

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10Q

(Mark One)

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

For quarterly period ended JULY 31, 2003 or

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

Commission file number 1-8551

Hovnanian Enterprises, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 22-1851059
(State or Other Jurisdiction of (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) (Zip Code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 22,596,588 Class A Common Shares and 7,426,051 Class B Common Shares were outstanding as of September 5, 2003

HOVNANIAN ENTERPRISES, INC.

FORM 10Q

INDEX

NUMBER	PAGE
PART I. Financial Information	
Item 1. Consolidated Financial Statements:	
Consolidated Balance Sheets at July 31, 2003 (unaudited) and October 31, 2002	4
Consolidated Statements of Income for the three and nine months ended July 31, 2003 and 2002 (unaudited)	6
Consolidated Statements of Stockholders' Equity for the nine months ended July 31, 2003 (unaudited)	7
Consolidated Statements of Cash Flows for the nine months ended July 31, 2003 and 2002 (unaudited)	8
Notes to Consolidated Financial Statements (unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36

PART II. Other Information

(a)

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

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

Exhibit 3(c) Restated Bylaws of the Registrant. (3)

Exhibit 10(a) Third Amended and Restated Credit Agreement dated June 19, 2003. (2)

Exhibit 10(b) First Amendment to First Restated K. Hovnanian Mortgage, Inc. Revolving Credit Agreement dated July 31, 2003.

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

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

Exhibit 32(a) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

Exhibit 32(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

(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, 1994 of the Registrant.

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

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed. The following report on Form 8-K has been furnished during the quarter for which this report is filed:

On May 23, 2003, the Company furnished a report on Form 8-K, Item 9 (pursuant to Item 12 in accordance with SEC Release 33-8216; 34-47583; IC-25983; March 27, 2003), relating to the Company's press release dated May 28, 2003 relating to its preliminary financial results for the second quarter ended April 30, 2003.

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

ASSETS	July 31, 2003	October 31, 2002
	-----	-----
	(unaudited)	
Homebuilding:		
Cash and cash equivalents.....	\$ 110,820	\$ 262,675
	-----	-----
Inventories - At the lower of cost or fair value:		
Sold and unsold homes and lots under development.....	1,090,908	803,829
	-----	-----
Land and land options held for future		

development or sale.....	280,706	171,081
Consolidated Inventory Not Owned:		
Specific performance options.....	72,436	67,183
Variable interest entities.....	93,252	
Other options.....	54,377	39,489
Total Consolidated Inventory Not Owned..	220,065	106,672
Total Inventories.....	1,591,679	1,081,582
Receivables, deposits, and notes	45,742	26,276
Property, plant, and equipment - net.....	27,110	19,242
Senior residential rental properties - net....	9,215	9,504
Prepaid expenses and other assets.....	93,695	86,582
Goodwill and indefinite life intangibles.....	82,283	82,275
Definite life intangibles.....	59,244	
Total Homebuilding.....	2,019,788	1,568,136
Financial Services:		
Cash and cash equivalents.....	8,819	7,315
Mortgage loans held for sale.....	152,211	91,451
Other assets.....	3,119	11,226
Total Financial Services.....	164,149	109,992
Income Taxes Receivable - Including deferred tax benefits.....	11,717	
Total Assets.....	\$2,195,654	\$1,678,128

See notes to consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands Except Per Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY	July 31, 2003	October 31, 2002
	(unaudited)	
Homebuilding:		
Nonrecourse land mortgages.....	\$ 29,173	\$ 11,593
Accounts payable and other liabilities.....	211,054	198,290
Customers' deposits.....	61,263	40,422
Nonrecourse mortgages secured by operating properties.....	3,177	3,274
Liabilities from inventory not owned.....	116,597	97,983
Total Homebuilding.....	421,264	351,562
Financial Services:		
Accounts payable and other liabilities.....	6,641	4,857
Mortgage warehouse line of credit.....	137,039	85,498
Total Financial Services.....	143,680	90,355
Notes Payable:		
Term loan.....	115,000	115,000
Senior notes.....	387,029	396,390
Senior subordinated notes.....	300,000	150,000
Accrued interest.....	17,738	9,555
Total Notes Payable.....	819,767	670,945
Income Taxes Payable - Net of deferred tax benefits.		777
Total Liabilities.....	1,384,711	1,113,639

Minority interest from inventory not owned.....	80,137	
Minority interest from consolidated joint ventures..	1,860	1,940

Stockholders' Equity:		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued.....		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 27,875,001 shares at July 31, 2003 and 27,452,481 shares at October 31, 2002 (including 5,342,599 shares at July 31, 2003 and 4,343,240 shares at October 31, 2002 held in Treasury).....	279	275
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale) authorized 13,000,000 shares; issued 7,772,342 shares at July 31, 2003 and 7,788,061 shares at October 31, 2002 (including 345,874 shares at July 31, 2003 and October 31, 2002 held in Treasury).....	78	78
Paid in Capital.....	160,479	152,977
Retained Earnings.....	613,933	447,802
Deferred Compensation.....		(21)
Treasury Stock - at cost.....	(45,823)	(38,562)

Total Stockholders' Equity.....	728,946	562,549

Total Liabilities and Stockholders' Equity.....	\$2,195,654	\$1,678,128
=====		

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002

Revenues:				
Homebuilding:				
Sale of homes.....	\$ 830,734	\$ 681,329	\$2,104,788	\$1,656,813
Land sales and other revenues.....	4,441	12,651	16,445	34,564

Total Homebuilding.....	835,175	693,980	2,121,233	1,691,377
Financial Services.....	13,642	10,656	35,036	28,319

Total Revenues.....	848,817	704,636	2,156,269	1,719,696

Expenses:				
Homebuilding:				
Cost of sales.....	621,897	539,676	1,582,294	1,327,685
Selling, general and administrative	66,136	52,882	180,035	138,177
Inventory impairment loss.....	149	426	1,633	2,755

Total Homebuilding.....	688,182	592,984	1,763,962	1,468,617
Financial Services.....	7,635	5,694	19,629	16,156
Corporate General and Administrative.	16,978	12,195	45,026	33,700
Interest.....	17,204	15,849	44,308	42,353
Other Operations.....	9,010	3,953	17,972	13,539
Restructuring Charges/Asset Writeoff.		12,000		12,000

Total Expenses.....	739,009	642,675	1,890,897	1,586,365

Income Before Income Taxes.....	109,808	61,961	265,372	133,331

State and Federal Income Taxes:				
State.....	5,439	1,679	11,874	5,086
Federal.....	35,567	21,095	87,367	44,987

Total Taxes.....	41,006	22,774	99,241	50,073

Net Income.....	\$ 68,802	\$ 39,187	\$ 166,131	\$ 83,258
=====				
Per Share Data:				
Basic:				
Income per common share.....	\$ 2.25	\$ 1.27	\$ 5.35	\$ 2.76
=====				
Weighted average number of common shares outstanding.....	30,630	30,877	31,044	30,188
Assuming dilution:				
Income per common share.....	\$ 2.11	\$ 1.20	\$ 5.06	\$ 2.61

Weighted average number of common shares outstanding.....	32,543	32,730	32,806	31,922
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See notes to consolidated financial statements (unaudited).

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	
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Total									
Balance, October 31, 2002	23,109,241	\$275	7,442,187	\$78	\$152,977	\$447,802	\$ (21)	\$(38,562)	\$ 562,549
Shares returned in connection with prior year acquisition.....	(749,359)								
Sale of common stock under Employee stock option plan.....	318,660	3			7,421				7,424
Stock bonus plan.....	88,141	1			81				82
Conversion of Class B to Class A Common Stock....	15,719		(15,719)						
Deferred compensation.....							21		21
Treasury stock purchases..	(250,000)							(7,261)	(7,261)
Net Income.....						166,131			166,131
Balance, July 31, 2003.... (Unaudited)	22,532,402	\$279	7,426,468	\$78	\$160,479	\$613,933	\$ --	\$(45,823)	\$ 728,946

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended July 31,	
	2003	2002
Cash Flows From Operating Activities:		
Net Income.....	\$ 166,131	\$ 83,258
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation.....	4,946	5,003
Amortization of definite life intangibles.....	5,465	-
Loss on sale and retirement of property and assets.....	44	11,858
Deferred income taxes.....	(6,123)	(5,742)
Impairment losses.....	1,633	2,755
Decrease (increase) in assets:		
Mortgage notes receivable.....	(59,049)	43,162
Receivables, prepaids and other assets.....	(14,444)	9,512
Inventories.....	(338,374)	(80,489)
Increase (decrease) in liabilities:		
State and Federal income taxes.....	403	5,208
Tax effect from exercise of stock options.....	(6,774)	(1,074)
Customers' deposits.....	21,352	4,102
Interest and other accrued liabilities.....	14,719	17,960
Post development completion costs.....	1,952	(901)
Accounts payable.....	(11,373)	7,769
Net cash (used in) provided by operating activities.....	(219,492)	102,381
Cash Flows From Investing Activities:		
Net Proceeds from sale of property and assets.....	482	611
Purchase of property, equipment and other fixed assets and acquisitions of homebuilding companies.	(141,796)	(142,860)

Distribution from (investment in and advance to)		
unconsolidated affiliates.....	1,150	(8,679)
	-----	-----
Net cash (used in) investing activities.....	(140,164)	(150,928)
	-----	-----
Cash Flows From Financing Activities:		
Proceeds from mortgages and notes.....	1,090,816	1,587,017
Proceeds from senior debt.....		99,152
Proceeds from senior subordinated debt.....	150,000	150,000
Principal payments on mortgages and notes.....	(1,022,006)	(1,603,320)
Principal payments on senior debt.....	(9,750)	(99,747)
Purchase of treasury stock.....	(7,261)	(1,089)
Proceeds from sale of stock and employee stock plan.	7,506	4,022
	-----	-----
Net cash provided by financing activities...	209,305	136,035
	-----	-----
Net (Decrease) Increase In Cash and Cash Equivalents..	(150,351)	87,488
Cash and Cash Equivalents Balance,		
Beginning Of Period.....	269,990	16,149
	-----	-----
Cash and Cash Equivalents Balance, End Of Period....	\$ 119,639	\$ 103,637
	=====	=====

Supplemental Disclosures of Cash Flow

Cash paid during the period for:

Interest.....	\$ 41,198	\$ 39,450
	=====	=====
Income taxes.....	\$ 104,962	\$ 52,777
	=====	=====

Supplemental disclosures of noncash operating activities:

Consolidated Inventory Not Owned:

Specific performance options.....	\$ 64,743	\$ 24,710
Variable interest entities.....	81,537	
Other options.....	50,486	
	-----	-----

Total Inventory Not Owned.....\$ 196,766 \$ 24,710

See notes to consolidated financial statements (unaudited).

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

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments for interim periods presented have been made, which include only normal recurring accruals and deferrals necessary for a fair presentation of consolidated financial position, results of operations, and changes in cash flows. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements. Results for the interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Stock Option Plan - We adopted Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related Interpretations in Accounting for our employee stock options. Under APB No. 25, no compensation expense is recognized because the exercise price of our Company's employee stock options equals the market price of the underlying stock on the date of the grant.

