreement to the contrary but expressly excepting any actions and/or inactions of the Buyer or its directors, officers, employees, representatives or agents that are directly related to the obligations of the Seller, Previti or anyone claiming through any of them, none of the Sellers, Previti nor anyone claiming through them shall have any rights of offset under this Agreement or otherwise, in the event of any breach hereunder or under the Asset Purchase Agreement or any of the Collateral Agreements.

10.21 Cross Default with Asset Purchase Agreement.

10.21.1 Effectiveness of this Agreement. This Agreement shall not be operable or effective unless and until the Buyer, The Group and Previti validly execute and deliver to the other parties thereto the Asset Purchase Agreement.

10.21.2 Default by Buyer. A default by the Buyer under the Asset Purchase Agreement shall constitute a default by the Buyer under this Agreement.

10.21.3 Default by the Sellers or Previti. A default by the Sellers and/or Previti under the Asset Purchase Agreement shall constitute a default by the Sellers and/or Previti, as applicable, under this Agreement.

10.21.4 Termination. In the event the Asset Purchase Agreement is terminated pursuant to the terms thereof, this Agreement shall be deemed terminated as of the date of such termination of the Asset Purchase Agreement, at which time this Agreement shall be of no further force or effect, except with respect to those obligations which, pursuant to the express provisions of this Agreement, are to survive the termination of Agreement.

(Signature pages follow.)

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

"BUYER"

HOVNANIAN ENTERPRISES, INC., a Delaware corporation

By: /S/Geaton DeCesaris, Jr.
Its: President of Homebuilding Operations

"SELLERS"

FORECAST PP2, LLC, a Delaware limited liability company

By: /S/Larry R. Day
Its: Executive Vice President

FORECAST HOMES, INC., a California corporation

By: /S/Larry R. Day
Its: Executive Vice President

"PREVITI"

JAMES P. PREVITI, an individual

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-4 No. 333-52090, Form S-3 No. 333-68528, Form S-3 No. 333-75939, Form S-3 No. 333-90567, Form S-3 No. 333-87861, and form S-3 No. 333-51991) of Hovnanian Enterprises, Inc. and in the related Prospectuses and in the Registration Statement (Form S-8 No. 333-92977) pertaining to the 1999 Stock Incentive Plan of Hovnanian Enterprises, Inc. and in the Registration Statements (Form S-8 No. 333-56972, Form S-8 No. 033-36098, and Form S-8 No. 002-92773) pertaining to the 1983 Stock Option Plan of Hovnanian Enterprises, Inc and in the Registration Statement (Form S-8 No. 333-56640) pertaining to the Washington Homes Employee Stock Option Plan of our report dated December 11, 2001, with respect to the consolidated financial statements of Hovnanian Enterprises, Inc. included in this Annual Report (Form 10-K) for the year ended October 31, 2001.

/s/Ernst & Young LLP

New York, New York
January 18, 2002