Pro forma information regarding net income and earnings per share is to be calculated as if we had accounted for our stock options under the fair value method of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation". The fair value for those options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003 and 2002 respectively: risk-free interest rate of 4.3% and 4.3%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.43 and 0.43, respectively; and a weighted-average expected life of the option of 5.1 and 5.5 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 our traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

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

	Three Months Ended		Nine Months Ended	
	July 31, 2003	July 31, 2002	July 31, 2003	July 31, 2002
Net income to common shareholders; as reported.....	\$ 68,802	\$ 39,187	\$166,131	\$ 83,258
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	539	140	1,515	420
Pro forma net income.....	\$ 68,263	\$ 39,047	\$164,616	\$ 82,838
Pro forma basic earnings per share....	\$ 2.23	\$ 1.26	\$ 5.30	\$ 2.74
Basic earnings per share as reported..	\$ 2.25	\$ 1.27	\$ 5.35	\$ 2.76
Pro forma diluted earnings per share..	\$ 2.10	\$ 1.19	\$ 5.02	\$ 2.60
Diluted earnings per share as Reported.....	\$ 2.11	\$ 1.20	\$ 5.06	\$ 2.61

3. Interest costs incurred, expensed and capitalized were:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2003	2002	2003	2002
(Dollars in Thousands)				
Interest Capitalized at Beginning of Period.....	\$ 25,480	\$ 24,876	\$ 22,159	\$ 25,124
Plus Interest Incurred(1)(2)..	17,807	15,746	48,232	42,002
Less Interest Expensed(2).....	17,204	15,849	44,308	42,353
Interest Capitalized at End of Period (2).....	\$ 26,083	\$ 24,773	\$ 26,083	\$ 24,773

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

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

4. Homebuilding accumulated depreciation at July 31, 2003 and October 31, 2002 amounted to \$22.0 million and \$18.5 million, respectively. Senior residential rental property accumulated depreciation at July 31, 2003 and October 31, 2002 amounted to \$3.4 million and \$3.1 million, respectively.

5. In accordance with Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment of or Disposal of Long Lived Assets", we record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. In addition, from time to time, we will write off certain residential land options including approval, engineering and capitalized interest costs for land management decided not to purchase. We wrote off such costs amounting to \$1.6 million during the nine months ended July 31, 2003. During the nine months ended July 31, 2002 we wrote off such costs in the amount of \$1.6 million in Poland, \$0.8 million due to the exit of our Mid-South operations, and \$0.4 million in other geographical areas. Residential inventory impairment losses and option write-offs are reported in the Consolidated Statements of Income as "Homebuilding-Inventory Impairment Loss."

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

7. As of July 31, 2003 and October 31, 2002, respectively, we are obligated under various performance letters of credit amounting to \$132.9 million and \$100.0 million.

8. We have an unsecured Revolving Credit Agreement (the "Agreement") with a group of banks which was amended and restated on June 19, 2003. Pursuant to the agreement, our credit line increased to \$590.0 million. The Agreement bears an expiration date of July 2006 and interest is payable monthly and at various rates of either the prime rate plus 0.275% or LIBOR plus 1.75%. In addition, we pay a fee equal to 0.350% per annum on the weighted average unused portion of the line. As of July 31, 2003 and October 31, 2002, there were no borrowings under the Agreement.

Our mortgage warehouse line of credit was amended and restated on July 31, 2003. Pursuant to the agreement, our credit line matures in July 2004 and we have the option to borrow up to \$200.0 million. Interest is payable monthly at the Federal Funds Rate plus 1.375%. As of July 31, 2003 and October 31, 2002 borrowings were \$137.0 million and \$85.5 million, respectively.

9. On May 9, 2003, we issued \$150 million 7 3/4% Senior Subordinated Notes due 2013. The net proceeds of the note offering were used to repay the current outstanding indebtedness under the Agreement and the remainder for general corporate purposes. During the third quarter ended July 31, 2003 we paid down \$9.8 million of our \$150 million 10 1/2% Senior Notes due 2007.

At July 31, 2003, our long-term debt consisted of: \$140.3 million 10 1/2% Senior Notes due 2007, \$150 million 9 1/8% Senior Notes due 2009, \$100 million 8% Senior Notes due 2012 (aggregating \$387 million, net of discount), \$150 million 8 7/8% Senior Subordinated Notes due 2012, \$150 million 7 3/4% Senior Subordinated Notes due 2013 and a \$165 million Term Loan due 2007 which bears interest at either the prime rate plus 1.25% or LIBOR plus 2.5%. As of July 31, 2003 borrowings under the Term Loan were \$115 million.

10. 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 share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the basic weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.

11. Recent Accounting Pronouncements - In April 2002, the Financial Accounting Standards Board issued (SFAS) No. 145, "Reported Gains and Losses from Extinguishment of Debt", which rescinded SFAS No. 4, No. 44, and No. 64 and amended SFAS No. 13. The new standard addresses the income statement classification of gains or losses from the extinguishment of debt and criteria for classification as extraordinary items. We adopted SFAS No. 145 on November 1, 2002. We reclassified a \$0.9 million extraordinary loss from extinguishment of debt to other operations and a \$0.3 million reduction to State and Federal Income Taxes on our Consolidated Statements of Income to conform to the new presentation.

In June 2002, the Financial Accounting Standards Board issued (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain costs incurred in a restructuring)". SFAS No. 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred as opposed to when the entity commits to an exit plan as prescribed under EITF No. 94-3. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. We adopted SFAS No. 146 on January 1, 2003. The initial adoption of SFAS 146 did not have a material effect on the financial position or results of operations of our Company. However, SFAS No. 146 could impact the amount or timing of liabilities to be recognized in the event that we engage in exit or disposal activities in the future.

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties. The

initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and initial measurement provisions of FIN 45 did not have a material effect on our financial position or results of operations. Our disclosure of guarantees is included in Note 14 to the consolidated financial statements - unaudited.

In December 2002, the Financial Accounting Standards Board issued (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends (SFAS) No. 123. The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the affect of the method used on reported results. We have not elected to change to the fair value based method of accounting for stock-based employee compensation. We adopted the disclosure provisions of SFAS No. 148 in our second fiscal quarter ending April 30, 2003. Our disclosure of accounting for stock-based compensation is included in Note 2 to the consolidated financial statements - unaudited.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" an interpretation of ARB No. 51 ("FIN 46"). A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 is effective immediately for VIE's created after January 31, 2003. For VIE's created before January 31, 2003, FIN 46 must be applied at the beginning of the first interim or annual reporting period beginning after June 15, 2003.

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

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

At July 31, 2003 we consolidated nine VIE's created from February 1, 2003 to July 31, 2003 as a result of our option to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these nine VIE's totaling \$11.7 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIE's was \$93.2 million of which \$6.2 million was not optioned to our Company. We were able to ascertain that one VIE had third party debt amounting to \$1.4 million. Since we could not get the remainder of the selling entities to provide us with any financial information, the fair value of the optioned property less our cash deposits and liabilities from inventory not owned, which totaled \$80.1 million, was reported on the balance sheet as Minority Interest. Creditors, if any, of these VIE's have no recourse against our Company.

We will continue to secure land and lots using options. Including the deposits with the nine VIE's above, at July 31, 2003 we have total cash and letters of credit deposits amounting to approximately \$180.2 million to purchase land and lots with a total purchase price of \$2.4 billion. Not all our deposits are with VIE's. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met. We are in the process of evaluating all option purchase agreements in effect as of January 31, 2003. Options with VIE's where we are the primary

beneficiary will be consolidated by our fiscal year end October 31, 2003.

12. On November 1, 2002 and December 31, 2002 we acquired two Houston homebuilding companies, for an approximate aggregate purchase price of \$100 million. On April 9, 2003 we acquired a build-on-your-own-lot homebuilder based in Canton, Ohio. On August 8, 2003, we acquired a homebuilder in Phoenix, Arizona. All of these acquisitions were accounted for as a purchase, with the results of operations of these entities included in our consolidated financial statements as of the date of acquisition. The purchase price was allocated based on estimated fair value at the date of acquisition. As a result, estimated definite life intangible assets of \$63.5 million were recorded on the consolidated balance sheet. We expect to amortize the definite life intangibles over their estimated lives.

13. Intangible Assets - As reported on the balance sheet we have goodwill and indefinite life intangibles amounting to \$82.3 million and definite life intangibles amounting to \$59.2 million. Our intangible assets consist of goodwill, tradenames, architectural designs, and contractual agreements. In accordance with the Financial Accounting Standards No. 142 ("SFAS No. 142") "Goodwill and Other Intangible Assets"; we no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We are amortizing the definite life intangibles over their expected useful life. The amortization expense of \$3.2 million and \$5.5 million is reported in other operations on our Consolidated Statement of Income for the three and nine months ended July 31, 2003, respectively. No amortization expense was recorded during the three and nine months ended July 31, 2002, respectively.

14. Hovnanian Enterprises, Inc., the parent company (the "Parent"), is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the "Subsidiary Issuer"), acts as a finance entity that as of July 31, 2003 had issued and outstanding approximately \$300 million senior subordinated notes, \$390 million face value senior notes, a term loan with an outstanding balance of \$115 million, and a revolving credit agreement with no outstanding balance. The senior subordinated notes, senior notes, the revolving credit agreement, and term loan are fully and unconditionally guaranteed by the Parent.

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

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries we have included the accompanying consolidating 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 present 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, and (v) the eliminations to arrive at the information for the Parent on a consolidated basis.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 CONSOLIDATING CONDENSED BALANCE SHEET
 JULY 31, 2003
 (Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Homebuilding.....	\$ 26	\$ 92,122	\$1,904,126	\$ 23,514	\$	\$2,019,788
Financial Services.....			109	164,040		164,149
Income Taxes (Payable) Receivable. (12,316)		(1,240)	26,068	(795)		11,717
Investments in and amounts due to and from consolidated subsidiaries.....	741,236	741,658	(1,009,648)	(24,151)	(449,095)	
Total Assets.....	\$728,946	\$ 832,540	\$ 920,655	\$ 162,608	\$(449,095)	\$2,195,654

LIABILITIES AND STOCKHOLDERS' EQUITY						
Homebuilding.....	\$		\$ 421,200	\$	64	\$ 421,264
Financial Services.....				143,680		143,680
Notes Payable.....		819,055	712			819,767
Income Taxes Payable(Receivables)						
Minority Interest.....			80,137	1,860		81,997
Stockholders' Equity.....	728,946	13,485	418,606	17,004	(449,095)	728,946

Total Liabilities and Stockholders' Equity.....	\$728,946	\$ 832,540	\$ 920,655	\$ 162,608	\$(449,095)	\$2,195,654
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2002
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Assets						
Homebuilding.....	\$ 1,501	\$ 261,107	\$1,269,514	\$ 36,014	\$	\$1,568,136
Financial Services.....			111	109,881		109,992
Income Taxes (Payable) Receivable..						
Investments in and amounts due to and from consolidated subsidiaries.....	584,103	432,130	(630,186)	(32,376)	(353,671)	
Total Assets.....	\$585,604	\$ 693,237	\$ 639,439	\$ 113,519	\$(353,671)	\$1,678,128
	=====	=====	=====	=====	=====	=====

Liabilities						
Homebuilding.....	\$	\$ 35,736	\$ 312,231	\$ 3,595	\$	\$ 351,562
Financial Services.....				90,355		90,355
Notes Payable.....		661,390	2,345	7,210		670,945
Income Taxes Payable (Receivable)..	23,055	(3,147)	(18,184)	(947)		777
Minority Interest.....				1,940		1,940
Stockholders' Equity.....	562,549	(742)	343,047	11,366	(353,671)	562,549
Total Liabilities and Stockholders' Equity.....	\$585,604	\$ 693,237	\$ 639,439	\$ 113,519	\$(353,671)	\$1,678,128
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2003
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Revenues:						
Homebuilding.....	\$	\$ (45)	\$ 835,191	\$ 4	\$ 25	\$ 835,175
Financial Services.....			2,033	11,609		13,642
Intercompany Charges.....		(61,982)	51,085		10,897	
Equity In Pretax Income of consolidated Subsidiaries.....	109,808				(109,808)	
Total Revenues.....	\$109,808	\$ (62,027)	\$ 888,309	\$ 11,613	\$(98,886)	\$ 848,817

Expenses:						
Homebuilding.....		(84,286)	820,362	142	(4,844)	731,374
Financial Services.....			772	7,254	(391)	7,635
Total Expenses.....		(84,286)	821,134	7,396	(5,235)	739,009

Income Before Income Taxes.....	109,808	22,259	67,175	4,217	(93,651)	109,808
State and Federal Income Taxes.....	41,006	8,420	25,121	1,812	(35,353)	41,006
Net Income	\$ 68,802	\$ 13,839	\$ 42,054	\$ 2,405	\$(58,298)	\$ 68,802
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

THREE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding.....	\$	\$ 295	\$ 693,357	\$ 7,807	\$ (7,479)	\$ 693,980
Financial Services.....			2,270	8,386		10,656
Intercompany Charges.....		54,869	(10,326)		(44,543)	
Equity In Pretax Income of Consolidated Subsidiaries.....	61,961				(61,961)	
Total Revenues.....	\$61,961	\$ 55,164	\$ 685,301	\$ 16,193	\$ (113,983)	\$ 704,636
Expenses:						
Homebuilding.....		55,164	644,464	322	(62,969)	636,981
Financial Services.....			683	5,266	(255)	5,694
Total Expenses.....		55,164	645,147	5,588	(63,224)	642,675
Income Before Income Taxes.....	61,961		40,154	10,605	(50,759)	61,961
State and Federal Income Taxes.....	22,774	(26)	14,971	3,908	(18,853)	22,774
Net Income	\$39,187	\$ 26	\$ 25,183	\$ 6,697	\$ (31,906)	\$ 39,187

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2003
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding.....	\$	\$ 593	\$2,120,611	\$ 14	\$ 15	\$2,121,233
Financial Services.....			5,496	29,540		35,036
Intercompany Charges.....		23,389	62,544		(85,933)	
Equity In Pretax Income of Consolidated Subsidiaries.....	265,372				(265,372)	
Total Revenues.....	\$265,372	\$ 23,982	\$2,188,651	\$ 29,554	\$ (351,290)	\$2,156,269
Expenses:						
Homebuilding.....		1,723	1,961,389	361	(92,205)	1,871,268
Financial Services.....			1,907	18,971	(1,249)	19,629
Total Expenses.....		1,723	1,963,296	19,332	(93,454)	1,890,897
Income Before Income Taxes.....	265,372	22,259	225,355	10,222	(257,836)	265,372
State and Federal Income Taxes.....	99,241	7,791	84,552	4,261	(96,604)	99,241
Net Income.....	\$166,131	\$ 14,468	\$ 140,803	\$ 5,961	\$ (161,232)	\$ 166,131

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
Revenues:						
Homebuilding.....	\$	\$ 565	\$1,689,257	\$ 20,475	\$ (18,920)	\$1,691,377
Financial Services.....			4,956	23,363		28,319
Intercompany Charges.....		119,275	(3,663)		(115,612)	
Equity In Pretax Income of Consolidated Subsidiaries.....	133,331				(133,331)	
Total Revenues.....	\$133,331	\$119,840	\$1,690,550	\$ 43,838	\$ (267,863)	\$1,719,696

Expenses:						
Homebuilding.....	119,840	1,588,505	1,981	(140,117)	1,570,209	
Financial Services.....		1,768	15,437	(1,049)	16,156	
	-----	-----	-----	-----	-----	
Total Expenses.....	119,840	1,590,273	17,418	(141,166)	1,586,365	
	-----	-----	-----	-----	-----	
Income Before Income Taxes.....	133,331		100,277	26,420	(126,697)	133,331
State and Federal Income Taxes.....	50,073	(180)	37,982	10,058	(47,860)	50,073
	-----	-----	-----	-----	-----	-----
Net Income.....	\$83,258	\$ 180	\$ 62,295	\$ 16,362	\$ (78,837)	\$ 83,258
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2003
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$166,131	\$ 14,468	\$ 140,803	\$ 5,961	\$ (161,232)	\$ 166,131
Adjustments to reconcile net income to net cash (Used In) Provided By operating activities.....	(2,534)	10,709	(510,053)	(44,977)	161,232	(385,623)
	-----	-----	-----	-----	-----	-----
Net Cash (Used In) Provided By Operating Activities.....	163,597	25,177	(369,250)	(39,016)		(219,492)
Net Cash (Used In) Provided By Investing Activities.....	(7,588)		(132,321)	(255)		(140,164)
Net Cash (Used In) Provided By Financing Activities.....	(7,261)	140,639	24,990	50,937		209,305
Intercompany Investing and Financing Activities - Net.....	(148,743)	(309,555)	468,463	(10,165)		
	-----	-----	-----	-----	-----	-----
Net Increase (Decrease) In Cash and Cash Equivalents.....	5	(143,739)	(8,118)	1,501		(150,351)
Cash and Cash Equivalents Balance, Beginning of Period.....	10	218,844	43,689	7,447		269,990
	-----	-----	-----	-----	-----	-----
Cash and Cash Equivalents Balance, End of Period.....	\$ 15	\$ 75,105	\$ 35,571	\$ 8,948	\$	\$ 119,639
	=====	=====	=====	=====	=====	=====

HOVNIANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2002
(Thousands of Dollars)

	Parent	Subsidiary Issuer	Guarantor Subsid- iaries	Non- Guarantor Subsidiaries	Elimin- ations	Consol- idated
	-----	-----	-----	-----	-----	-----
Cash Flows From Operating Activities:						
Net Income.....	\$ 83,258	\$ (402)	\$ 63,190	\$ 16,362	\$ (79,150)	\$ 83,258
Adjustments to reconcile net income to net cash (Used In) Provided By operating activities.....	99,463	11,817	(182,793)	11,486	79,150	19,123
	-----	-----	-----	-----	-----	-----
Net Cash (Used In) Provided By Operating Activities.....	182,721	11,415	(119,603)	27,848		102,381
Net Cash (Used In) Provided By Investing Activities.....	(46,087)	(1,929)	(103,096)	184		(150,928)
Net Cash (Used In) Provided By Financing Activities.....	(1,089)	264,726	(85,867)	(41,735)		136,035
Intercompany Investing and Financing Activities - Net.....	(135,545)	(188,403)	310,301	13,647		
	-----	-----	-----	-----	-----	-----
Net Increase (Decrease) In Cash and Cash Equivalents.....		85,809	1,735	(56)		87,488
Cash and Cash Equivalents Balance, Beginning of Period.....	10	(5,840)	15,616	6,363		16,149

Cash and Cash Equivalents Balance, End of Period.....	\$	10	\$ 79,969	\$ 17,351	\$	6,307	\$	\$ 103,637
		=====	=====	=====		=====		=====

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

CRITICAL ACCOUNTING POLICIES

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

Business Combinations - When we make an acquisition of another company, we use the purchase method of accounting in accordance with the Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations". Under SFAS No. 141 (for acquisitions subsequent to June 30, 2001) and APB 16 (for acquisitions prior to June 30, 2001) we record as our cost the estimated fair value of the acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible assets less liabilities is recorded as goodwill, indefinite or definite life intangibles. The reported income of an acquired company includes the operations of the acquired company from the date of acquisition.

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

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

Inventories - For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on discounted future cash flows generated from expected revenue, 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 the Statement of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment of or Disposal of Long-Lived Assets" as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs are allocated based on buildable acres to product types within each community, then amortized equally based upon the number of homes to be constructed in the community.

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

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

Land Options - Costs are capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option. In accordance with FIN 46, SFAS 49, SFAS 98, and EITF 97-10 we record specific performance options, options with variable interest entities and other options under Consolidated Inventory Not Owned with the offset to Liabilities from inventory not owned and Minority interest from inventory not owned on our Consolidated Balance Sheets.

Intangible Assets - The intangible assets recorded on our balance sheet consist of goodwill, tradenames, architectural designs and contractual agreements with both definite and indefinite lives resulting from company acquisitions. In accordance with the Financial Accounting Standards No. 142 ("SFAS No. 142") "Goodwill and Other Intangible Assets", we no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We are amortizing the definite life intangibles over their expected useful life.

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 and is recorded in Accounts Payable and other liabilities in the Consolidated Balance Sheets.

CAPITAL RESOURCES AND LIQUIDITY

Our cash uses during the nine months ended July 31, 2003 were for operating expenses, increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, and the acquisition of three homebuilders. We provided for our cash requirements from housing and land sales, the revolving credit facility, the issuance of \$150 million Senior Subordinated Notes, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

On 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 July 31, 2003, 856,319 shares have been purchased under this program of which 250,000 were repurchased during the nine months ended July 31, 2003.

Our homebuilding bank borrowings are made pursuant to an amended and restated revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of \$590 million through July 2006. Interest is payable monthly and at various rates of either the prime rate plus 0.275% or Libor plus 1.75%. In addition, we pay a fee equal to 0.350% per annum on the weighted average unused portion of the line. We believe that we will be able either to extend the Agreement beyond July 2006 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. Each of our significant subsidiaries except for our financial services subsidiaries is a guarantor under the revolving credit agreement. As of July 31, 2003, there were no borrowings under the Agreement.

At July 31, 2003 we had \$390.3 million of outstanding senior debt (\$387 million, net of discount), comprised of \$140.3 million 10 1/2% Senior Notes due 2007, \$150 million 9 1/8% Senior Notes due 2009, and \$100 million 8% Senior Notes due 2012. At July 31, 2003, we had \$300 million outstanding senior subordinated debt comprised of \$150 million 8 7/8% Senior Subordinated Notes due 2012, and \$150 million 7 3/4% Senior Subordinated Notes due 2013. Each of our significant subsidiaries except for our financial services subsidiaries is a guarantor under the Senior Notes and Senior Subordinated Notes.

On January 22, 2002 we issued a \$165 million five-year Term Loan. The term loan matures in January 2007, and bears interest at either the prime rate plus 1.25% or Libor plus 2.5%. Each of our significant subsidiaries except for our financial services subsidiaries is a guarantor under the Term Loan. At July 31, 2003, borrowings under the Term Loan were \$115 million.

Our mortgage banking subsidiary's warehousing agreement was amended and restated on July 31, 2003. Pursuant to the agreement, we may borrow up to \$200 million. The agreement bears an expiration date of July 2004 and interest is payable monthly at the Federal Funds Rate plus 1.375%. We believe that we will be able either to extend this agreement beyond July 2004 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of July 31, 2003, the aggregate principal amount of all such borrowings was \$137 million.

Total inventory increased \$396.7 million during the nine months ended July 31, 2003. This increase excluded the change in Consolidated Inventory Not Owned of \$113.4 million consisting of specific performance options and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10 and Variable Interest Entities in accordance with FIN 46. The \$396.7 million increase in inventory was due to increases in inventory levels in all of our housing markets as well as our acquisitions. Excluding the impact from acquisitions of \$90.3 million, our Northeast Region increased \$117.9 million and California increased \$111.9 million, with the balance spread out in our other markets. The increase in our existing markets was primarily the result of seasonality factors and planned future organic growth. Substantially all homes under construction or completed and included in inventory at July 31, 2003 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our line of credit, term loan, and senior and senior subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we are only subject to the loss of an 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. The July 31, 2003 numbers excluded lots owned and options in locations that we have ceased development.

	Active Communities	Active Selling Lots	Proposed Developable Lots	Grand Total Lots
July 31, 2003:				
Northeast Region..	30	7,091	14,960	22,051
North Carolina....	71	6,489	799	7,288
Metro D.C.....	36	4,393	10,685	15,078
California.....	37	5,025	10,981	16,006
Texas.....	71	5,587	3,613	9,200
	-----	-----	-----	-----
	245	28,585	41,038	69,623
	=====	=====	=====	=====
Owned.....		12,841	4,302	17,143
Optioned.....		15,744	36,736	52,480
		-----	-----	-----
Total.....		28,585	41,038	69,623
		=====	=====	=====

	Active Communities	Active Selling Lots	Proposed Developable Lots	Grand Total Lots
October 31, 2002:				
Northeast Region..	28	5,699	15,700	21,399
North Carolina....	64	5,186	2,283	7,469
Metro D.C.....	27	3,182	7,394	10,576
California.....	42	5,974	4,457	10,431
Texas.....	35	2,566	1,518	4,084
Other.....	--	29	--	29
	-----	-----	-----	-----
	196	22,636	31,352	53,988
	=====	=====	=====	=====
Owned.....		11,088	2,274	13,362
Optioned.....		11,548	29,078	40,626
		-----	-----	-----
Total.....		22,636	31,352	53,988
		=====	=====	=====

Active selling lots under contract at July 31, 2003 and October 31, 2002 were 5,033 and 3,831, respectively. Such amounts do not include our build on your own lot contracts.

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

	July 31, 2003			October 31, 2002		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region....	90	56	146	73	46	119
North Carolina.....	148	19	167	191	32	223
Metro D.C.....	32	20	52	34	31	65
California.....	153	91	244	193	65	258
Texas.....	577	72	649	261	31	292
Other.....	-	-	-	2	--	2
	-----	-----	-----	-----	-----	-----
Total	1,000	258	1,258	754	205	959
	=====	=====	=====	=====	=====	=====

Financial Services - Mortgage loans held for sale consist of residential mortgages receivable of which \$152.1 million and \$91.3 million at July 31, 2003 and October 31, 2002, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of such mortgages is being held as an investment by us. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2003 COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2002

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York State, eastern Pennsylvania, and Ohio), North Carolina, Metro D. C. (northern

Virginia, eastern West Virginia, and Maryland), California, and Texas. In addition, we provide financial services to our homebuilding customers.

Total Revenues:

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

	Three Months Ended			
	July 31, 2003	July 31, 2002	Dollar Change	Percentage Change
(Dollars In Thousands)				
Homebuilding:				
Sale of homes.....	\$ 830,734	\$ 681,329	\$149,405	21.9%
Land sales and other revenues.....	4,441	12,651	(8,210)	(64.9%)
Financial Services...	13,642	10,656	2,986	28.0%
Total Revenues...	\$ 848,817	\$ 704,636	\$144,181	20.5%

	Nine Months Ended			
	July 31, 2003	July 31, 2002	Dollar Change	Percentage Change
(Dollars In Thousands)				
Homebuilding:				
Sale of homes.....	\$2,104,788	\$1,656,813	\$447,975	27.0%
Land sales and other revenues.....	16,445	34,564	(18,119)	(52.4%)
Financial Services...	35,036	28,319	6,717	23.7%
Total Revenues...	\$2,156,269	\$1,719,696	\$436,573	25.4%

Homebuilding:

Revenues from the sale of homes increased \$149.4 million or 21.9% during the three months ended July 31, 2003, and increased \$448 million or 27% during the nine months ended July 31, 2003 compared to the same periods last year. Revenues from the sale of homes 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:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2003	2002	2003	2002
(Dollars in Thousands)				
Northeast Region(1):				
Housing Revenues.....	\$210,039	\$177,153	\$ 494,957	\$ 455,171
Homes Delivered.....	647	570	1,540	1,469
North Carolina:				
Housing Revenues.....	\$ 65,399	\$ 72,437	\$ 173,938	\$ 193,902
Homes Delivered.....	365	393	965	1,044
Metro D. C.:				
Housing Revenues.....	\$100,184	\$110,030	\$ 305,927	\$ 258,755
Homes Delivered.....	324	386	968	944
California(2):				
Housing Revenues.....	\$325,205	\$242,631	\$ 819,369	\$ 535,961
Homes Delivered.....	1,090	926	2,846	2,094
Texas(1):				
Housing Revenues.....	\$129,907	\$ 65,432	\$ 309,336	\$ 172,778
Homes Delivered.....	640	286	1,519	746
Other:				
Housing Revenues.....	\$ --	\$ 13,646	\$ 1,261	\$ 40,246
Homes Delivered.....	--	86	9	258
Totals:				
Housing Revenues.....	\$830,734	\$681,329	\$2,104,788	\$1,656,813
Homes Delivered.....	3,066	2,647	7,847	6,555

- (1) July 31, 2003 includes deliveries from our Houston, Texas and Ohio acquisitions beginning on November 1, 2002, January 1, 2003, and April 1, 2003, respectively.
- (2) July 31, 2002 includes deliveries from our California acquisition beginning on January 10, 2002.

The increase in housing revenues was partially due to the acquisition of two homebuilders in Houston, Texas and an Ohio homebuilder for the three and nine months ended July 31, 2003 and a full nine months of deliveries from our acquisition in California for the nine months ended July 31, 2003. In addition, these increases were the result of organic growth in Metro D. C. and California (excluding our California acquisition) and increased average sales prices in most of our markets.

Important indicators of our future results are recently signed contracts and home contract backlog for future deliveries. Our sales contracts and homes in contract (using base sales prices) by market area is set forth below:

	Sales Contracts for the Nine Months Ended July 31,		Contract Backlog as of July 31,	
	2003	2002	2003	2002
(Dollars in Thousands)				
Northeast Region(2)(4):				
Dollars.....	\$ 582,015	\$ 423,227	\$ 613,884	\$ 442,037
Homes.....	1,896	1,478	2,266	1,578
North Carolina:				
Dollars.....	\$ 214,700	\$ 198,848	\$ 128,997	\$ 108,502
Homes.....	1,171	1,074	672	564
Metro D.C.(4):				
Dollars.....	\$ 422,477	\$ 341,919	\$ 368,910	\$ 292,044
Homes.....	1,229	1,085	1,035	920
California(3):				
Dollars.....	\$ 882,976	\$ 634,009	\$ 359,821	\$ 286,876
Homes.....	2,994	2,394	1,103	1,007
Texas(1)(4):				
Dollars.....	\$ 338,197	\$ 171,409	\$ 127,636	\$ 69,556
Homes.....	1,722	778	642	295
Other:				
Dollars.....	\$ 313	\$ 26,861	\$ --	\$ 6,456
Homes.....	2	172	--	39
Totals:				
Dollars.....	\$2,440,678	\$1,796,273	1,599,248	\$1,205,471
Homes.....	9,014	6,981	5,718	4,403

(1) July 31, 2003 includes sales contracts signed from our Houston, Texas and Ohio acquisitions beginning November 1, 2002 and January 1, 2003, respectively.

(2) July 31, 2003 includes sales contracts signed from our Ohio acquisition beginning April 1, 2003.

(3) July 31, 2002 includes sales contracts signed from our California acquisition beginning January 10, 2002.

(4) We acquired contract backlog during the nine months ended July 31, 2003 and 2002 of 694 homes valued at \$93.8 million and 535 homes valued at \$117 million, respectively.

During August 2003, we signed an additional 1,085 contracts compared to 782 in the same month last year.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
(Dollars in Thousands)				
Sale of Homes.....	\$830,734	\$681,329	\$2,104,788	\$1,656,813
Cost of Sales.....	618,650	530,154	1,572,306	1,303,637
Housing Gross Margin.....	\$212,084	\$151,175	\$ 532,482	\$ 353,176
Gross Margin Percentage.....	25.5%	22.2%	25.3%	21.3%

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Sale of Homes.....	100.0%	100.0%	100.0%	100.0%
Cost of Sales:				
Housing, land & development costs....	67.1%	70.7%	67.2%	71.0%
Commissions.....	2.0%	2.2%	2.1%	2.2%
Financing concessions..	0.9%	0.9%	0.9%	1.0%
Overheads.....	4.5%	4.0%	4.5%	4.5%
Total Cost of Sales.....	74.5%	77.8%	74.7%	78.7%
Gross Margin.....	25.5%	22.2%	25.3%	21.3%

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 communities and of home types delivered, consolidated quarterly gross margin will fluctuate up or down and may not be representative of the consolidated gross margin for the year. We achieved higher gross margins during the three and nine months ended July 31, 2003 compared to the same period last year. The consolidated gross margin increased 3.3% and 4.0% for the three and nine months ended July 31, 2003, respectively. These increased margins are the result of higher sales prices and lower costs resulting from our improvement initiatives.

Selling, general, and administrative expenses as a percentage of total homebuilding revenues increased to 7.9% for the three months ended July 31, 2003 from 7.6% for the prior year's three months, and increased to 8.5% for the nine months ended July 31, 2003 from 8.2% for the prior year's nine months. Such expenses increased during the three and nine months ended July 31, 2003 by \$13.3 million and \$41.9 million, respectively, compared to the same periods last year. The percentage increase for the three and nine months ended July 31, 2003 was due to the modification of our sales associate compensation plan, an increase in administrative costs associated with opening additional communities, and higher bonus incentives due to higher returns. The dollar increase in selling, general and administrative is primarily due to our 2003 acquisitions as well as a full nine months of expenses from our 2002 California acquisition.

Land Sales and Other Revenues:

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Land and Lot Sales.....	\$ 3,314	\$ 10,587	\$ 13,064	\$ 29,127
Cost of Sales.....	3,247	9,522	9,988	24,048
Land and Lot Sales Gross Margin..	67	1,065	3,076	5,079
Interest Expense.....	153	112	508	760
Land and Lot Sales Profit (Loss) Before Tax.....	\$ (86)	\$ 953	\$ 2,568	\$ 4,319

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

Financial Services

Financial services consist primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. For the three and nine months ended July 31, 2003 financial services provided a \$6.0 million and \$15.4 million profit before income taxes compared to a profit of \$5.0 million and \$12.2 million for the same period in 2002. These increases are primarily due to reduced costs, increased mortgage loan amounts, and the addition of a mortgage joint venture from our California acquisition for a full nine months.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. Such expenses include our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality, and safety. As a percentage of total revenues, such expenses increased to 2.0% for the three months ended July 31, 2003 from 1.7% for the prior year's three months and increased to 2.1% for the nine months ended July 31, 2003 from 2.0% for the prior year's nine months. Corporate general and administrative expenses increased \$4.8 million and \$11.3 million during the three and nine months ended July 31, 2003, respectively, compared to the same periods last year. Increases in corporate general and administrative dollar expenses are primarily attributed to higher employee incentives due to a higher return on equity.

Interest

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Sale of Homes.....	\$ 17,051	\$ 15,737	\$43,800	\$41,593
Land and Lot Sales.....	153	112	508	760
Total.....	\$ 17,204	\$ 15,849	\$44,308	\$42,353

Housing interest as a percentage of sale of homes revenues decreased to 2.1% for the three and nine months ended July 31, 2003, respectively, compared to 2.3% and 2.5% for the three and nine months ended July 31, 2002, respectively. These percentage decreases are primarily attributed to a decrease in debt leverage of our Company due to the growth in equity from earnings, and lower interest rates.

Other Operations

Other operations consist primarily of miscellaneous residential housing operations expenses, senior residential property operations, amortization of senior and senior subordinated note issuance expenses, earnout payments from homebuilding company acquisitions, amortization of consultant's agreement and the right of first refusal agreement from our California acquisition, amortization of definite life intangibles from our acquisitions, minority interest relating to joint ventures, and corporate-owned life insurance loan interest.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board issued (SFAS) No. 145, "Reporting Gains and Losses from Extinguishment of Debt", which rescinded SFAS No. 4, No. 44, and No. 64 and amended SFAS No. 13. The new standard addresses the income statement classification of gains or losses from the extinguishment of debt and criteria for classification as extraordinary items. We adopted SFAS No. 145 on November 1, 2002. We reclassified \$0.9 million extraordinary loss from extinguishment of debt to other operations and (\$0.3) million to state and Federal Income Taxes on our Consolidated Statements of Income to conform to the new presentation.

In June 2002, the Financial Accounting Standards Board issued (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain costs incurred in a restructuring)". SFAS No. 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred as opposed to when the entity commits to an exit plan as prescribed under EITF No. 94-3. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. We adopted SFAS No. 146 January 1, 2003. The initial adoption of SFAS No. 146 did not have an effect on the financial position or results of operations of our Company. However, SFAS No. 146 could impact the amount or timing of liabilities to be recognized in the event that we engage in exit or disposal activities in the future.

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and initial measurement provisions of FIN 45 did not have a material effect on our financial position or results of operations. Our disclosure of guarantees is included in Note 14 to the consolidated financial statements - unaudited.

In December 2002, the Financial Accounting Standards Board issued (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends (SFAS) No. 123. The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the affect of the method used on reported results. We have not elected to change to the fair value based method of accounting for stock-based employee compensation. We adopted the disclosure provisions of SFAS No. 148 in our second fiscal quarter ending April 30, 2003. Our disclosure of accounting for stock-based compensation is included in Note 2 to the consolidated financial statements - unaudited.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" an interpretation of ARB No. 51 ("FIN 46"). A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 is effective immediately for VIE's created after January 31, 2003. For VIE's created before January 31, 2003, FIN 46 must be applied at the beginning of the first interim or annual reporting period beginning after June 15, 2003.

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

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

At July 31, 2003, we consolidated nine VIE's created from February 1, 2003 to July 31, 2003 as a result of our option to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these three VIE's totaling \$11.7 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIE's was \$93.2 million of which \$6.2 million was not optioned to our Company. We were able to ascertain that one VIE had third party debt amounting to \$1.4 million. Since we could not get the remainder of the selling entities to provide us with any financial information, the fair value of the optioned property less our cash

deposits and liabilities from inventory not owned, which totaled \$80.1 million, was reported on the balance sheet as Minority interest. Creditors of these VIE's have no recourse against our company.

We will continue to secure land and lots using options. Including the deposits with the nine VIE's above, at July 31, 2003 we have total cash and letters of credit deposits amounting to approximately \$180.2 million to purchase land and lots with a total purchase price of \$2.4 billion. Not all our deposits are with VIE's. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met. We are in the process of evaluating all option purchase agreements in effect as of January 31, 2003. Options with VIE's where we are the primary beneficiary will be consolidated by our fiscal year end October 31, 2003.

Total Taxes

Total taxes as a percentage of income before taxes amounted to approximately 37.3% and 36.8% for the three months ended July 31, 2003 and 2002, respectively, and 37.4% and 37.6% for the nine months ended July 31, 2003 and 2002, respectively. Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If for some reason the combination of future years income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years to recover the deferred tax assets. As a result, management is confident such deferred tax assets are recoverable regardless of future income.

Inflation

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

Inflation has a lesser short-term effect on us because we generally negotiate fixed price contracts with our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between four to twelve months. Construction costs for residential buildings represent approximately 57% of our homebuilding cost of sales.

Mergers and Acquisitions

On January 10, 2002, we acquired a California homebuilder for a total purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 2,208,738 shares of our Class A Common Stock were issued. At the date of acquisition we also paid off approximately \$88.0 million of their third party debt. During the second quarter ended April 30, 2003 we exercised the right to retire at no cost 750,000 Class A Common Stock shares that were held by the selling principal under the terms of the acquisition. On November 1, 2002 and December 31, 2002 we acquired two Houston homebuilding companies for an approximate aggregate purchase price of \$100.0 million. On April 9, 2003 we acquired a build-on-your-own lot homebuilder in Ohio, and on August 8, 2003 we acquired a homebuilder in Phoenix, Arizona.

Safe Harbor Statement

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

- . Changes in general and local economic and business conditions
- . Weather conditions
- . Changes in market conditions
- . Changes in home prices and sales activity in the California, New

- . Jersey, Texas, North Carolina, Virginia, and Maryland markets
- . Government regulation, including regulations concerning development of land, the homebuilding process, and the environment
- . Fluctuations in interest rates and the availability of mortgage financing
- . Shortages in and price fluctuations of raw materials and labor
- . The availability and cost of suitable land and improved lots
- . Levels of competition
- . Availability of financing to the Company
- . Utility shortages and outages or rate fluctuations
- . Geopolitical risks, terrorist acts and other acts of war

These risks, uncertainties, and other factors are described in detail in Item 1 and 2 Business and Properties in our Form 10-K for the year ended October 31, 2002.

Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following table sets forth as of July 31, 2003, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value ("FMV").

As of July 31, 2003									

Expected Maturity Rate									

	2003	2004	2005	2006	2007	2008	Thereafter	Total	FMV @ 7/31/03

(Dollars in Thousands)									
Long Term Debt(1):									
Fixed Rate.....	\$ 29,241	\$ 75	\$ 81	\$ 88	\$140,346	\$ 104	\$ 550,200	\$720,135	\$755,935
Average interest rate.....	6.75%	8.38%	8.38%	8.38%	10.50%	8.38%	8.48%	8.80%	--
Variable rate...	--	--	--	--	\$115,000	--	--	\$115,000	\$115,000
Average interest rate.....	--	--	--	--	(2)	--	--	--	--

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

(2) LIBOR plus 2.5%

Item 4. CONTROLS AND PROCEDURES

The company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The company's management, with the participation of the company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of July 31, 2003. Based upon that evaluation and subject to the foregoing, the company's chief executive officer and chief financial officer concluded that the design and operation of the company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the company's internal control over financial reporting that occurred during the quarter ended July 31, 2003 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. Other Information

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

(a)

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

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

Exhibit 3(c) Restated Bylaws of the Registrant. (3)

Exhibit 10(a) Third Amended and Restated Credit Agreement dated June 19, 2003. (2)

Exhibit 10(b) First Amendment to First Restated K. Hovnanian Mortgage, Inc. Revolving Credit Agreement dated July 31, 2003.

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

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

Exhibit 32(a) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (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, 1994 of the Registrant.
- (3) Incorporated by reference to Exhibits to Registration Statement (No. 333-106761) on Form S-3 of the Registrant.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed. The following report on Form 8-K has been furnished during the quarter for which this report is filed:

On May 23, 2003, the Company furnished a report on Form 8-K, Item 9 (pursuant to Item 12 in accordance with SEC Release 33-8216; 34-47583; IC-25983; March 27, 2003), relating to the Company's press release dated May 28, 2003 relating to its preliminary financial results for the second quarter ended April 30, 2003.

SIGNATURES

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

HOVNANIAN ENTERPRISES, INC.
(Registrant)

DATE: September 12, 2003

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

DATE: September 12, 2003

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

Exhibit 31(a)

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: September 12, 2003

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

Exhibit 31(b)

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

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

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

Date: September 12, 2003

/S/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

Exhibit 32(a)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 12, 2003

/S/ARA K. HOVNANIAN

Ara K. Hovnanian

President and Chief Executive Officer

Exhibit 32(b)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 12, 2003

/S/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION
OF
HOVNANIAN ENTERPRISES, INC.

It is hereby certified that:

1. The name of the corporation (hereinafter called the "Corporation") is Hovnanian Enterprises, Inc.
2. The Certificate of Incorporation of the Corporation is hereby amended by (a) deleting paragraph FOURTH thereof in its entirety and substituting in lieu thereof the following new paragraph FOURTH:

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 100,100,000, of which 87,000,000 shares shall be Class A Common Stock having a par value of one cent (\$0.01) per share, 13,000,000 shares shall be Class B Common Stock having a par value of one cent (\$0.01) per share and 100,000 shares shall be Preferred Stock having a par value of one cent (\$0.01) per share.

At the close of business on the effective date of this amendment (the "Effective Date"), and without any further action on the part of the Corporation or its stockholders, each whole share of the Corporation's Common Stock, \$0.01 par value (the "Old Common Stock"), then issued (including shares held in the treasury of the Corporation) shall automatically be reclassified, changed and converted into one-half (1/2) fully paid and nonassessable share of Class A Common Stock and one-half (1/2) fully paid and nonassessable share of Class B Common Stock (a "New Stock Unit"). No fractional shares of Class A Common Stock or Class B Common Stock will be issued or established. Instead, holders of certificates evidencing an odd number of shares of Old Common Stock will have the right to receive (i) a number of New Stock Units equal to the number of shares of Old Common Stock will have the right to receive (i) a number of New Stock Units equal to the number of shares of Old Common Stock minus one and (ii) cash in respect of a single New Stock Unit in an amount equal to the greater of (a) the average closing price of a share of Old Common Stock on the American Stock Exchange for the fifteen trading days immediately preceding the Effective Date and (b) the closing price of a share of Old Common Stock on the American Stock Exchange on the trading day immediately preceding the Effective Date. As soon as practicable after the Effective Date, the Corporation's transfer agent shall mail to each record holder of Class A Common Stock and Class B Common Stock a letter of transmittal. New certificates representing shares of Class A Common Stock and Class B Common Stock and, if applicable, checks in lieu of fractional shares will be issued to the record holders of Class A Common Stock and Class B Common Stock upon delivery of a properly executed letter of transmittal accompanied by certificates representing shares of Old Common Stock.

(a) Common Stock. The Powers, preferences, limitations and relative rights of the Class A Common Stock and Class B Common Stock shall be as follows:

(1) Voting Rights and Powers.

Except as otherwise specifically provided in this Certificate of Incorporation or as otherwise required by law, with respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Class A Common Stock and the holders of the outstanding shares of Class B Common Stock shall vote together without regard to class, and every holder of the outstanding shares of Class A Common Stock shall be entitled to cast thereon one (1) vote in person or by proxy for each share of Class A Common Stock held in his name, and every holder of the outstanding shares of Class B Common Stock shall be entitled to cast thereon ten (10) votes in person or by proxy for each share of Class B Common Stock held in his name; provided, however, that each share of Class B Common Stock held of record by a person who, to the extent of the Corporation's knowledge, is a broker or dealer in securities, a clearing house, a bank, trust company, savings and loan association or other financial institution, or who is a voting trustee or a nominee of any of the foregoing, or who otherwise holds shares of record as a nominee of the beneficial owner of such shares (all such shares being referred to herein as being held in nominee name) shall be entitled to only one vote per share held; and provided, further, however, that the holder of any such share held in nominee name shall be entitled, notwithstanding the limitation of the foregoing proviso, to the number of votes to which such holder otherwise would be entitled at any meeting of stockholders of the Corporation, to the extent such holder shall establish to the satisfaction of the Corporation that such share of Class B Common Stock has been held continuously since the date of issuance for the benefit or account of the same named beneficial owner of such

shares (as defined in Paragraph (4)(E) hereof) or any Permitted Transferee thereof (as defined in Paragraph (4)(A) hereof). A beneficial owner of shares of Class B Common Stock whose shares are held in nominee name and who wishes to cast the number of votes provided by the first sentence of this paragraph shall comply with the following procedure to effect a determination by the Corporation of his entitlement to such number of votes: if such record holder is a broker or dealer in securities, a clearing house, a bank, trust company, savings and loan association or other financial institution, or a voting trustee or a nominee of any of the foregoing, such record holder shall file with the transfer agent for the Class B Common Stock a certificate on a form which will be mailed to such holder by such transfer agent on request, certifying, as to the shares identified by such holder, the information specified in the second proviso of this Paragraph (1); if such record holder is a nominee of a beneficial owner not included in the categories mentioned in the preceding clause, such record holder shall file with the transfer agent for the Class B Common Stock an affidavit to the same effect as the certificate specified in the preceding clause. Any certificate or affidavit filed for purposes of this Paragraph (1) only if received by the transfer agent not less than 3 nor more than 20 business days prior to the date of the meeting at which the holder desires to exercise such voting rights or the last day by which such holder may give consent in writing to stockholder action in lieu of a meeting. If such certificate or affidavit is not timely filed or shall not establish to the satisfaction of the Corporation the facts stated therein, then such shares of Class B Common Stock shall be entitled to one vote per share. The Corporation shall use its best efforts, if the Corporation believes such a certificate or affidavit does not establish to the Corporation's satisfaction the facts stated therein, to mail to the person filing such certificate or affidavit a notice to such effect within seven business days after the receipt by the transfer agent of any such certificate or affidavit. Any determination of which shares of Class B Common Stock shall be entitled to more than one vote per share shall be made by the Board of Directors or any duly appointed committee of the Board of Directors. The Board of Directors is expressly authorized to adopt and apply such rules, procedures and policies, by the adoption of By-law provisions or otherwise, as it may deem appropriate or convenient to carry out, clarify and apply the provisions of this Paragraph (1) relating to the determination of which shares of Class B Common Stock shall be entitled to more than one vote per share. Any determination made pursuant to such rules, procedures or policies shall be final.

(2) Dividends; Distributions Upon Dissolution.

(A) Subject to the rights of the holders of any outstanding Preferred Stock, and subject to any other provisions of the Certificate of Incorporation, holders of Class A Common Stock and Class B Common Stock shall be entitled to receive such dividends and other distributions (including stock splits or divisions of stock) in cash, stock or property of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor, provided that in the case of special cash dividends or distributions or dividends or distributions payable in Preferred Stock, holders of Class A Common Stock and Class B Common Stock shall be entitled to share ratably as a single class, and provided, further, that in the case of regular cash dividends, no such dividend shall be declared or paid on one class of Common Stock unless a cash dividend is simultaneously declared and paid on the other class of Common Stock, and any such dividend will be paid on the Class A Common Stock in an amount per share of Class A Common Stock equal to 110% of the amount of such dividend paid on each share of Class B Common Stock (rounded down, if necessary, to the nearest one-hundredth of a cent), and provided, further, that in the case of dividends or other distributions payable in stock of the Corporation other than Preferred Stock, including distributions pursuant to stock splits or divisions of stock of the Corporation other than Preferred Stock, which occur after the Effective Date, only shares of Class A Common Stock shall be distributed with respect to Class A Common Stock and only shares of Class B Common Stock in an amount per share equal to the amount per share paid with respect to the Class A Common Stock shall be distributed with respect to Class B Common Stock, and provided, further, that neither class of Common Stock may be combined or reclassified (including any reclassification in connection with a consolidation or merger in which the Corporation is the continuing corporation) unless the other class of Common Stock is likewise combined or reclassified, and that, in the case of any such combination or reclassification of Class A Common Stock, the shares of Class B Common Stock shall also be combined or reclassified so that the number of issued shares of Class B Common Stock immediately following such shall bear the same relationship to the number of issued shares immediately prior to such combination or reclassification as the number of issued shares of Class A Common

Stock immediately following such combination or reclassification bears to the number of issued shares of Class A Common Stock immediately prior to such combination or reclassification.

(B) In the event the Corporation shall be liquidated (either partially or completely), dissolved or wound up, whether voluntarily or involuntarily, the holders of the Class A Common Stock and the Class B Common Stock shall be entitled to share ratably as a single class in the net assets of the Corporation available to the holders of Common Stock; that is, an equal amount of net assets shall be distributed in respect of each share of Class A Common Stock and Class B Common Stock.

(3) Conversion of Class B Common Stock into Class A Common Stock.

(A) Each share of Class B Common Stock may at any time or from time to time, at the option of the holder thereof, be converted into one (1) fully paid and nonassessable share of Class A Common Stock. Such conversion right shall be exercised by the surrender to the Corporation, or a duly appointed and acting transfer or exchange agent, of the certificate representing such share of Class B Common Stock to be converted at any time during normal business hours at the principal executive offices of the Corporation (to the attention of the Secretary of the Corporation), or if an agent for the transfer or exchange of shares of Class B Common Stock is then duly appointed and acting (said agent being referred to in this Article FOURTH as the "Class B Transfer Agent") then at the designated office of the Class B Transfer Agent, accompanied by a written notice of the election by the holder thereof to convert and (if so required by the Corporation or the Class B Transfer Agent) by such other instruments of transfer as the Corporation or the Class B Transfer Agent may deem appropriate, in each case duly executed by such holder or his duly authorized attorney and accompanied by payment of the amount of any Transfer Tax required pursuant to Paragraph (3) (D) below.

(B) As promptly as practicable after the surrender for conversion of a certificate representing share of Class B Common Stock in the manner provided in Paragraph (3)(A) above, including the payment in cash of any Transfer Tax required by the provisions of Paragraph (3)(D) below, the Corporation shall deliver or cause to be delivered at the principal executive office of the Corporation or the designated office of the Class B Transfer Agent to the holder so surrendering such certificate for conversion, or upon the written order of the holder of such certificate, a certificate or certificates representing the number of full shares of Class A Common Stock issuable upon such conversion, issued in such name or names as such holder may direct. If the notice of conversion delivered by a holder of shares of Class B Common Stock specifies that less than all of such shares are to be converted into shares of Class A Common Stock, the Corporation shall deliver or cause to be delivered, in accordance with the provisions of the preceding sentence, a new certificate or certificates evidencing the remaining shares of Class B Common Stock, issued in such name or names as such holder may direct. Any conversion of shares of Class B Common Stock into shares of Class A Common Stock shall be deemed to have been made immediately prior to the close of business on the date of the surrender for conversion of the certificate representing shares of Class B Common Stock, accompanied by the requisite notice of conversion, other instruments of transfer and payment of Transfer Taxes, and all rights of the holder of such shares of Class B Common Stock, as such holder, shall cease at such time and the person or persons in whose name or names the certificate or certificates representing the shares of Class A Common Stock are to be issued shall be treated for all purposes at such time as having become the record holder or holders of the shares of Class A Common Stock into which such shares of Class B Common Stock are converted; provided, however, that in the event any such surrender of shares of Class B Common Stock for conversion is made on any date when the stock transfer records of the Corporation shall be closed, the person or persons in whose name or names the certificate or certificates representing shares of Class A Common Stock are to be issued upon such conversion will become the record holder or holders of the shares of Class A Common Stock for all purposes immediately prior to the close of business on the next succeeding day on which such stock transfer records are open.

(C) The Corporation will at all times reserve and keep available, solely for the purpose of issuance upon conversion of shares of Class B Common Stock, such number of shares of Class A Common Stock as shall be issuable upon the conversion of all such outstanding shares; provided, however, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the conversion of shares of Class B Common Stock by delivery of purchased shares of Class A Common Stock which are held in the treasury of the Corporation. If any shares of Class A Common Stock required to be reserved for

purposes of conversion hereunder require registration with or approval of any governmental authority under any federal or state law before such shares of Class A Common stock may be issued upon conversion, the Corporation shall use its best efforts to cause such shares to be duly registered or approved for issuance as expeditiously as practicable. The Corporation will endeavor to list the shares of Class A Common Stock required to be delivered upon conversion prior to such delivery upon each national securities exchange, if any, upon which the shares of Class A Common Stock are listed at the time of such delivery. All shares of Class A Common Stock which shall be issued upon conversion of the Class B Common Stock will, upon issuance, be fully paid and nonassessable and not subject to any preemptive rights.

(D) The issuance of certificates for shares of Class A Common Stock upon conversion of shares of Class B Common Stock, and the issuance of certificates for remaining shares of Class B Common Stock upon conversion of less than all of the shares represented by any certificate, shall be made without charge to the stockholder for any stock transfer tax or stamp tax or other similar tax ("Transfer Tax") in respect of the conversion of shares of Class B Common Stock into Class A Common Stock or the issuance or exchange of stock certificates in respect thereof; provided, however, that, if any certificate for shares of Class A Common Stock is to be issued in a name other than that of the record holder of the share or shares of Class B Common Stock converted, the person or persons requesting the issuance thereof shall pay to the Corporation the amount of any Transfer Tax which may be payable in respect of any such transfer, exchange or issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not payable.

(E) All issued shares of Class B Common Stock shall be deemed, without further action on the part of any person, to be immediately and automatically converted into shares of Class A Common Stock, on the terms provided by Paragraph (3)(A) through (3)(D) above, and stock certificates formerly representing shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like number of shares of Class A Common Stock until surrendered for certificates explicitly representing shares of Class A Common Stock in each of the instances set forth below:

(i) All of the shares of Class B Common Stock shall be automatically so converted into shares of Class A Common Stock if and when on any record date for determining the stockholders entitled to participate in any dividend or distribution on the Common Stock of the Corporation, or any annual or special meeting of stockholders or action of common stockholders by written consent, the number of issued and outstanding shares of Class B Common Stock is less than five percent (5%) of the aggregate number of shares of Class A Common Stock and Class B Common Stock then outstanding.

(ii) All of the shares of Class B Common Stock shall be automatically so converted into shares of Class A Common Stock, as of a record date set by the Board of Directors for such purpose, in the event that the Board of Directors, by resolution adopted by the affirmative vote of a majority of the members thereof, shall determine that there has been a material adverse change in the liquidity of the market for, or the marketability of, the then outstanding shares of Class A Common Stock due to a delisting of the Class A Common Stock from a national securities exchange or the cessation of the quotation of bids for the Class A Common Stock in any quotation system operated by an association of securities dealers, or due to requirements of federal or state law applicable to trading in the Class A Common Stock, attributable to the existence of the Class A Common Stock and Class B Common Stock.

In the event that all issued shares of Class B Common Stock shall be converted into shares of Class A Common Stock in accordance with this Paragraph (3)(E), the Class B Common Stock shall automatically be cancelled and shall no longer be authorized for issuance.

(F) Except as provided in Paragraph (3) (E) above, shares of Class B Common Stock that are converted into shares of Class A Common Stock shall be restored to the status of authorized but unissued shares of Class B Common Stock and may again be issued by the Corporation as permitted in accordance with the terms of the Certificate of Incorporation.

(4) Restrictions on Transfer of the Class B Common Stock.

(A) The record owner of shares of Class B Common Stock (hereinafter referred to as a "Class B Stockholder") may transfer the shares of Class B Common Stock of such Class B Stockholder,

whether by sale, assignment, gift or otherwise, only to a Permitted Transferee of such Class B Stockholder and no Class B Stockholder may otherwise transfer any interest in any shares of Class B Common Stock and the Corporation shall not register any other attempted transfer of ownership of shares of Class B Common Stock. For purposes of the Certificate of Incorporation:

(i) A "Permitted Transferee" shall be, if the Class B Stockholder is an individual, (A) the estate or any legatee, heir or distributee upon death of the Class B Stockholder; (B) the spouse or former spouse of the class B Stockholder; (C) any parent or grandparent and any lineal descendant (including any adopted child) of any parent or grandparent of the Class B Stockholder or of such Class B Stockholder's spouse; (D) any guardian or custodian (including a custodian for purposes of the Uniform Gift to Minors Act or Uniform Transfers to Minors Act) for, or any executor, administrator, conservator or other legal representative of, the Class B Stockholder or any Permitted Transferee thereof; (E) the trustee of a trust (including a voting trust), and any savings or retirement account, such as an individual retirement account for purposes of federal income tax laws, whether or not involving a trust, principally for the benefit of such Class B Stockholder and/or any Permitted Transferee thereof, including any trust in respect of which such Class B Stockholder or any Permitted Transferee thereof has any general or special testamentary power of appointment or general or special non-testamentary power of appointment limited to any Permitted Transferee or Permitted Transferees thereof; (F) any organization contributions to which are deductible for federal income, estate or gift tax purposes (hereinafter referred to as a "Charitable Organization") established by such Class B Stockholder and/or any Permitted Transferee or Permitted Transferees thereof; (G) any corporation, partnership or other business entity if substantially all the beneficial ownership thereof is held by the Class B Stockholder and/or any Permitted Transferee or Permitted Transferees thereof; provided, however, that if the Class B Stockholder who made such transfer, and all Permitted Transferees thereof, cease, for whatever reason, to hold substantially all of the beneficial ownership of such corporation, partnership or other business entity, then any and all shares of Class B Common Stock owned by such corporation, partnership or other business entity shall be deemed to be converted automatically, without further action by or on behalf of any person, into shares of Class A Common Stock as provided by Paragraphs (3) (A) through (3) (D) above and such corporation, partnership or other business entity shall no longer be a Class B Stockholder, and (H) the corporation.

(ii) A "Permitted Transferee" shall be, if the Class B Stockholder is a corporation, partnership or other business entity, (A) any employee benefit plan, or trust thereunder or therefor, sponsored by the class B Stockholder; (B) the trustee of a trust (including any voting or liquidating trust) principally for the benefit of such Class B Stockholder and/or any Permitted Transferee or Permitted Transferees thereof; (C) any Charitable Organization established by such Class B Stockholder and/or any Permitted Transferee or Permitted Transferees thereof; (D) any corporation, partnership or other business entity which, directly or indirectly, is in control of, is controlled by or is under common control with such Class B Stockholder and/or any Permitted Transferee or Permitted Transferees thereof; (E) the stockholders of the corporation, partners of the partnership or other owners of equity interests in any other business entity who receives such shares, by way of dividend or distribution (upon dissolution, liquidation or otherwise), provided that such transfer will not result in beneficial ownership of such shares by persons who did not have substantially all of the beneficial ownership of such corporation, partnership or business entity prior to the time such corporation, partnership or business entity that acquired beneficial ownership of such shares of Class B Common Stock (other than by any such person who is a Permitted Transferee of a stockholder, partner or other owner of equity interests in the business entity who continued to have such beneficial ownership of the corporation, partnership or other business entity), and such shares of Class B Common Stock are distributed to such persons substantially pro rata to their interests in such corporation, partnership or other business entity; (F) any successor thereto by operation of law pursuant to a merger, consolidation or similar transaction; and (G) the Corporation.

(iii) A "Permitted Transferee" shall be, if the Class

B Stockholder is any person who holds shares of Class B Common Stock for the beneficial ownership of another (including any broker or dealer in securities, any clearing house, any bank, trust company, savings and loan association or other financial institution, any other nominee, any trustee, any savings plan or account or related trust, such as an individual retirement account principally for the benefit of any individual or any employee benefit plan, or trust thereunder or therefor, of any corporation, partnership or other business entity, including any employee stock ownership, investment, option, bonus, purchase or incentive plan of the Corporation), (A) the person or persons for whose benefit the Class B Stockholder holds such shares of Class B Common Stock (the "beneficiary"), (B) any person who would be a Permitted Transferee of the beneficiary if the beneficiary were a Class B Stockholder or (C) if the Class B Stockholder is an employee benefit plan, or trust thereunder or therefor, any person who is a participant in such plan, provided such transfer is made in accordance with such plan.

Notwithstanding anything to the contrary set forth herein, any holder of Class B Common Stock may pledge his shares of Class B Common Stock to a pledgee pursuant to a bona fide pledge of such shares as collateral security for indebtedness due to the pledgee, provided that such shares may not be transferred to or registered in the name of the pledgee unless such pledgee is a Permitted Transferee. In the event of foreclosure or other similar action by the pledgee, such pledged shares of Class B Common Stock shall be deemed to be converted automatically, without any act or deed on the part of the Corporation or any other person, into shares of Class A Common Stock as provided in Paragraphs (3)(A) through (3)(D) above, unless within five business days after such foreclosure or similar event such pledged shares are returned to the pledgor or transferred to a Permitted Transferee of the pledgor.

Notwithstanding anything to the contrary set forth herein, the foregoing provisions of this Paragraph (4) (A) shall not be deemed to restrict or prevent any transfer of shares of Class B Common Stock by operation of law upon incompetence, death, dissolution or bankruptcy of any Class B Stockholder or any provision of law providing for, or judicial order of, forfeiture, seizure or impoundment.

(B) Any transfer of any interest in shares of Class B Common Stock made in violation of Paragraph (4) (A) shall result, without further action on the part of any person, in the automatic conversion of such shares of Class B Common Stock into shares of Class A Common Stock, in accordance with the provisions of Section 3 above.

(C) The Corporation and the Class B Transfer Agent may, as a condition to the transfer or the registration of any transfer of shares of Class B Common Stock permitted by Paragraph (4) (A) above, require the furnishing of such affidavits or other proof as they deem necessary to establish that the transferee is a Permitted Transferee. Should any such transferor wish to contest any decision by the Corporation as to whether such transferee is a Permitted Transferee, the final determination shall be made by the Board of Directors of the Corporation, in its sole and absolute discretion.

(D) The Corporation shall note on the certificates for shares of Class B Common Stock the restrictions on transfer and registration of transfer imposed by the provisions of this Section 4.

(E) For purposes of Article FOURTH, the term "beneficial ownership" in respect of shares of Class B Common Stock shall mean possession of the power and authority, either singly or jointly with another, to vote or dispose of or to direct the voting or disposition of such shares, other than in a fiduciary capacity, and the term "beneficial owner" in respect of shares of Class B Common Stock shall mean the person or persons who possess such power and authority. "Beneficial ownership" for purposes of clause (i)(G) Paragraph (4) (A) above shall mean the power to control a corporation, partnership or other business entity and to receive the economic benefits of its enterprise. Unless otherwise approved by the Board of Directors, a Class B Stockholder and the Permitted Transferees thereof shall be deemed to have "substantially all" of the beneficial ownership of a corporation, partnership or other business entity for purposes of clause (i)(G) of Paragraph (4) (A) only if they have beneficial ownership of at least 90% of each class of ownership interest therein. The Board of Directors is expressly authorized to adopt and apply such rules, procedures and policies, by the adoption of By-law provisions or otherwise, as it may deem appropriate or convenient to carry out, clarify and apply the provisions of Paragraph (4) (A) through (4) (C) above and this Paragraph (4) (E) relating to the determination of who is the

beneficial owner of any shares of Class B Common Stock and what constitutes beneficial ownership of "substantially all" of a trust, corporation, partnership or other business entity.

(5) Merger; Consolidation.

In the event of a merger or consolidation to which the Corporation is a party (whether or not the Corporation is the surviving corporation), each share of Class A Common Stock and Class B Common Stock shall receive the same per share consideration pursuant to such merger or consolidation. Nothing contained in this Paragraph (5) shall limit or restrict any conversion of shares of Class B Common Stock into shares of Class A Common Stock permitted by Section 4 above.

(6) Other Rights.

Except as otherwise required by the General Corporation Law of the State of Delaware or as otherwise provided in the Certificate of Incorporation, each share of Class A Common Stock and each share of Class B Common Stock shall have identical powers, preferences and rights.

(b) Preferred Stock. The Board of Directors of the Corporation is hereby authorized to issue, from time to time, shares of Preferred Stock in series and to fix the number of shares in each series and the designations, powers, preferences and relative, participating, optional or other special rights thereof and the qualifications, limitations, or restrictions thereon, including, without limitation, any of the following: (i) provisions relating to voting rights of each share in such series, including multiple or fractional votes per share; (ii) provisions relating to the call or redemption thereof, including, without limitation, the times and prices for such calls or redemptions and provisions relating to sinking funds therefor and the retirement thereof, if any; (iii) provisions relating to the right to receive dividends, including, without limitation, participation in dividends with shares of any other class or series of capital stock of the Corporation and/or preferential dividends, the rate of such dividends, whether such dividends shall be cumulative or noncumulative and the conditions on which such dividends shall be accrued and paid, and any preferential rights thereto or rights in relation to dividends payable on any other classes or series of stock of the Corporation; (iv) the rights thereof upon the dissolution of, or upon any distribution of the assets of, the Corporation; and (v) provisions relating to the conversion thereof into, or the exchange thereof for, shares of any class or any other series of the same class of stock of the Corporation or exchange for any other security of the corporation or any other company.

and (b) deleting paragraph SEVENTH thereof in its entirety and substituting in lieu thereof the following new paragraph SEVENTH:

SEVENTH: Election of Directors need not be by written ballot unless the By-laws of the Corporation so provide. At any time when any shares of Class B Common Stock are outstanding, thirty-three and one-third percent (33-1/3%) of the Directors of the Corporation, as fixed from time to time in accordance with the By-laws of the Corporation, shall be independent Directors. In the event that thirty-three and one-third percent (33-1/3%) of the number of Directors is not a whole number, the number of Directors who shall be independent Directors shall be rounded up to the nearest whole number. For purposes of this Article SEVENTH, the term "independent Director" means a Director who is neither (i) an officer of the Corporation or of any entity which, directly or indirectly, is in control of, is controlled by or is under common control with the Corporation nor (ii) a record or beneficial owner (as determined in accordance with Paragraph (a) (4) (E) of Article FOURTH hereof) of five percent (5%) or more of the aggregate number of outstanding shares of the Corporation's Class A Common Stock and Class B Common Stock.

3. The amendment of the Certificate of Incorporation of the Corporation herein certified was duly adopted, pursuant to the provisions of Section 242 of the General Corporation Law of the State of Delaware, by the Board of Directors of the Corporation on June 19, 1992.

4. The amendment of the Certificate of Incorporation of the Corporation herein certified was duly adopted, pursuant to the provisions of Section 242 of the General Corporation Law of the State of Delaware, by the Stockholders of the Corporation on September 11, 1992.

Signed on September 11, 1992

/S/PETER S. REINHART
Title: Peter S. Reinhart
Senior Vice President
& General Counsel

Attest:
/S/TIMOTHY P. MASON
Timothy P. Mason
Secretary

FIRST AMENDMENT TO
FIRST RESTATED REVOLVING CREDIT AGREEMENT

This FIRST AMENDMENT TO FIRST RESTATED REVOLVING CREDIT AGREEMENT (this "Amendment") is dated as of July 31, 2003 and is among K. HOVNANIAN MORTGAGE, INC., a New Jersey corporation, and K. HOVNANIAN AMERICAN MORTGAGE, L.L.C., a New Jersey limited liability company (collectively, the "Borrowers"), GUARANTY BANK, BANK OF AMERICA, N.A., BANK ONE, NA, COMERICA BANK, NATIONAL CITY BANK OF KENTUCKY, a national banking association, and U.S. BANK NATIONAL ASSOCIATION (together with any successors and assigns thereof, hereinafter referred to individually as a "Lender" and collectively as the "Existing Lenders"), COLONIAL BANK and WASHINGTON MUTUAL BANK, FA (together with any successors and assigns thereof, hereinafter referred to individually as a "Supplemental Lender" and collectively as the "Supplemental Lenders") and GUARANTY BANK, a federal savings bank, as Agent for the Lenders under the Credit Agreement (the "Agent").

RECITALS

The Borrowers, the Agent and the Existing Lenders are parties to a certain First Restated Revolving Credit Agreement dated as of March 7, 2003 (the "Credit Agreement"), pursuant to which the Existing Lenders have agreed to provide a revolving credit facility to Borrowers on the terms and conditions set forth in the Credit Agreement. Any capitalized term not expressly defined herein shall have the meaning ascribed to such term in the Credit Agreement.

The parties hereto desire to modify the Commitments and certain other provisions of the Credit Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Definitions. The following definitions in Article I of the Credit Agreement are hereby amended in their entirety to read as follows:

"Aggregate Commitment" means, as of any date, the aggregate of the Lenders' then current Commitments under this Agreement, as reduced or increased from time to time, but in no event shall the Aggregate Commitment exceed \$200,000,000 without the approval of the Borrowers, the Agent and all of the Lenders."

"Swingline Amount" means \$7,000,000."

"Termination Date" means July 29, 2004 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof."

2. Maximum Loans Available to either Borrower. Section 2.1.1 of the Credit Agreement is hereby amended by deleting the word "and" at the end of subsection (2) thereof, deleting the period and adding the word "and" at the end of subsection (3) thereof, and adding thereafter the following new subsection (4) to read as follows:

"(4) the aggregate principal balance then outstanding of all Loans made to either Borrower shall not exceed \$198,999,999."

3. Borrowing Base Sublimits by Category. Section 2.1.2 of the Credit Agreement is hereby amended in its entirety to read as follows:

"2.1.2 Borrowing Base Sublimits by Category. The maximum amount that can be credited toward the Borrowing Base from certain categories of Eligible Collateral shall be limited so that the Borrowing Base value determined under:

(1) clause (ii) of the definition thereof (Eligible Non-Conforming Mortgage Loans) shall not exceed fifteen percent (15%) of the Aggregate Commitment;

(2) clause (iii) of the definition thereof (Eligible Jumbo Mortgage Loans) shall not exceed thirty percent (30%) of the Aggregate Commitment; and

(3) clause (iv) of the definition thereof (Eligible Oversize Jumbo Mortgage Loans) shall not exceed five percent (5%) of the Aggregate Commitment."

4. Application of Proceeds. Section 8.8 of the Credit Agreement is hereby amended by deleting clause FIFTH thereof and adding the following new clauses FIFTH and SIXTH in place thereof:

"FIFTH, to the extent proceeds remain after application under the preceding subparagraphs, to the payment of the Rate Management Obligations secured by the Security Agreement, until such amounts are paid in full; and

SIXTH, to the payment to the Borrowers, or to their successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds."

5. Commitment Increases. Section 12.4 of the Credit Agreement is hereby amended in its entirety to read as follows:

"12.4 Commitment Increases.

12.4.1 Increases to Aggregate Commitment. The Borrowers shall have the right to increase the Aggregate Commitment by obtaining additional Commitments, either from one or more of the Lenders or another lending institution provided that (A) the Agent has approved the identity of any such new

Lender, such approval not to be unreasonably withheld, (B) any such new Lender assumes all of the rights and obligations of a "Lender" hereunder, and (C) the procedure described in Section 12.4.2 has been complied with, provided further that the Aggregate Commitment shall not at any time exceed \$200,000,000 without the approval of the Agent and all of the Lenders.

12.4.2 Procedure for Increases and Addition of New Lenders. This Agreement permits certain increases in a Lender's Commitment and the admission of new Lenders providing new Commitments, none of which require any consents or approvals from the other Lenders. Any amendment hereto for such an increase or addition shall be in the form attached hereto as Exhibit "K" and shall only require the written signatures of the Agent, the Borrowers and the Lender(s) being added or increasing their Commitment, subject only to the approval of all Lenders if any such increase would cause the Aggregate Commitment to exceed \$200,000,000. In addition, within a reasonable time after the effective date of any increase, the Agent shall, and is hereby authorized and directed to, revise Schedule "2" reflecting such increase and shall distribute such revised Schedule to each of the Lenders and the Borrowers, whereupon such revised Schedule shall replace the old Schedule and become part of this Agreement. On the Business Day following any such increase, all outstanding Fed Funds Advances and Alternate Base Rate Advances shall be reallocated among the Lenders (including any newly added Lenders) in accordance with the Lenders' respective revised Primary Commitment Percentages. Eurodollar Advances shall not be reallocated among the Lenders prior to the expiration of the applicable Interest Period in effect at the time of any such increase."

6. Modifications to Commitments. Each of the Existing Lenders and the Supplemental Lenders, hereby agrees that from and after the date hereof it shall have a Commitment in the amount set forth opposite its name in Column (A) of Schedule 2 attached hereto, resulting in a new Aggregate Commitment of \$200,000,000 as of the date hereof, and each of the Supplemental Lenders hereby assumes all of the rights and obligations of a Lender under the Credit Agreement. The Borrower shall execute and deliver to each of the Supplemental Lenders as of the date hereof, a new Note in the form attached to the Credit Agreement as Exhibit A to evidence the new Commitment of such Supplemental Lender.

7. Corrections to Cross References.

- (a) The reference in Section 2.15 to "Section 2.14" is hereby amended to refer to "Section 2.12".
- (b) The references in Section 7.2 to "Section 2.11.2" and "Section 2.11.4" are hereby amended to refer to "Section 2.9.2" and "Section 2.9.4, respectively.

8. Schedules. The Credit Agreement is hereby amended by substituting Schedule 2, Commitments and Commitment Percentages, and Schedule 3, List of Approved Investors, to this Amendment for Schedule 2 and Schedule 3, respectively, to the Credit Agreement.

9. Effective Date. This Amendment shall become effective as of the date first above written when and only when Agent shall have received, at Agent's office,

- (a) a duly executed counterpart of this Amendment,
- (b) Notes to the Supplemental Lenders described in Section 6 above,
- (c) a duly executed Consent and Agreement in the form attached hereto,
- (d) a duly executed certificate of the secretary of each Borrower in form acceptable to Agent, and
- (e) an opinion of counsel to Borrowers and Parent in form acceptable to Agent.

10. Miscellaneous.

- (a) All references to the Credit Agreement in the Loan Documents shall be deemed to refer to the Credit Agreement as amended by this Amendment.
- (b) Borrowers hereby represent and warrant to the Lenders that on the date of execution hereof, both prior to and after giving effect to this Amendment, (i) the representations and warranties of Borrower contained in the Loan Documents are accurate and complete in all respects, and (ii) no Default or Unmatured Default has occurred and is continuing.
- (c) In all other respects, the Credit Agreement and the other Loan Documents are and remain unmodified and in full force and effect and are hereby ratified and confirmed. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Amendment by signing any such counterpart.
- (d) Borrowers agree to reimburse the Agent for all reasonable

out-of-pocket expenses (including legal fees and expenses) incurred in connection with the preparation, negotiation and consummation of this Amendment.
(e) This Amendment may be executed in counterparts which, taken together, shall constitute a single document. This Amendment may be duly executed by facsimile or other electronic transmission

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

K. HOVNIANIAN MORTGAGE, INC.

By:
Name:
Title:

K. HOVNIANIAN AMERICAN MORTGAGE, L.L.C.

By:
Name:
Title:

THE STATE OF NEW JERSEY)
)
COUNTY OF MONMOUTH)

This instrument was acknowledged before me on _____, 2003, by Kevin C. Hake, Vice President-Finance and Treasurer of K. Hovnanian Mortgage, Inc., a New Jersey corporation, on behalf of said corporation.

Notary Public, State of New Jersey

(printed name)

My Commission Expires:

THE STATE OF NEW JERSEY)
)
COUNTY OF MONMOUTH)

This instrument was acknowledged before me on _____, 2003 by Kevin C. Hake, Vice President-Finance and Treasurer of K. Hovnanian American Mortgage, L.L.C., a New Jersey limited liability company, on behalf of said company.

Notary Public, State of New Jersey

(printed name)

My Commission Expires:

GUARANTY BANK, individually and as Agent

By:
Name:
Title:

BANK OF AMERICA, N.A.

By:

Name:
Title:

BANK ONE, NA

By:
Name:
Title:

COLONIAL BANK

By:
Name:
Title:

COMERICA BANK

By:
Name:
Title:

NATIONAL CITY BANK OF KENTUCKY

By:
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By:
Name:
Title:

WASHINGTON MUTUAL BANK, FA

By:
Name:
Title:

CONSENT AND AGREEMENT

Hovnanian Enterprises, Inc. hereby consents to the provisions of this Amendment as of the date thereof and the transactions contemplated herein, and hereby ratifies and confirms the Keep-Well Agreement dated as of June 7, 2002 made by it for the benefit of Lender and the Subordination Agreement dated as of June 7, 2002 made by it for the benefit of Lender, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

HOVNANIAN ENTERPRISES, INC.

By:
Name:
Title:

SCHEDULE 2

COMMITMENTS AND COMMITMENT PERCENTAGES

LENDER

(A)

COMMITMENT (B)

COMMITMENT

PERCENTAGE

(A Aggregate

Commitment)

(C)

SWINGLINE
AMOUNT

Guaranty Bank Bank of America	\$35,000,000	17.500000%	\$7,000,000
Washington Mutual	\$30,000,000	15.000000%	
Bank One	\$29,000,000	14.500000%	
US Bank	\$25,000,000	12.500000%	
Colonial Bank	\$25,000,000	12.500000%	
Comerica	\$24,000,000	12.000000%	
National City Bank	\$17,000,000	8.500000%	
	\$15,000,000	7.500000%	

SCHEDULE "3"
LIST OF APPROVED INVESTORS

CHASE MANHATTAN MORTGAGE CORPORATION
COUNTRYWIDE HOME LOAN, INC.
FLAGSTAR BANCORP
FEDERAL HOME LOAN MORTGAGE CORPORATION
FEDERAL NATIONAL MORTGAGE ASSOCIATION
FIRST HORIZON BANCORP
FIRST NATIONWIDE MORTGAGE
GREENPOINT MORTGAGE CORPORATION
GUARANTY RESIDENTIAL LENDING
IMPAC FUNDING CORPORATION
INDYMAC BANK
NATIONAL CITY BANK
OHIO SAVINGS BANK
RESIDENTIAL FUNDING CORPORATION
VALLEY NATIONAL BANK
WASHINGTON MUTUAL
WELLS FARGO

CHASE MANHATTAN FUNDING
COUNTRYWIDE HOME LOAN, INC.
IMPAC FUNDING CORPORATION
RBNG, INC.
RESIDENTIAL FUNDING CORPORATION
US BANK CORPORATE TRUST SERVICES

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FIRST AMENDMENT TO FIRST RESTATED
REVOLVING CREDIT AGREEMENT [K. Hovnanian]

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: September 12, 2003

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

Exhibit 31(b)

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: September 12, 2003

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

Exhibit 31(a)

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

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: September 12, 2003

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

Exhibit 32(b)

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

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 12, 2003

/S/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer