

BUILDING

a Competitive Advantage



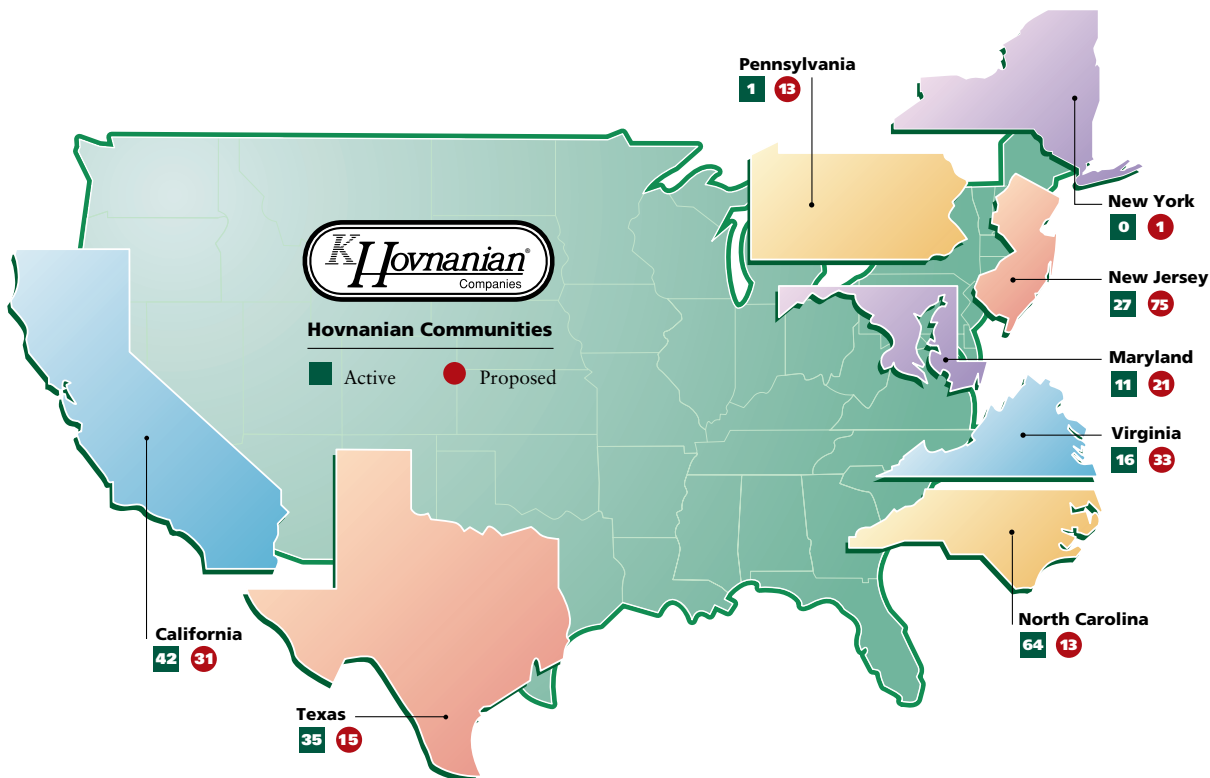
Hovnanian Enterprises, Inc.

Company Profile

As one of America's leading homebuilders, we design, build and sell a wide variety of home designs, from entry-level condominiums to luxury single family homes in planned communities in California, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Texas and Virginia. We are proud of our reputation for building homes of superior quality and value. We also provide mortgage financing for our home-buyers. We employ approximately 2,370 Associates.

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Common Stock*

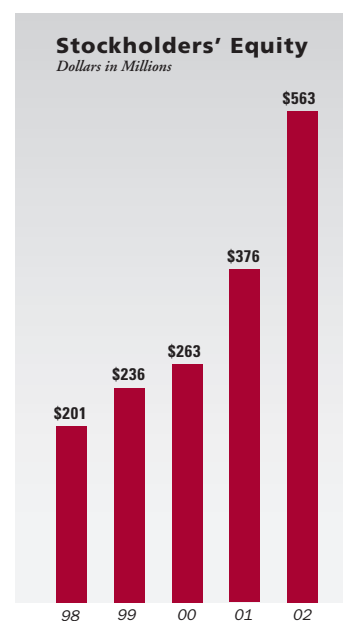
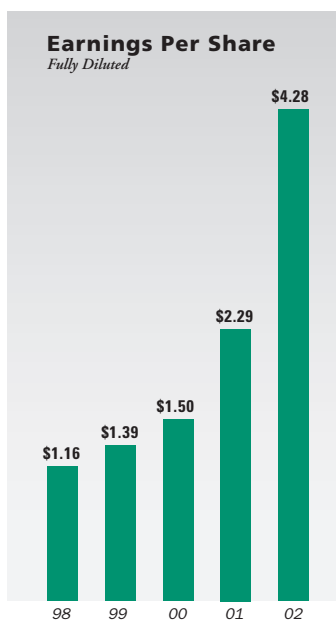
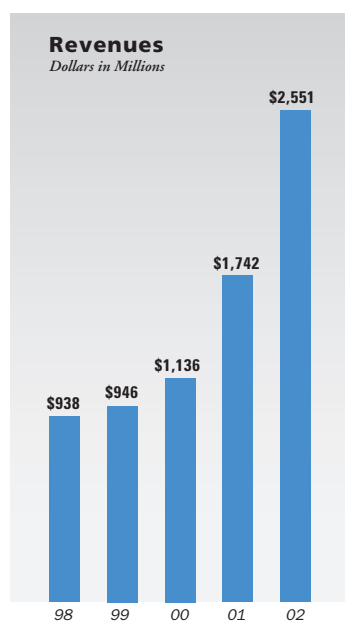
	Fiscal 2002		Fiscal 2001	
	High	Low	High	Low
First Quarter	\$22.40	\$10.00	\$ 9.99	\$ 7.19
Second Quarter	\$32.40	\$19.07	\$18.75	\$ 8.75
Third Quarter	\$38.75	\$24.31	\$19.34	\$13.00
Fourth Quarter	\$40.56	\$24.70	\$15.00	\$ 9.71

*At October 31, 2002 our Class A Common Stock was held by approximately 475 shareholders of record and our Class B Common Stock was held by approximately 387 shareholders of record.

For additional information, visit our website at khov.com

Financial Highlights

	<i>For the Year Ended October 31,</i>				
	2002	2001	2000	1999	1998
Contracts, Deliveries and Backlog <i>(Dollars in Millions)</i>					
Net Sales Contracts	\$2,432.4	\$1,619.4	\$1,102.1	\$796.5	\$806.2
Deliveries	\$2,462.1	\$1,693.7	\$1,105.5	\$908.6	\$895.6
Contract Backlog at Year-End	\$1,076.7	\$ 773.1	\$ 538.5	\$460.7	\$381.8
Revenues and Income <i>(Dollars in Millions)</i>					
Total Revenues	\$2,551.1	\$1,742.0	\$1,135.6	\$946.4	\$937.7
Pre-tax Earnings	\$ 226.6	\$ 106.4	\$ 51.8	\$ 50.6	\$ 41.3
Net Income	\$ 137.7	\$ 63.7	\$ 33.2	\$ 30.1	\$ 25.4
EBITDA	\$ 319.2	\$ 175.1	\$ 98.2	\$ 91.3	\$ 90.3
Return on Average Stockholders' Equity	29.3%	19.3%	13.5%	14.0%	13.4%
Assets, Debt and Equity <i>(Dollars in Millions)</i>					
Total Assets	\$1,678.1	\$1,064.3	\$ 873.5	\$712.9	\$589.1
Total Recourse Debt	\$ 661.4	\$ 396.5	\$ 396.4	\$320.1	\$213.4
Stockholders' Equity	\$ 562.5	\$ 375.6	\$ 263.4	\$236.4	\$201.4
Earnings and Book Value Per Share <i>(Shares in Thousands)</i>					
Fully Diluted Earnings Per Share	\$ 4.28	\$ 2.29	\$ 1.50	\$ 1.39	\$ 1.16
Fully Diluted Weighted Average Shares Outstanding	32,155	27,792	22,043	21,612	22,016
Book Value Per Outstanding Share at Year-End	\$ 18.41	\$ 13.48	\$ 12.42	\$10.67	\$ 9.34



To Our Shareholders and Associates



We are pleased to report another outstanding performance in fiscal 2002, with revenues and earnings again setting all-time records. Net earnings of \$138 million were more than double last year's record results, and are equivalent to \$4.28 per diluted share, the highest ever achieved by our Company. Net earnings have grown at a compound rate of 66% over the past three years, solid evidence that we are a growth company. We are also achieving very strong returns on our invested capital. The Company achieved a 34% return on beginning equity per share in fiscal 2002. This is a key measurement of our performance and an indication that we are creating significant value for our shareholders.

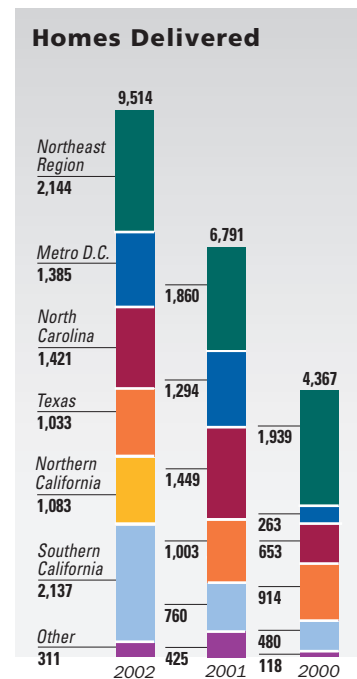
We are deeply indebted to all of our Associates and our business partners who worked hard all year to achieve a new level of excellence, as evidenced by our record-setting financial performance. The number of home deliveries increased 40% to 9,514 homes in fiscal 2002, an all-time record for the Company. Total revenues for the year increased 46% to \$2.6 billion, the highest level ever recorded in our 43-year history. We were proud of reaching the \$1.0 billion milestone in revenues just two years ago, in fiscal 2000. We continued to increase our earnings at a faster pace than our revenues, and our pretax margin rose to 8.9% for the year. In addition to our strong housing performance in fiscal 2002, our Financial Services operations made a significant contribution, with pretax earnings of \$18.2 million.

A HEALTHY BALANCE SHEET

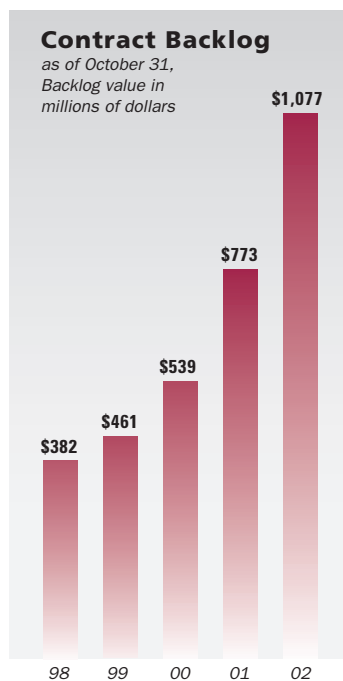
We maintained a very strong balance sheet throughout fiscal 2002, and ended the year with \$563 million of stockholders' equity, \$250 million of excess cash and no balance outstanding under the Company's \$440 million unsecured revolving line of credit. It is most satisfying to report that we accomplished our goal of reducing our average ratio of net debt to equity to 1.1 in fiscal 2002, in spite of our substantial growth. We achieved this goal one year earlier than we expected. Our cash flow continues to be extremely strong, enabling us to carefully manage our debt levels while also investing in the inventory of lots that we need to achieve our targeted level of



Net earnings have grown at a compound rate of 66% over the past three years, solid evidence that we are a growth company.



“
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 ”



internal growth. In fact, our debt level net of cash at fiscal yearend is only \$15 million higher than it was a year earlier, even though our revenues for the year increased by 46%. We have one of the strongest land positions in the housing industry, with a total of nearly 54,000 lots controlled for future development company-wide at fiscal yearend, enough to meet our needs in each of our markets for about five years, on average. Yet, only about 25% of these lots are owned, with the balance held under option contracts, which substantially reduce our risk. This combination of low debt levels and a strong inventory position provides us with a solid foundation for continued growth in fiscal 2003 and beyond.

STRONG MARKETS

Although the overall economy was lethargic in 2002, our housing markets held up quite well. The value of net new contracts in fiscal 2002 increased 50% to \$2.4 billion. As a result, we enter fiscal 2003 with a record contract backlog that positions us for further growth in revenues and earnings. Sales backlog at October 31st reached 3,857 homes with a sales value of \$1.1 billion, representing a 39% increase over the end of 2001 and an all-time record for any year-end in our history.

We continued to experience the benefits of a healthy housing market in 2002. But our strong performance in 2002 also reflects the success of our market concentration strategy, our attractive land position in some of the best housing markets in the country, and our continued focus on improving our operating efficiency in each of our markets. We are now well-diversified by geography, with not more than 23% of our delivery volume in fiscal 2002 coming from any one of our six market regions.

The demand for new homes continues to exceed the available supply of lots in many of our markets. The increasingly difficult regulatory environment is precluding many smaller builders from replenishing their supply of lots. In contrast, we are well positioned as one of the largest builders in each of our markets, with excellent land positions and community locations. As a result, we are maintaining strong absorptions at our communities, with the exception of some locations in North Carolina, where there is currently greater competition for sales combined with a slowdown in job growth. We continue to see solid demand in each of our other core markets.

Under these conditions, we anticipate being able to continue generating excellent returns on our invested capital.

CONTINUING GROWTH

We were successful this year in achieving our two-pronged strategy of growing our operations both internally and through acquisitions. The January 2002 acquisition of Forecast Homes in California has been highly profitable and was an important contributor to our performance in fiscal 2002. The success of the Forecast operation reflects their strong leadership and focus on operating efficiency, and it further validates our market concentration strategy. With Forecast Homes, we have become one of the largest builders in both the Inland Empire market of southern California and the Sacramento market in northern California. Forecast Homes has proven to be another outstanding acquisition, adding to our string of successful acquisitions over the past five years.

We are very excited about our recent entry into the Houston marketplace through two separate acquisitions that we announced after our fiscal yearend. We acquired the assets of Parkside Homes in early November, and we closed on the acquisition of Brighton Homes in late December. These acquisitions expand our Texas operations and provide us with the advantages of a concentrated position in Houston, while giving our Company a significant platform for further growth.

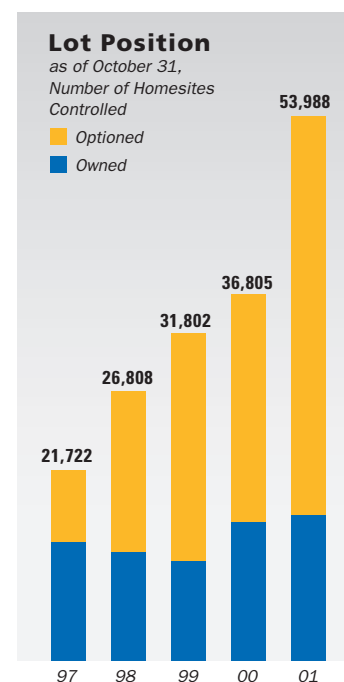
We also grew our own operations significantly in fiscal 2002. As an indication of our organic growth, the value of net contracts signed in the Northeast, Washington D.C., and Texas markets increased by 30% in the fourth quarter from the prior year. These are very significant markets for our Company that were unaffected by the Forecast Homes acquisition. And we are well-positioned for continued internal growth, based on the significant number of new communities that we have coming on line in fiscal 2003.

FUTURE OUTLOOK

The housing industry is quite stable and on solid footing. The U.S. has produced an average of approximately 1.5 million new housing units annually for the past few years, the same annual level that has been produced on average for the past four decades. Meanwhile, the largest homebuilders, including our Company, have been gaining



We reduced our average ratio of net debt to equity to 1.1 in fiscal 2002, in spite of our substantial growth. We achieved this goal one year earlier than expected.





Hovnanian offers a highly diversified product line, selling attached and detached homes to a wide range of buyers. We maintain a diverse menu of home styles and price points from which our customers can choose. We offer further personalization with designer selections from custom home design galleries.



tremendous market share. This consolidation and increased market power has allowed Hovnanian to generate impressive growth in earnings while the overall housing market has remained steady. But the industry is still highly fragmented. Further consolidation is expected. We will continue to be a growth company in a cyclical, but stable industry. We remain optimistic about the near-term and long-term prospects for housing, and for our Company in particular.

BUILDING A COMPETITIVE ADVANTAGE

Fiscal 2002 was another exceptional year for Hovnanian Enterprises. We are enjoying our success, but we are not sitting back. Instead, we have been working hard to position our Company for even greater long-term success and market share gains. We've worked diligently to integrate each of the builders that we've acquired into our Company's core practices and culture, while learning from their specific expertise and methods of operational efficiency, quality and excellence. We believe there is much to be gained from a standardization of best processes and practices throughout our Company. Each of the acquired operations has brought immediate profitability to our bottom line, but we refuse to become just a collection of homebuilding companies. We are convinced that we can improve further, and we are striving to build a competitive advantage in our industry.

We are making quality paramount throughout our organization, and we are working to establish and thoroughly ingrain the practices that are needed to satisfy every customer to the fullest extent possible. During the past few years we have made substantial investments in improving our various homebuilding processes, in new technology to support our operations, and in the training and development of our associates. We are actively implementing what we have learned in new and improved methodologies throughout our Company. We are very optimistic about 2003 and beyond, and we are confident that we'll continue to improve and to prosper. We look forward to continuing to report strong results.



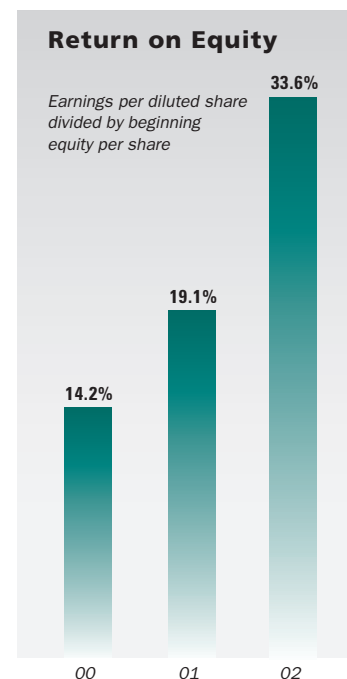
Kevork S. Hovnanian
Founder and Chairman



Ara K. Hovnanian
President and
Chief Executive Officer



Our strong performance in 2002 reflects the success of our market concentration strategy, our attractive land position in some of the best housing markets in the country, and our continued focus on improving our operating efficiency in each of our markets.





Hovnanian is a significant developer of active adult communities, with clubhouses, organized activities, and other amenities. These communities are strategically targeted to the baby boom age group, which is expanding by more than 7 million households in the current decade.



Board of Directors

KEVORK S. HOVNIANIAN (79)

is the founder of the Company and has served as Chairman of the Board since its original incorporation in 1967. He served as Chief Executive Officer from 1967 through 1997. In 1996, the New Jersey Institute of Technology awarded



Mr. Hovnianian a President's Medal for "Distinguished Achievement to an Outstanding Entrepreneur". In 1992, Mr. Hovnianian was granted one of five nationwide Harvard Dively Awards for Leadership in Corporate Public Initiatives.

ARA K. HOVNIANIAN (45)

has been Chief Executive Officer since 1997 after being appointed President in 1988 and Executive Vice President in 1983; joining the Company in 1979. In 1985, Governor Kean appointed Mr. Hovnianian to The Council on Affordable Housing and he was reappointed to the Council in 1990 by Governor Florio. In 1994, Governor Whitman appointed him as member of the Governor's Economic Master Plan Commission. Mr. Hovnianian serves as a Member of the Advisory Council of PNC Bank, The Monmouth Real Estate Investment Corporation and is on the Boards of a variety of charitable organizations.



ARTHUR M. GREENBAUM, ESQ. (77)

has been a senior partner of Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, a law firm since 1950.



EDWARD A. KANGAS (58)

is the former Chairman and CEO of Deloitte Touche Tohmatsu, the parent company of Deloitte professional practices worldwide. He is Chairman of the National Multiple Sclerosis Society. Mr. Kangas is also a trustee and member



of the Policy Committee for the Committee for Economic Development and is a member of Beta Gamma Sigma Directors' Table. He is currently a member of the Board of Trustees of the University of Kansas Endowment Association and a member of the University of Kansas Business School of Advisors. Mr. Kangas was elected as a Director of the Company in September 2002.

DESMOND P. McDONALD* (75)

was a Director of Midlantic Bank, N.A. from 1976 to December 1995, Executive Committee Chairman of Midlantic Bank, N.A. from August 1992 to December 1995 and was President of Midlantic Bank, N.A. from 1976 to June 1992.



He was also a Director of Midlantic Corporation to December 1995 and was Vice Chairman of Midlantic Corporation from June 1990 to July 1992.

JOHN J. ROBBINS* (63)

was a managing partner of the New York office of Kenneth Leventhal & Company and executive committee partner, retiring from the firm in 1992. Mr. Robbins has been a Trustee of Keene Creditors Trust since 1996. Mr. Robbins was elected as a Director of the Company in January 2001.



STEPHEN D. WEINROTH* (64)

Is a senior partner in Anderson Weinroth & Co. L.P., a merchant banking firm. He has held such position since 1996. He is Chairman of the Board Emeritus of Core Laboratories N.V., a New York Stock Exchange-listed



worldwide oil field services company. He has held such position since 2001 and prior thereto was Chairman of the Board from 1994-2001. Since 2000, Mr. Weinroth has been a director of Financial Federal Corporation, a New York Stock Exchange-listed equipment financing and leasing company.

GEATON A. DECESARIS, JR. (47)

has been President of Homebuilding Operations and Chief Operating Officer since January 2001. Mr. DeCesaris served as President and Chief Executive Officer of Washington Homes, Inc. prior to joining the Company in 2001.



Mr. DeCesaris was honored as the Washington, D.C. area's Entrepreneur of the Year in the real estate category in 1994, sponsored by Inc. magazine and Ernst and Young. Mr. DeCesaris was elected as a Director of the Company in January 2001.

J. LARRY SORSBY (47)

has been Chief Financial Officer of the Company since 1996 and Executive Vice President since November 2000. He became a member of the Board in 1997. From March 1991 to November 2000, he was Senior Vice President, and from March 1991 to July 2000, he was Treasurer.



*Member of the Audit Committee

Communities Under Development

Net Sales Contracts	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2002	October 31, 2001	Percent Change	October 31, 2002	October 31, 2001	Percent Change
Northeast Region	1,972	1,871	5.4%	\$ 577,851	\$ 509,784	13.4%
North Carolina.....	1,353	1,466	(7.7%)	248,786	266,048	(6.5%)
Metro D. C.	1,361	1,253	8.6%	430,783	323,603	33.1%
California	3,468	781	344.0%	917,615	259,311	253.9%
Texas	1,047	984	6.4%	227,302	210,459	8.0%
Mid South.....	190	313	(39.3%)	29,727	48,300	(38.5%)
Other	3	54	(94.4%)	340	1,865	(81.8%)
Total.....	9,394	6,722	39.8%	\$2,432,404	\$1,619,370	50.2%

Contract Backlog	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2002	October 31, 2001	Percent Change	October 31, 2002	October 31, 2001	Percent Change
Northeast Region	1,397	1,160	20.4%	\$ 416,264	\$322,100	29.2%
North Carolina.....	466	534	(12.7%)	88,291	103,616	(14.8%)
Metro D.C.	755	779	(3.1%)	243,391	208,888	16.5%
California	955	172	455.2%	267,305	53,338	401.2%
Texas	277	263	5.3%	60,532	64,961	(6.8%)
Mid South.....	7	122	(94.3%)	945	19,734	(95.2%)
Other	—	3	N/A	—	437	N/A
Total.....	3,857	3,033	27.2%	\$1,076,728	\$773,074	39.3%

Deliveries	For the Year Ended					
	Homes			Dollars (In thousands)		
	October 31, 2002	October 31, 2001	Percent Change	October 31, 2002	October 31, 2001	Percent Change
Northeast Region	2,144	1,860	15.3%	\$ 660,250	\$ 570,647	15.7%
North Carolina.....	1,421	1,449	(1.9%)	264,055	255,390	3.4%
Metro D.C.	1,385	1,294	7.0%	396,273	310,815	27.5%
California	3,220	760	323.7%	852,373	280,582	203.8%
Texas	1,033	1,003	3.0%	240,181	215,045	11.7%
Mid South.....	305	290	5.2	48,510	44,372	9.3%
Other	6	135	(95.6%)	453	16,866	(97.3%)
Total.....	9,514	6,791	40.1%	\$2,462,095	\$1,693,717	45.4%

All statements in this Annual Report that are not historical facts should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such risks, uncertainties and other factors include, but are not limited to, changes in general economic conditions, fluctuations in interest rates, increases in raw materials and labor costs, levels of competition and other factors described in detail in the Company's Form 10K for the year ended October 31, 2002.

Ten Year Financial Review

(In Thousands Except Number of Homes and Per Share Data)	Years Ended October 31,			
	2002	2001	2000	1999
Statement of Operations Data:				
Total Revenue	\$2,551,106	\$1,741,963	\$1,135,559	\$946,414
Writedown of Inventory and Investment Properties	\$ 8,199	\$ 4,368	\$ 1,791	\$ 2,091
Pre-Tax Income.....	\$ 226,625	\$ 106,354	\$ 51,818	\$ 50,617
Net Income.....	\$ 137,696	\$ 63,686	\$ 33,163	\$ 30,075
Net Income per common share				
Diluted.....	\$ 4.28	\$ 2.29	\$ 1.50	\$ 1.39
Weighted Average Shares Outstanding ⁽²⁾	32,155	27,792	22,043	21,612
Balance Sheet Data:				
Cash.....	\$ 262,675	\$ 16,149	\$ 43,253	\$ 19,365
Inventory	\$1,081,582	\$ 740,114	\$ 614,983	\$527,230
Total Assets.....	\$1,678,128	\$1,064,258	\$ 873,541	\$712,861
Total Recourse Debt	\$ 661,390	\$ 396,544	\$ 396,430	\$320,125
Total Non-Recourse Debt	\$ 14,867	\$ 13,490	\$ 21,720	\$ 10,069
Stockholders' Equity	\$ 562,549	\$ 375,646	\$ 263,359	\$236,426
Supplemental Financial Data:				
EBIT ⁽⁴⁾	\$ 286,101	\$ 157,800	\$ 86,968	\$ 80,851
EBITDA	\$ 319,226	\$ 175,072	\$ 98,172	\$ 91,277
Cash Flow From Operating Activities	\$ 248,540	\$ 37,069	\$ (60,645)	\$ 35,479
Interest Incurred	\$ 57,406	\$ 47,272	\$ 38,878	\$ 24,594
EBIT/Interest Incurred	5.0X	3.3X	2.2X	3.3X
EBITDA/Interest Incurred.....	5.6X	3.7X	2.5X	3.7X
Financial Statistics:				
Average Net Recourse Debt/Average Equity.....	1.10:1	1.34:1	1.54:1	1.17:1
Homebuilding Inventory Turnover ⁽³⁾	2.6X	2.3X	1.9X	2.2X
Homebuilding Gross Margin	22.0%	20.6%	20.7%	21.0%
EBIT Margin	11.2%	9.1%	7.8%	8.8%
Return on Average Equity.....	29.3%	19.3%	13.5%	14.0%
Operating Statistics:				
Net Sales Contracts – Homes	9,394	6,722	4,542	3,535
Net Sales Contracts - Dollars.....	\$2,432,404	\$1,619,370	\$1,102,102	\$796,453
Deliveries – Homes.....	9,514	6,791	4,367	3,768
Deliveries – Dollars.....	\$2,462,095	\$1,693,717	\$1,105,466	\$908,553
Backlog – Homes.....	3,857	3,033	2,096	1,921
Backlog – Dollars.....	\$1,076,728	\$ 773,074	\$ 538,546	\$460,660

⁽¹⁾ The summary consolidated income data for the 12 month period ended October 31, 1994 is unaudited, but in management's opinion includes all accruals and other adjustments necessary for a fair representation.

⁽²⁾ Prior to the fiscal year ended October 31, 1996, represents basic shares outstanding.

⁽³⁾ Derived by dividing total home and land sales by average homebuilding inventory.

⁽⁴⁾ EBIT for the fiscal year ended October 31, 1997 includes writedowns on investment properties that were sold.

Years Ended October 31,					Year Ended February 28,
1998	1997	1996	1995	1994*	1994
\$937,729	\$770,379	\$796,248	\$777,745	\$704,443	\$587,010
\$ 5,032	\$ 28,465	\$ 1,608	\$ 2,780	\$ 6,357	—
\$ 41,292	\$ (12,124)	\$ 25,006	\$ 21,654	\$ 16,531	\$ 29,151
\$ 25,403	\$ (6,970)	\$ 17,287	\$ 14,128	\$ 11,477	\$ 18,645
\$ 1.16	\$ (0.31)	\$ 0.75	\$ 0.61	\$ 0.50	\$ 0.82
22,016	22,506	23,120	23,032	22,906	22,821
\$ 14,792	\$ 10,550	\$ 20,731	\$ 15,453	\$ 17,437	\$ 28,094
\$375,733	\$410,393	\$376,307	\$404,413	\$386,540	\$278,738
\$589,102	\$637,082	\$614,111	\$645,378	\$612,925	\$539,602
\$213,449	\$285,000	\$230,000	\$280,650	\$299,200	\$200,000
\$ 15,616	\$ 24,455	\$ 29,069	\$ 29,049	\$ 29,884	\$ 28,941
\$201,392	\$178,762	\$193,622	\$176,335	\$162,130	\$171,001
\$ 79,493	\$ 40,301	\$ 58,771	\$ 55,178	\$ 48,247	\$ 51,681
\$ 90,268	\$ 59,312	\$ 64,017	\$ 59,273	\$ 51,906	\$ 54,716
\$ 65,054	\$ (30,708)	\$ 45,797	\$ (3,358)	\$ (50,109)	\$ (13,293)
\$ 28,947	\$ 34,777	\$ 35,551	\$ 37,828	\$ 28,353	\$ 25,968
2.7X	1.5X	1.7X	1.5X	1.7X	2.0X
3.1X	1.6X	1.8X	1.6X	1.8X	2.1X
1.43:1	1.66:1	1.71:1	2.02:1	1.62:1	1.34:1
2.2X	1.8X	1.8X	1.7X	2.0X	1.9X
17.3%	15.6%	16.4%	21.1%	20.7%	22.0%
8.5%	5.2%	7.3%	7.1%	6.8%	8.8%
13.4%	(3.8%)	9.5%	8.5%	6.9%	11.8%
3,877	4,073	4,175	3,910	3,546	4,305
\$806,247	\$762,750	\$738,331	\$660,033	\$546,185	\$606,601
4,138	3,717	4,134	4,244	4,352	3,828
\$895,644	\$731,807	\$764,682	\$740,481	\$670,870	\$557,489
1,681	1,872	1,516	1,476	1,810	1,926
\$381,816	\$374,314	\$292,376	\$275,701	\$310,455	\$278,127

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 and identified intangible assets less liabilities is recorded as goodwill. 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 sales is recorded when each home is closed, 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 pass 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 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. SFAS No. 144 provides accounting guidance for financial accounting and reporting for impairment or disposal of long-lived assets. 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.

Self Insurance Reserves – We are self insured for our workers’ 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.

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. Options that include specific performance terms, which have been triggered, are recorded on the balance sheet as inventory and other liabilities.

Intangible Assets – The intangible assets recorded on our balance sheet are goodwill and a tradename which is an indefinite life intangible asset 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 performed such assessments utilizing a fair value approach as of October 31, 2002, and determined that no impairment of intangibles existed.

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 accompanying consolidated balance sheets.

Capital Resources and Liquidity

Our cash uses during the twelve months ended October 31, 2002 were for operating expenses, seasonal increases in housing inventories, construction, income taxes, interest, the repurchase of common stock, the redemption of subordinated indebtedness, the acquisition of the California operations of the Forecast Group, L.P. (“Forecast”), and the acquisition of a land portfolio from another homebuilding company. We provided for our cash requirements from housing and land sales, the revolving credit facility, the issuance of a term loan, the issuance of \$150,000,000 senior subordinated notes, the issuance of \$100,000,000 senior notes, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements, acquisitions, and other needs.

At October 31, 2002 we had approximately \$250.0 million of excess cash. Management anticipates using the excess cash to grow existing operations and fund future acquisitions.

Our net income historically does not approximate cash flow from operating activities. The difference between net income and cash flow from operating activities is primarily caused by changes in receivables, prepaid and other assets, interest and other accrued liabilities, accounts payable, inventory levels, mortgage loans and liabilities, and non-cash charges relating to depreciation, the writeoff of SAP costs, and impairment losses. In 2001 and 2000 a portion of the difference was also due to goodwill amortization. When we are expanding our operations, which was the case in fiscal 2002 and 2001, inventory levels increase causing cash flow from operating activities to decrease. Liabilities also increase as inventory levels increase. The difference between net income and net operating cash flow is our increased efforts to accelerate the cash collection process from closing agents and increases in tax and other liabilities due to a significant increase in business. The increase in liabilities partially offsets the negative effect on cash flow from operations caused by the increase in inventory levels. As our mortgage warehouse loan asset increases, cash flow from operations decreases. Conversely, as such loans decrease, cash flow from operations increase. Depreciation and impairment losses always increase cash flow from operating activities since they are non-cash charges to operations.

On December 31, 2000, our stock repurchase program to purchase up to 4 million shares of Class A Common Stock expired. As of December 31, 2000, 3,391,047 shares had been purchased under this program. On July 3, 2001, our Board of Directors authorized a revision to our stock repurchase program to purchase up to 2 million shares of Class A Common Stock. As of October 31, 2002, 606,319 shares have been purchased under this program, of which 147,619 were repurchased during the twelve months ended October 31, 2002.

Our homebuilding bank borrowings are made pursuant to an unsecured revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of up to \$440,000,000 through July 2005. Interest is payable monthly and at various rates of either the prime rate plus .40% or Libor plus 1.85%. We believe that we will be able either to extend the Agreement beyond July 2005 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. As of October 31, 2002, there were no borrowings under the Agreement.

On March 26, 2002, we issued \$100,000,000 8% Senior Notes due 2012 and \$150,000,000 8 7/8% Senior Subordinated Notes due 2012. On April 29, 2002, we used a portion of the proceeds to redeem our 9 3/4% Subordinated Notes due 2005 which had a balance of approximately \$99,747,000. The early retirement of these notes resulted in an extraordinary loss of \$582,000 net of an income tax benefit of \$313,000. Other senior indebtedness issued by us and outstanding as of October 31, 2002 was \$150,000,000 10 1/2% Senior Notes due 2007 and \$150,000,000 9 1/8% Senior Notes due 2009.

On January 22, 2002 we issued a \$165,000,000 Term Loan to a group of banks which is due January 22, 2007. Interest is payable monthly at either the prime rate plus 1.25% or LIBOR plus 2.5%. The proceeds from the issuance of the Term Loan were primarily used to partially fund the acquisition of the California operations of Forecast. As of October 31, 2002 borrowings under the Term Loan were \$115,000,000.

Our mortgage banking subsidiary borrows up to \$150,000,000 under a bank warehousing arrangement that expires in June 2003. 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 June 2003 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of October 31, 2002 borrowings under the agreement were \$85,498,000.

Total inventory increased \$341,468,000 during the twelve months ended October 31, 2002. The increase in inventory was primarily due to the acquisition of The Forecast Group, LP ("Forecast") and the purchase of a land portfolio from a builder in our Northeast Region. In addition, inventory levels increased slightly in most of our housing markets except in the Mid-South where we have liquidated our operations and in North Carolina where the market has slowed down. Substantially all homes under construction or completed and included in inventory at October 31, 2002 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our line of credit, senior and subordinated indebtedness, and cash flows generated from operations.

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

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

	Total Home Lots	Contracted Not Delivered	Remaining Lots Available
October 31, 2002:			
Northeast Region	21,399	1,371	20,028
North Carolina.....	7,469	466	7,003
Metro D. C.	10,576	755	9,821
California	10,431	955	9,476
Texas	4,084	277	3,807
Mid South.....	29	7	22
Total	53,988	3,831	50,157
Owned	13,362	3,195	10,167
Optioned.....	40,626	636	39,990
Total	53,988	3,831	50,157
October 31, 2001:			
Northeast Region	15,875	1,136	14,739
North Carolina.....	6,576	534	6,042
Metro D. C.	7,568	779	6,789
California	1,670	172	1,498
Texas	2,828	263	2,565
Mid South.....	1,279	122	1,157
Other.....	1,009	3	1,006
Total	36,805	3,009	33,796
Owned	10,970	2,525	8,445
Optioned.....	25,835	484	25,351
Total	36,805	3,009	33,796

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

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

	October 31, 2002			October 31, 2001		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region	73	33	106	69	48	117
North Carolina	191	18	209	205	41	246
Metro D.C.	34	25	59	27	27	54
California.....	193	61	254	60	11	71
Texas.....	261	8	269	215	15	230
Mid South.....	2	—	2	54	22	76
Other	—	—	—	7	—	7
Total	754	145	899	637	164	801

Financial Services - mortgage loans held for sale consist of residential mortgages receivable of which \$91,339,000 and \$105,174,000 at October 31, 2002 and October 31, 2001, respectively, are being temporarily warehoused and awaiting sale in the secondary mortgage market. The balance of mortgage loans held for sale are being held as an investment. We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the house. Historically, we have incurred minimal credit losses.

Results of Operations

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York state, and eastern Pennsylvania), North Carolina, Metro D. C. (northern Virginia and Maryland), California, Texas, and the Mid-South (Tennessee, Alabama, and Mississippi). During the year ended October 31, 2002, we substantially liquidated our operations in the Mid-South. In addition, we provide financial services to our homebuilding customers.

Total Revenues

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

(Dollars in Thousands)	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Homebuilding:			
Sale of homes.....	\$768,378	\$588,251	\$196,913
Land sales and other revenues.....	31,396	6,076	(6,334)
Financial services.....	9,342	12,104	(1,434)
Total change.....	\$809,116	\$606,431	\$189,145
Percent change.....	46.4%	53.4%	20.0%

Homebuilding

Compared to the same prior period, housing revenues increased \$768.4 million or 45.4% for the year ended October 31, 2002, increased \$588.3 million or 53.2% for the year ended October 31, 2001, and increased \$196.9 million or 21.7% for the year ended October 31, 2000. Housing revenues are recorded at the time each home is delivered and title and possession have been transferred to the buyer.

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

(Dollars in Thousands)	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Northeast Region:			
Housing Revenues.....	\$ 660,250	\$ 570,647	\$ 561,422
Homes Delivered.....	2,144	1,860	1,939
North Carolina⁽²⁾:			
Housing Revenues.....	\$ 264,055	\$ 255,390	\$ 126,596
Homes Delivered.....	1,421	1,449	653
Metro D.C.⁽²⁾:			
Housing Revenues.....	\$ 396,273	\$ 310,815	\$ 66,137
Homes Delivered.....	1,385	1,294	263
California⁽¹⁾:			
Housing Revenues.....	\$ 852,373	\$ 280,582	\$ 143,729
Homes Delivered.....	3,220	760	480
Texas:			
Housing Revenues.....	\$ 240,181	\$ 215,045	\$ 186,294
Homes Delivered.....	1,033	1,003	914
Mid South⁽²⁾:			
Housing Revenues.....	\$ 48,510	\$ 44,372	—
Homes Delivered.....	305	290	—
Other:			
Housing Revenues.....	\$ 453	\$ 16,866	\$ 21,288
Homes Delivered.....	6	135	118
Totals:			
Housing Revenues.....	\$2,462,095	\$1,693,717	\$1,105,466
Homes Delivered.....	9,514	6,791	4,367

⁽¹⁾ October 31, 2002 includes deliveries from the Forecast Acquisition beginning on January 10, 2002.

⁽²⁾ October 31, 2001 includes deliveries from the Washington Homes, Inc. merger beginning on January 24, 2001.

The following pro forma information for the years ended October 31, 2002 and 2001 have been prepared as if the merger with Washington Homes, Inc. on January 23, 2001 and the acquisition of Forecast on January 10, 2002 had occurred on November 1, 2000. Total pro forma housing revenues were \$2,526,000 and \$2,242,000 and total homes delivered were 9,789 and 9,306 as of October 31, 2002 and 2001, respectively.

The increase in housing revenues was primarily due to the acquisition of Forecast and a full year of operations from Washington Homes, Inc. In addition, these increases were due to increased deliveries in the Northeast Region resulting from a land portfolio acquisition in late March 2002, and increased average sales prices in all our markets except California. California's average sales price is down due to the Forecast Group product being mostly lower priced, first time buyer homes.

Unaudited quarterly housing revenues and net sales contracts using base sales prices by market area for the years ending October 31, 2002, 2001, and 2000 are set forth below:

(In Thousands)	Quarter Ended			
	October 31, 2002	July 31, 2002	April 30, 2002	January 31, 2002
Housing Revenues:				
Northeast Region	\$205,079	\$177,153	\$145,249	\$132,769
North Carolina.....	70,153	72,437	64,784	56,681
Metro D.C.	137,518	110,030	78,333	70,392
California ⁽¹⁾	316,412	242,631	178,688	114,642
Texas	67,403	65,432	52,820	54,526
Mid South.....	8,717	13,646	12,512	13,635
Other.....	—	—	—	453
Total	\$805,282	\$681,329	\$532,386	\$443,098
Sales Contracts (Net of Cancellations):				
Northeast Region	\$154,623	\$148,390	\$165,148	\$109,689
North Carolina.....	49,938	55,660	89,394	53,794
Metro D. C.	88,864	98,828	164,098	78,993
California ⁽¹⁾	283,607	288,885	261,002	84,122
Texas	55,893	54,437	73,145	43,827
Mid South.....	3,206	6,443	9,053	11,025
Other.....	—	—	—	340
Total	\$636,131	\$652,643	\$761,840	\$381,790

⁽¹⁾ Quarter ended January 31, 2002 includes housing revenues and sales contracts from Forecast Homes beginning on January 10, 2002.

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

⁽²⁾ Quarter ended January 31, 2001 includes housing revenues and sales contracts from Washington Homes beginning on January 24, 2001.

(In Thousands)	Quarter Ended			
	October 31, 2000	July 31, 2000	April 30, 2000	January 31, 2000
Housing Revenues:				
Northeast Region	\$188,770	\$131,668	\$113,732	\$127,252
North Carolina.....	35,016	33,319	30,891	27,370
Metro D.C.	18,932	13,901	17,459	15,845
California	39,725	48,055	30,313	25,636
Texas	52,188	47,318	37,573	49,215
Other.....	7,658	3,743	5,087	4,800
Total	\$342,289	\$278,004	\$235,055	\$250,118
Sales Contracts (Net of Cancellations):				
Northeast Region	\$121,179	\$115,649	\$174,126	\$109,040
North Carolina.....	29,317	32,338	33,980	26,892
Metro D. C.	20,354	23,459	25,144	13,449
California	43,551	41,350	52,114	23,839
Texas	51,251	54,708	46,671	39,830
Other.....	4,571	4,412	10,685	4,193
Total	\$270,223	\$271,916	\$342,720	\$217,243

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Northeast Region:			
Total Contract Backlog	\$ 416,264	\$322,100	\$311,539
Number of Homes	1,397	1,160	1,149
North Carolina:			
Total Contract Backlog	\$ 88,291	\$103,616	\$ 40,635
Number of Homes	466	534	215
Metro D.C.:			
Total Contract Backlog	\$ 243,391	\$208,888	\$ 52,339
Number of Homes	755	779	215
California:			
Total Contract Backlog	\$ 267,305	\$ 53,338	\$ 58,089
Number of Homes	955	172	151
Texas:			
Total Contract Backlog	\$ 60,532	\$ 64,961	\$ 61,703
Number of Homes	277	263	282
Mid South:			
Total Contract Backlog	\$ 945	\$ 19,734	—
Number of Homes	7	122	—
Other:			
Total Contract Backlog	\$ —	\$ 437	\$ 14,241
Number of Homes	—	3	84
Totals:			
Total Contract Backlog	\$1,076,728	\$773,074	\$538,546
Number of Homes	3,857	3,033	2,096

The following pro forma information at October 31, 2001 has been prepared as if the acquisition of Forecast Homes on January 10, 2002 had occurred on October 31, 2001. Total pro forma contract backlog was \$863,193 and total homes in backlog were 3,445 as of October 31, 2001.

We have written down or written off certain inventories totaling \$8.2, \$4.4, and \$1.8 million during the years ended October 31, 2002, 2001, and 2000, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements - Note 11" for additional explanation. These write-downs and write-offs were incurred primarily because of lower property values, a change in the marketing strategy to liquidate a particular property, or the decision not to exercise certain options to purchase land.

During the years ended October 31, 2002, 2001, and 2000, we wrote off residential land options including approval and engineering costs amounting to \$4.0, \$1.9, and \$1.8 million, respectively, which are included in the total write-offs mentioned above. We did not exercise those options because the communities' proforma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, Metro D. C., North Carolina, California, and Poland.

The write-down of residential inventory during the year ended October 31, 2002 was attributed to Poland and the Mid-South. The write-down in Poland was based upon changes in market conditions. In the Mid-South, land was written down based on a purchase offer. We have made a decision to discontinue selling homes in these two markets and offer the remaining lots for sale. The result of the above decisions was a reduction in inventory carrying amounts to fair value, resulting in a \$4.2 million impairment loss.

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

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:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Sale of homes.....	\$2,462,095	\$1,693,717	\$1,105,466
Cost of sales.....	1,919,941	1,344,708	876,492
Housing gross margin.....	\$ 542,154	\$ 349,009	\$ 228,974
Gross margin percentage.....	22.0%	20.6%	20.7%

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Sale of homes.....	100.0%	100.0%	100.0%
Cost of sales:			
Housing, land and development costs	70.6	71.5	71.1
Commissions.....	2.2	2.3	2.2
Financing concessions	1.0	1.0	0.9
Overheads	4.2	4.6	5.1
Total cost of sales.....	78.0	79.4	79.3
Gross margin percentage.....	22.0%	20.6%	20.7%

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. We achieved higher gross margins during the year ended October 31, 2002 compared to the same period last year. The consolidated gross margin percentage increased 1.4% from the previous year primarily due to higher sales prices and increased national contract rebates, which slightly lowered our housing costs. Gross margins for the year ended October 31, 2002 increased in our Metro D. C. market, California market, (excluding Forecast communities), and in our highest margin market, the Northeast region. During the year ended October 31, 2001, our gross margin percentage decreased 0.1% from the previous year. This decrease was due to the Washington Homes, Inc. merger, which significantly increased our activity in Metro D. C. and North Carolina and added markets in the Mid-South region that collectively have a lower average sales price and gross margin than the averages for our other markets. On an individual market basis all of our markets showed an increase in gross margin percentage primarily resulting from increased sales prices for the years ended October 31, 2002, 2001, and 2000. The dollar increases in gross margin for each of the three years ended October 31, 2002, 2001, and 2000 were attributed to increased sales, primarily resulting from the acquisition of Forecast Homes in 2002 and the merger with Washington Homes in 2001.

Selling, general, and administrative expenses as a percentage of homebuilding revenues decreased to 7.8% for the year ended October 31, 2002 and decreased to 8.2% for the year ended October 31, 2001 from 9.4% for the year ended October 31, 2000. Such expenses increased to \$194.9 million for the year ended October 31, 2002 and increased to \$140.1 million for the year ended October 31, 2001 from \$104.8 million for the previous year. The percentage decline for the years ended October 31, 2002 and 2001 was due to increased deliveries. The increased spending year over year was primarily due to the acquisition of the Forecast Group in fiscal year 2002 and Washington Homes in fiscal year 2001.

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:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Land and lot sales.....	\$42,312	\$11,356	\$6,549
Cost of sales	35,897	10,646	3,971
Land and lot sales gross margin.....	\$ 6,415	\$ 710	\$2,578

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

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

Financial Services

Financial services consists primarily of originating mortgages from our homebuyers, selling such mortgages in the secondary market, and title insurance activities. During the years ended October 31, 2002 and October 31, 2001, financial services provided a \$18.2 and \$10.0 million pretax profit, respectively. During the year ended October 31, 2000, financial services resulted in a \$0.5 million loss before income taxes. The increases in 2002 and 2001 were primarily due to a change in management, reduced costs, increased mortgage loan amounts, and the addition of mortgage operations from the merger with Washington Homes for a full year and the acquisition of Forecast Homes. In addition to our wholly-owned mortgage subsidiaries, customers obtained mortgages from our mortgage joint venture in our Texas division in 2001 and 2000, respectively, and our Forecast division in 2002. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 71%, 57%, and 54% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2002, 2001, and 2000, respectively. Servicing rights on new mortgages originated by us will be sold as the loans are closed.

Corporate General and Administrative

Corporate general and administrative expenses 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 were 2.0%, 2.5%, and 2.9% for the years ended October 31, 2002, 2001, and 2000, respectively. The percentage decrease during the years ended October 31, 2002 and 2001 was due to increased housing revenues. Our long term improvement initiatives included total quality, process redesign, which included the implementation of a software system (net of capitalized expenses), and training. Such initiatives resulted in additional expenses for the years ended October 31, 2002, 2001, and 2000 which were not capitalized amounting to \$4.1 million, \$7.2 million, and \$6.9 million, respectively. During the year ended October 31, 2002 we wrote off \$12.4 million of unamortized, capitalized costs associated with these initiatives. See Asset Write-off Section of Management's Discussion.

Interest

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Sale of homes	\$59,276	\$51,046	\$34,541
Land and lot sales.....	1,095	400	415
Total.....	\$60,371	\$51,446	\$34,956

Housing interest as a percentage of sale of home revenues amounted to 2.4%, 3.0%, and 3.1% for the years ended October 31, 2002, 2001, and 2000, respectively. The decreases are primarily the result of increased equity and quicker inventory turnover. Inventory turnover is up as a result of the acquisition of Forecast Homes and the merger with Washington Homes where a larger portion of their purchases are finished lots requiring shorter holding periods until homes are delivered.

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 the Forecast consultant's agreement and the right of first refusal agreement, expenses related to exiting our Mid-South market, minority interest relating to joint ventures, corporate owned life insurance loan interest, and contributions. For the year ended October 31, 2002, other operations increased primarily due to the amortization of the Forecast consulting and right of first refusal agreements (starting in 2002), increased amortization of senior and subordinated note issuance expenses, and an increase in minority interest due to a new joint venture in our Northeast Region.

Restructuring Charges

Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. as a result of the merger on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina were either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. At January 31, 2001, expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. During the year ended October 31, 2001 our estimate for restructuring charges was increased to a total of \$3.2 million. We have provided for the termination of 65 associates. We accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated were primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocation of various administrative offices in these three states. At October 31, 2002 all costs have been charged against this accrual.

Asset Write Off

We wrote off costs during the year ended October 31, 2002 associated with SAP, our enterprise-wide operating software, totaling \$12.4 million pretax included in Restructuring Charges/Asset Write Off in the accompanying consolidated statements of income or \$7.6 million after taxes equal to \$0.24 per fully diluted share. These unamortized costs are those associated with the development of the SAP system. We were not successful in implementing SAP, due to the complexities and limitations in the software program. We have \$2.1 million initiative costs remaining, all of which will be amortized over the remaining life of the communities using SAP software, which are scheduled to be substantially complete by the end of 2003. We have recently identified an alternative software package that will offer us the information system functionality we need. Our first pilot community is on line and is utilizing this software package.

Recent Accounting Pronouncements

In December 2001, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others", ("SOP 01-6"). SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 31, 2001. Under SOP 01-6, Mortgage companies are explicitly subject to new accounting rules and reporting and disclosure requirements, including disclosures about regulatory capital and net worth requirements. SOP 01-6 also requires the carrying amounts of loans and servicing rights to be allocated using relative fair values in a manner consistent with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." We do not anticipate that the adoption of SOP 01-6 will have a material effect on the financial position or results of operations of our Company.

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 will adopt SFAS No. 145 effective for our fiscal year beginning November 1, 2002. Certain amounts in our prior year financial statements will be reclassified 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 do not anticipate that the adoption of SFAS 146 will have a material effect on the financial position or results of operations of our Company.

Total Taxes

Total taxes as a percentage of income before taxes amounted to approximately 39.0%, 40.1%, and 36.0% for the years ended October 31, 2002, 2001, and 2000, respectively. The decrease in this percentage from 2001 to 2002 is primarily attributed to a decrease in the effective federal income tax rate. This decreased federal effective rate is due primarily to a reserve set up in 2001 for potential adjustments. 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 reflected in the balance sheet are recoverable regardless of future income.

Extraordinary Loss

On April 29, 2002, we redeemed our 9 3/4% Subordinated Notes due 2005. The early retirement of these notes resulted in an extraordinary loss of \$582,000 net of income taxes of \$313,000.

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 23, 2001 we merged with Washington Homes, Inc. for a total purchase price of \$87.4 million, of which \$38.5 million was paid in cash and 6,352,900 shares of our Class A common stock were issued. At the date of merger we loaned Washington Homes, Inc. approximately \$57.0 million to pay off their third party debt. On January 10, 2002 we acquired The Forecast Group, L.P. 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 Forecast's third party debt.

Safe Harbor Statement

All statements in this Annual Report 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 expressed or implied by the forward looking statements. 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 markets where the Company builds homes
- . Government regulation, including regulations concerning development of land, the homebuilding process, and the environment
- . Fluctuations in interest rates and the availability of mortgage financing
- . Increases in raw materials and labor costs
- . The availability and cost of suitable land and improved lots
- . Levels of competition
- . Availability of financing to the Company
- . 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 the 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 FNMA, FHLMC, GNMA securities and private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 2002 and 2001, our long term debt obligations, principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market value (“FMV”). There have been no significant changes in our market risk from October 31, 2001 to October 31, 2002.

(Dollars in Thousands)	As of October 31, 2002 for the Year Ended October 31,						Total	FMV @ 10/31/02
	2003	2004	2005	2006	2007	Thereafter		
Long Term Debt⁽¹⁾:								
Fixed Rate	\$14,177	\$75	\$81	\$88	\$ 96	\$550,349	\$564,866	\$549,991
Average interest rate	10.31%	8.38%	8.38%	8.38%	8.38%	9.23%	9.25%	—
Variable rate.....	—	—	—	—	\$115,000	—	\$115,000	\$115,000
Average interest rate	—	—	—	—	(2)	—	—	—

(Dollars in Thousands)	As of October 31, 2001 for the Year Ended October 31,					Total	FMV @ 10/31/01	
	2002	2003	2004	2005	2006			
Long Term Debt⁽¹⁾:								
Fixed Rate	\$8,919	\$ 2,577	\$ 75	\$ 81	\$ 88	\$400,193	\$411,933	\$406,192
Average interest rate	6.65%	7.04%	8.38%	8.38%	8.38%	9.80%	9.71%	—

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

⁽²⁾ Libor plus 2.5%

Consolidated Balance Sheets

<i>(In Thousands)</i>	October 31, 2002	October 31, 2001
ASSETS		
Homebuilding:		
Cash and cash equivalents(Note 5).....	\$ 262,675	\$ 10,173
Inventories - At the lower of cost or fair value (Notes 7, 11, and 12):		
Sold and unsold homes and lots under development.....	843,581	593,149
Land and land options held for future development or sale	238,001	146,965
Total Inventories.....	1,081,582	740,114
Receivables, deposits, and notes (Note 12).....	26,276	75,802
Property, plant, and equipment - net (Note 4).....	19,242	30,756
Senior residential rental properties – net (Notes 4 and 7)	9,504	9,890
Prepaid expenses and other assets (Note 15).....	86,582	46,178
Goodwill and intangibles (Note 15).....	82,275	32,618
Total Homebuilding	1,568,136	945,531
Financial Services:		
Cash	7,315	5,976
Mortgage loans held for sale (Notes 6 and 7).....	91,451	105,567
Other assets	11,226	6,465
Total Financial Services.....	109,992	118,008
Income Taxes Receivable - Including deferred tax benefits (Note 10).....		719
Total Assets.....	\$1,678,128	\$1,064,258

<i>(In Thousands)</i>	October 31, 2002	October 31, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Homebuilding:		
Nonrecourse land mortgages (Note 7)	\$ 11,593	\$ 10,086
Accounts payable and other liabilities (Note 16)	298,213	124,125
Customers' deposits (Note 5)	40,422	39,114
Nonrecourse mortgages secured by operating properties (Note 7)	3,274	3,404
Total Homebuilding	353,502	176,729
Financial Services:		
Accounts payable and other liabilities.....	4,857	5,264
Mortgage warehouse line of credit (Notes 6 and 7)	85,498	98,305
Total Financial Services	90,355	103,569
Notes Payable:		
Term loan (Note 7)	115,000	
Senior notes (Note 8)	396,390	296,797
Senior subordinated notes (Note 8).....	150,000	
Subordinated notes (Note 8)		99,747
Accrued interest (Notes 7 and 8)	9,555	11,770
Total Notes Payable	670,945	408,314
Income Taxes Payable – Net of deferred tax benefits(Note 10).....	777	
Total Liabilities	1,115,579	688,612
Commitments and Contingent Liabilities (Notes 9, 12, 14 and 15)		
Stockholders' Equity (Notes 13 and 15):		
Preferred Stock, \$.01 par value-authorized 100,000 shares; none issued ..		
Common Stock, Class A, \$.01 par value-authorized 87,000,000 shares; issued 27,453,994 shares in 2002 and 24,599,379 shares in 2001 (including 4,343,240 shares in 2002 and 4,195,621 shares in 2001 held in Treasury)	275	246
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale)-authorized 13,000,000 shares; issued 7,788,061 shares in 2002 and 7,818,927 shares in 2001 (both years include 345,874 shares held in Treasury).....	78	78
Paid in Capital	152,977	100,957
Retained Earnings (Note 8)	447,802	310,106
Deferred Compensation	(21)	(127)
Treasury Stock - at cost	(38,562)	(35,614)
Total Stockholders' Equity	562,549	375,646
Total Liabilities and Stockholders' Equity	\$1,678,128	\$1,064,258

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
<i>(In Thousands Except Per Share Data)</i>			
Revenues:			
Homebuilding:			
Sale of homes	\$2,462,095	\$1,693,717	\$1,105,466
Land sales and other revenues (Notes 12 and 14)	48,241	16,845	10,769
Total Homebuilding	2,510,336	1,710,562	1,116,235
Financial Services	40,770	31,428	19,324
Total Revenues	2,551,106	1,741,990	1,135,559
Expenses:			
Homebuilding:			
Cost of sales	1,955,838	1,355,381	880,463
Selling, general and administrative.....	194,903	140,126	104,771
Inventory impairment loss (Note 11)	8,199	4,368	1,791
Total Homebuilding	2,158,940	1,499,875	987,025
Financial Services	22,543	21,443	19,750
Corporate General and Administrative(Note 3)	51,974	44,278	33,309
Interest (Notes 7 and 8)	60,371	51,446	34,956
Other operations (Note 15).....	18,241	11,583	6,188
Restructuring charges/asset writeoff (Notes 16 and 17)	12,412	3,247	
Goodwill Amortization		3,764	2,513
Total Expenses	2,324,481	1,635,636	1,083,741
Income Before Income Taxes and Extraordinary Loss	226,625	106,354	51,818
State and Federal Income Taxes:			
State (Note 10).....	8,993	4,024	2,495
Federal (Note 10)	79,354	38,644	16,160
Total Taxes	88,347	42,668	18,655
Extraordinary Loss From Extinguishment of Debt,			
Net of Income Taxes (Note 8).....	(582)		
Net Income	\$ 137,696	\$ 63,686	\$ 33,163
Per Share Data:			
Basic:			
Income Per Common Share Before Extraordinary Loss	\$ 4.55	\$ 2.38	\$ 1.51
Extraordinary Loss	(.02)		
Income	\$ 4.53	\$ 2.38	\$ 1.51
Weighted Average Number of Common Shares Outstanding .	30,405	26,810	21,933
Assuming Dilution:			
Income Per Common Share Before Extraordinary Loss	\$ 4.30	\$ 2.29	\$ 1.50
Extraordinary Loss	(.02)		
Income	\$ 4.28	\$ 2.29	\$ 1.50
Weighted Average Number of Common Shares Outstanding.	32,155	27,792	22,043

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	A Common Stock		B Common Stock		Paid-In Capital	Retained Earnings	Deferred Comp	Treasury Stock	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
<i>(Dollars in Thousands)</i>									
Balance,									
October 31, 1999	14,508,168	\$ 172	7,651,209	\$ 79	\$ 45,856	\$213,257	\$	\$(22,938)	\$236,426
Acquisitions	47,619	1			(270)				(269)
Sale of common stock under employee stock option plan					346				346
Stock bonus plan	25,128				154				154
Conversion of Class B to Class A common stock	18,180		(18,180)						
Treasury stock purchases (1,026,647)								(6,461)	(6,461)
Net Income						33,163			33,163
Balance,									
October 31, 2000	13,572,448	173	7,633,029	79	46,086	246,420		(29,399)	263,359
Acquisitions	6,546,932	66			51,361				51,427
Sale of common stock under employee stock option plan	519,673	5			2,885				2,890
Stock bonus plan	63,429	1			625				626
Conversion of Class B to Class A common stock	159,976	1	(159,976)	(1)					
Deferred compensation							(127)		(127)
Treasury stock purchases (458,700)								(6,215)	(6,215)
Net Income						63,686			63,686
Balance,									
October 31, 2001	20,403,758	246	7,473,053	78	100,957	310,106	(127)	(35,614)	375,646
Acquisitions	2,402,769	24			48,051				48,075
Sale of common stock under employee stock option plan	357,165	4			3,577				3,581
Stock bonus plan	63,815	1			392				393
Conversion of Class B to Class A common stock	30,866		(30,866)						
Deferred compensation							106		106
Treasury stock purchases (147,619)								(2,948)	(2,948)
Net Income						137,696			137,696
Balance,									
October 31, 2002	23,110,754	\$ 275	7,442,187	\$ 78	\$152,977	\$447,802	\$(21)	\$(38,562)	\$562,549

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Cash Flows From Operating Activities:			
Net Income.....	\$137,696	\$63,686	\$33,163
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	6,506	8,164	6,423
Amortization of Goodwill.....		3,764	2,513
Loss (gain) on sale and retirement of property and assets	12,328	641	(728)
Extraordinary loss from extinguishment of Debt net of income taxes	582		
Deferred income taxes	(18,307)	(6,265)	2,551
Impairment losses.....	8,199	4,368	1,791
Decrease (increase) in assets:			
Mortgage notes receivable	14,870	(42,573)	(27,703)
Receivables, prepaids and other assets	38,557	(35,805)	(13,256)
Inventories	(31,573)	12,540	(89,544)
Increase (decrease) in liabilities:			
State and Federal income taxes.....	21,451	7,004	3,244
Tax effect from exercise of stock options.....	(1,335)	(566)	
Customers' deposits	1,006	4,543	6,240
Interest and other accrued liabilities.....	29,949	15,466	8,222
Post development completion costs.....	8,545	5,120	(2,555)
Accounts payable.....	20,066	(3,018)	8,994
Net cash provided by (used in) operating activities	248,540	37,069	(60,645)
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets	627	5,325	1,517
Purchase of property, equipment, and other fixed assets	(6,903)	(6,777)	(15,607)
Acquisition of homebuilding companies	(137,582)	(37,911)	(3,845)
Investment in and advances to unconsolidated affiliates	(15,828)	(372)	
Net cash (used in) investing activities	(159,686)	(39,735)	(17,935)
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes.....	1,895,429	1,472,789	1,433,150
Proceeds from senior debt.....	99,152		146,430
Proceeds from senior subordinated debt	150,000		
Principal payments on mortgages and notes	(1,880,873)	(1,494,528)	(1,470,805)
Principal payments on subordinated debt.....	(99,747)		
Purchase of treasury stock.....	(2,948)	(6,215)	(6,461)
Proceeds from sale of stock and employee stock plan.....	3,974	3,516	154
Net cash provided by (used in) financing activities	164,987	(24,438)	102,468
Net Increase (Decrease) In Cash	253,841	(27,104)	23,888
Cash and Cash Equivalents Balance, Beginning Of Year.....	16,149	43,253	19,365
Cash and Cash Equivalents Balance, End Of Year.....	\$269,990	\$16,149	\$43,253
Supplemental Disclosures Of Cash Flow:			
Cash paid during the year for:			
Interest.....	\$ 62,066	\$53,100	\$33,814
Income Taxes.....	\$ 85,203	\$45,498	\$12,858
Stock issued for acquisitions/extension of options granted	\$ 48,075	\$51,427	\$ 721
Supplemental disclosures of noncash operating activities:			
Inventory capitalized and accrued for specific performance	\$ 97,983		

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2002, 2001, and 2000

1. Basis of Presentation and Segment Information

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

Segment Information – Statement of Financial Accounting Standards (SFAS) No. 131 “Disclosures About Segments of an Enterprise and Related Information” establishes new standards for segment reporting based on the way management organizes segments within a company for making operating decisions and assessing performance. Our financial reporting segments consist of homebuilding, financial services, and corporate. Our homebuilding operations comprise the most substantial part of our business, with approximately 98% of consolidated revenues in the years ended October 31, 2002, 2001, and 2000 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in more than 196 new home communities in New Jersey, Pennsylvania, New York, Virginia, Maryland, North Carolina, Texas, and California. We offer a wide variety of homes that are designed to appeal to first time buyers, first and second time move up buyers, luxury buyers, active adult buyers and empty nesters. Our financial services operations provide mortgage banking and title services to the homebuilding operations’ customers. We do not retain or service the mortgages that we originate but rather, sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, accounting, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality and safety. Assets, liabilities, revenues and expenses of our reportable segments are separately included in the consolidated balance sheets and consolidated statements of income.

2. Summary of Significant Accounting Policies

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

Business Combinations – When we make an acquisition of another company, we use the purchase method of accounting in accordance with the Statement of Financial Accounting Standards (SFAS) No. 141 “Business Combinations” which we adopted on June 30, 2001. Under SFAS 141 we record as our cost the estimated fair value of acquired assets less liabilities assumed. Any difference between the cost of an acquired company and the sum of the fair values of tangible and identified intangible assets less liabilities is recorded as goodwill. The reported income of an acquired company includes the operations of an acquired company from the date of acquisition.

Income Recognition From Home and Land Sales - Income from home and land sales is recorded when each home is closed, 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 all indications of legal control pass to the buyer and the sales price is collected.

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

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

Inventories - For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on expected revenue, cost to complete including interest, and selling costs. Inventories and long-lived assets held for sale are recorded at the lower of cost or fair value less selling costs. Fair value is defined in 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. SFAS No. 144, which the Company adopted on November 1, 2001, provides accounting guidance for financial accounting and reporting for impairment or disposal of long-lived assets. 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.

Self Insurance Reserves - We are self insured for our workman'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.

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. Options that include specific performance terms, which have been triggered, are recorded on the balance sheet as inventory and other liabilities.

Intangible Assets - The intangible assets recorded on our balance sheet are goodwill and a trademark, which is an indefinite life intangible asset, resulting from company acquisitions. In accordance with the Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets", which we adopted on November 1, 2001, we no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We performed such assessments utilizing a fair value approach as of October 31, 2002, and determined that no impairment of goodwill or intangibles existed. On a pro forma basis adding back goodwill amortization, net income for the years ended October 31, 2001 and 2000 was \$65.9 million and \$34.8 million, respectively.

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

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

Post Development Completion Costs – In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work and is recorded in accounts payable and other liabilities in the accompanying consolidated balance sheets.

Advertising Costs – Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2002, 2001, and 2000, advertising costs expensed amounted to \$23,440,000, \$18,536,000, and \$14,418,000, respectively.

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

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

On December 31, 2000, our stock repurchase program to purchase up to 4 million shares of Class A Common Stock expired. As of December 31, 2000 3,391,047 shares had been purchased under this program. On July 3, 2001, our Board of Directors authorized a revision to our stock repurchase program to purchase up to 2 million shares of Class A Common Stock. As of October 31, 2002, 606,319 have been purchased under this program.

Depreciation – Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of the assets.

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

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

Per Share Calculations – Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock shares.

Computer Software Development – On November 1, 1999 we adopted SOP-98-1, Accounting For the Costs of Computer Software Developed For or Obtained For Internal Use. The SOP-98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. The effect of adopting SOP-98-1 was to increase net

income for the year ended October 31, 2000 by \$2,570,000 or \$0.12 per share. Upon entering the application and development phase, the capitalized costs are amortized over the systems estimated useful life. We wrote off the unamortized capitalized costs associated with the development and implementation of the SAP systems during the year ended October 31, 2002, totaling \$12.4 million pretax included in Restructuring Charges/Asset Write Off in the accompanying consolidated statements of income, or \$7.6 million after taxes equal to \$0.24 per fully diluted share (See Note 17). For both years ended October 31, 2001 and 2002 we recorded amortization expense of the SAP system in the amount of approximately \$2.0 million based on an estimated useful life of 10 years.

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

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

Accounting Pronouncements Not Yet Adopted – In December 2001, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (“AICPA”) issued Statement of Position 01-6, “Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others”, (“SOP 01-6”). SOP 01-6 is effective for annual and interm financial statements issued for fiscal years beginning after December 31, 2001. Under SOP 01-6, Mortgage companies are explicitly subject to new accounting rules and reporting and disclosure requirements, including disclosures about regulatory capital and net worth requirements. SOP 01-6 also required the carrying amounts of loans and servicing rights to be allocated using relative fair values in a manner consistent with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” We have adopted SOP 01-6 effective November 1, 2002. We do not anticipate that the adoption of SOP 01-6 will have a material effect on the financial position or results of operations of our Company.

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 will adopt SFAS No. 145 effective for our fiscal year beginning November 1, 2002. Certain amounts in our prior year financial statements will be reclassified 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 do not anticipate that the adoption of SFAS 146 will have a material effect on the financial position or results of operations of our Company.

Reclassifications – Certain amounts in the 2001 and 2000 consolidated financial statements have been reclassified to conform to the 2002 presentation.

3. Corporate Initiatives

We have embarked on long term improvement initiatives of total quality, process redesign, and training. Included in Corporate General and Administrative expense is \$4,074,000, \$7,200,000, and \$6,902,000 for the years ended October 31, 2002, 2001, and 2000, respectively, related to such initiatives. These amounts are in addition to software development costs capitalized in those years.

4. Property

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day to day business and are recorded at cost less accumulated depreciation. Homebuilding accumulated depreciation related to these assets at October 31, 2002 and October 31, 2001 amounted to \$18,470,000 and \$18,367,000, respectively. In addition we have two senior citizen residential rental communities recorded as senior residential rental properties on the consolidated balance sheets. Accumulated depreciation on senior residential rental properties at October 31, 2002 and October 31, 2001 amounted to \$3,054,000 and \$2,688,000, respectively.

5. Deposits

We hold escrow cash amounting to \$3,455,000 and \$4,420,000 at October 31, 2002 and October 31, 2001, respectively, which primarily represents customers' deposits which are restricted from use by us. We are able to release other escrow cash by pledging letters of credit and surety bonds. Escrow cash accounts are substantially invested in short-term certificates of deposit, time deposits, or money market accounts. The remaining deposits are not restricted from use by us.

6. Mortgage Loans Held for Sale

Our wholly-owned mortgage banking subsidiary originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market with servicing released. At October 31, 2002 and 2001, respectively, \$91,339,000 and \$105,174,000 of such mortgages were pledged against our mortgage warehouse line (see Note 7). We may incur risk with respect to mortgages that are delinquent, but only to the extent the losses are not covered by mortgage insurance or resale value of the home. Historically, we have incurred minimal credit losses. The mortgage loans held for sale are carried at the lower of cost or market value, determined on an aggregate basis. There was no valuation adjustment at October 31, 2002 or 2001.

7. Mortgages and Notes Payable

Substantially all of the nonrecourse land mortgages are short-term borrowings. Nonrecourse mortgages secured by operating properties are installment obligations having annual principal maturities in the following years ending October 31, of approximately \$2,584,000 in 2003, \$75,000 in 2004, \$81,000 in 2005, \$88,000 in 2006, \$96,000 in 2007, and \$350,000 after 2007. The interest rates on these obligations range from 6.0% to 10.0%.

We have an unsecured Revolving Credit Agreement (“Agreement”) with a group of banks which provides up to \$440,000,000 through July 2005. Interest is payable monthly and at various rates of either the prime rate plus .40% or LIBOR plus 1.85%. In addition, we pay a fee equal to .375% per annum on the weighted average unused portion of the line. As of October 31, 2002 and 2001, there was no outstanding balance under the Agreement. See Note 19 for loan guarantee.

On January 22, 2002, we issued a \$165,000,000 Term Loan to a group of banks which is due January 22, 2007. Interest is payable monthly at either the prime rate plus 1.25% or LIBOR plus 2.5%. The proceeds from the issuance of the Term Loan were primarily used to partially fund the acquisition of the California operations of Forecast. (See Note 15). As of October 31, 2002, borrowings under the Term Loan were \$115,000,000. See Note 19 for loan guarantee.

Interest costs incurred, expensed and capitalized were:

	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
<i>(Dollars in Thousands)</i>			
Interest capitalized at beginning of year.....	\$25,124	\$25,694	\$21,966
Plus acquired entity interest.....		3,604	
Plus interest incurred ⁽¹⁾⁽²⁾	57,406	47,272	38,878
Less interest expensed ⁽²⁾	60,371	51,446	34,956
Less impairment write-off.....			194
Interest capitalized at end of year ⁽²⁾	\$22,159	\$25,124	\$25,694

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

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

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

	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
<i>(Dollars in Thousands)</i>			
Average monthly outstanding borrowings.....	\$10,717	\$ 74,543	\$128,788
Average interest rate during period.....	4.4%	7.1%	10.0%
Average interest rate at end of period ⁽¹⁾	3.6%	4.1%	8.4%
Maximum outstanding at any month end.....	\$36,425	\$120,600	\$170,800

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

In addition, we have a secured mortgage loan warehouse agreement with a group of banks, which is a short-term borrowing, that provides up to \$150,000,000 through June 7, 2003. Interest is payable monthly at the Federal Funds Rate plus 1.375% (approximately 3.195% and 3.810% at October 31, 2002 and 2001, respectively) of the outstanding loan balance. The loan is repaid when the underlying mortgage loans are sold to permanent investors by the Company. As of October 31, 2002 borrowings under the agreement were \$85,498,000.

8. Senior and Subordinated Notes

On June 7, 1993, we issued \$100,000,000 principal amount of 9 3/4% Subordinated Notes due June 1, 2005. In April 2001, we retired \$253,000 of these notes. Interest is payable semi-annually. The notes were redeemable in whole or in part at our option, initially at 104.875% of their principal amount on or after June 1, 1999 and reducing to 100% of their principal amount on or after June 1, 2002. On April 29, 2002 we used a portion of the proceeds from our March 2002 debt issuance (see below) to redeem the remainder of these

notes which resulted in an extraordinary loss of \$582,000 net of an income tax benefit of \$313,000.

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

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

On March 26, 2002, we issued \$100,000,000 8% Senior Notes due 2012 and \$150,000,000 8 7/8% Senior Subordinated Notes due 2012. The 8% Senior Notes were issued at a discount to yield 8.125% and have been reflected net of the unamortized discount in the accompanying consolidated balance sheet. Interest on both notes is paid semi-annually. The notes are redeemable in whole or in part at our option at 100% of their principal amount upon payment of a make-whole price. The proceeds were used to redeem the remaining 9 3/4% Subordinated Notes (see above), repay a portion of our Term Loan Facility (See Note 7), repay the current outstanding indebtedness under our Revolving Credit Agreement, and the remainder for general corporate purposes.

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain a Company guarantee (See Note 19) and restrictions on the payment of cash dividends. At October 31, 2002, \$115,183,000 of retained earnings were free of such restrictions.

The fair value of both the Senior Notes and Senior Subordinated Notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The fair value of the Senior Notes and Senior Subordinated Notes is estimated at \$398,625,000 and \$136,500,000, respectively, as of October 31, 2002.

9. Retirement Plan

In December 1982, we established a defined contribution savings and investment retirement plan. Under such plan there are no prior service costs. All associates are eligible to participate in the retirement plan and employer contributions are based on a percentage of associate contributions. Plan costs charged to operations amount to \$6,556,000, \$3,675,000, and \$2,948,000 for the years ended October 31, 2002, 2001, and 2000, respectively. The year over year increases are the result of increased number of participants from acquisitions and increased profit sharing contributions resulting from higher Company Returns on Equity.

10. Income Taxes

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

	Year Ended	
	October 31, 2002	October 31, 2001
<i>(Dollars In Thousands)</i>		
State income taxes:		
Current	\$ 7,092	\$ 3,393
Deferred.....	(7,088)	(2,262)
Federal income taxes:		
Current	27,541	6,623
Deferred.....	(26,768)	(8,473)
Total	\$ 777	\$ (719)

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

<i>(Dollars In Thousands)</i>	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Current income tax expense:			
Federal	\$97,347	\$48,478	\$13,609
State ⁽¹⁾	13,808	6,461	1,574
	111,155	54,939	15,183
Deferred income tax (benefit) expense:			
Federal	(18,307)	(9,834)	2,551
State.....	(4,814)	(2,437)	921
	(23,121)	(12,271)	3,472
Total	\$88,034	\$42,668	\$18,655

⁽¹⁾ The current state income tax expense is net of the use of state loss carryforwards amounting to \$45,778,000, \$26,830,000, and \$21,330,000 for the years ended October 31, 2002, 2001, and 2000.

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

<i>(Dollars in Thousands)</i>	Year Ended	
	October 31, 2002	October 31, 2001
Deferred tax assets:		
Maintenance guarantee reserves	\$ 659	\$ 658
Inventory impairment loss	1,048	2,206
Uniform capitalization of overhead.....	14,157	6,726
Post development completion costs.....	8,006	5,319
Acquisition goodwill	2,995	
State net operating loss carryforwards.....	27,684	27,846
Other	9,999	7,067
Total.....	64,548	49,822
Valuation allowance ⁽²⁾	(27,684)	(27,846)
Total deferred tax assets	36,864	21,976
Deferred tax liabilities:		
Deferred interest		31
Installment sales.....	72	76
Accelerated depreciation.....	2,936	2,113
Acquisition goodwill		3,124
Software development expenses.....		5,897
Total deferred tax liabilities.....	3,008	11,241
Net deferred tax assets.....	\$33,856	\$10,735

⁽²⁾ The net change in the valuation allowance of \$(162,000) results from a decrease in the separate company state net operating losses that may not be fully utilized.

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

	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
Computed "expected" tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit ..	2.6	3.2	3.1
Permanent timing differences.....	1.4	1.6	1.0
Low income housing tax credit	(0.6)	(1.3)	(2.6)
Other	0.6	1.6	(0.5)
Effective tax rate.....	39.0%	40.1%	36.0%

We have state net operating loss carryforwards for financial reporting and tax purposes of \$370,257,000 due to expire between the years October 31, 2003 and October 31, 2017.

11. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. During the year ended October 31, 2001, inventory with a carrying amount of \$12,084,000 was written down by \$2,088,000 to its fair value. This was based on our evaluation of the expected revenue, cost to complete including interest and selling cost. The writedown during the year ended October 31, 2001 was attributed to two communities in the Northeast Region that were part of a large land acquisition, which resulted in a loss.

As of October 31, 2002, inventory with a carrying amount of \$9,400,000 was written down by \$4,163,000 to its fair market. As of October 31, 2001, inventory with a carrying amount of \$1,391,000 was written down by \$424,000 to its fair value. The writedowns during the year ended October 31, 2002 were attributed to two properties in Poland and one community in the Mid-South. The writedowns were attributed to market conditions coupled with our plan to exit both Poland and the Mid-South. The writedowns during the year ended October 31, 2001 were attributed to two land parcels in Florida and one community in North Carolina. The writedowns in Florida and North Carolina were based upon changes in market conditions.

The total aggregate impairment losses, which are presented in the consolidated statements of income and deducted from inventory held for future development or sale were \$4,163,000, \$2,512,000, and \$0 for the years ended October 31, 2002, 2001, and 2000, respectively.

On the statement of income the line entitled "Homebuilding – Inventory impairment loss" also includes write-offs of options including approval, engineering, and capitalized interest costs. During the years ended October 31, 2002, 2001, and 2000 write-offs amounted to \$4,036,000, \$1,856,000 and \$1,791,000, respectively. During the years ended October 31, 2002, 2001, and 2000 we did not exercise options in various locations because the communities pro forma profitability did not produce adequate returns on investment commensurate with the risk. Those communities were located in New Jersey, New York, Metro D. C., North Carolina, California, and Poland.

12. Transactions with Related Parties

Our Board of Directors had adopted a general policy providing that it will not make loans to our officers or directors or their relatives at an interest rate less than the interest rate at the date of the loan on six month U.S. Treasury Bills, that the aggregate of such loans will not exceed \$3,000,000 at any one time, and that such loans will be made only with the approval of the members of our Board of Directors who have no interest in the transaction. At October 31, 2002 and 2001 included in receivables, deposits and notes are related party receivables from officers and directors amounting to zero and \$1,119,000, respectively. Interest income from these loans for the years ended October 31, 2002, 2001, and 2000 amounted to \$18,000, \$84,000, and \$167,000, respectively.

We provide property management services to various limited partnerships including one partnership in which Mr. A. Hovnanian, our Chief Executive Officer, President and a Director, is a general partner, and members of his family and certain officers and directors are limited partners. During the years ended October 31, 2002, 2001, and 2000 we received \$62,000, \$76,000, and \$85,000, respectively, in fees for such management services. At October 31, 2002, no amounts were due us by these partnerships.

During the year ended October 31, 2001 we entered into an agreement to purchase land from an entity that is owned by a family relative of our Chairman of the Board and our Chief Executive Officer. As of October 31, 2002 and 2001, land aggregating \$10,293,000 and \$2,384,000, respectively, has been purchased. The Company remains obligated under a land purchase agreement to purchase an additional \$16.6 million of land from this entity over the next two years. Neither the Company nor the Chairman of the Board and Chief Executive Officer has a financial interest in the relative's company from whom the land was purchased.

13. Stock Plans

We have a stock option plan for certain officers and key employees. Options are granted by a Committee appointed by the Board of Directors. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Options granted prior to May 14, 1998 vest in three equal installments on the first, second and third anniversaries of the date of the grant. Options granted on or after May 14, 1998 vest in four equal installments on the third, fourth, fifth and sixth anniversaries of the date of the grant. Certain Washington Homes associates were granted and held options to purchase Washington Homes stock prior to the January 23, 2001 merger. These options vest in three installments: 25% on the first and second anniversary, and 50% on the third anniversary of the date of the grant. In connection with the merger (See Note 15) the options were exchanged for options to purchase the Company's Class A Common Stock. In 2000 we extended the life of options that expired on May 4, 2000 five years which resulted in additional compensation expense of \$346,000 net of taxes. All options expire ten years after the date of the grant. In addition, during the year ended October 31, 2002 each of the four outside directors of the Company were granted options to purchase 7,500 shares. During the year ended October 31, 2000 each of the three outside directors of the Company were granted options to purchase 10,000 shares. All shares granted to the outside directors were issued at the same price and terms as those granted to officers and key employees. Stock option transactions are summarized as follows:

	October 31, 2002	Weighted Average Fair Value ⁽¹⁾ And Exercise Price	October 31, 2001	Weighted Average Fair Value ⁽¹⁾ And Exercise Price	October 31, 2000	Weighted Average Fair Value ⁽¹⁾ And Exercise Price
Options outstanding at						
beginning of period	2,280,657	\$ 7.52	1,980,500	\$7.55	1,656,000	\$8.02
Granted	545,500	\$15.12	1,058,785	\$5.81	444,500	\$6.10
Exercised	357,165	\$ 6.28	519,673	\$4.29		
Forfeited	30,000	\$ 7.72	238,955	\$7.67	120,000	\$8.60
Options outstanding at						
end of period	2,438,992	\$ 9.40	2,280,657	\$7.44	1,980,500	\$9.44
Options exercisable at						
end of period	1,089,513		1,451,718		1,276,708	
Price range of options	\$2.66-		\$2.66-		\$5.13-	
outstanding.....	\$34.75		\$15.08		\$11.50	
Weighted-average						
remaining contractual life...	6.0 yrs.		6.0 yrs.		7.0 yrs.	

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

Pro forma information regarding net income and earnings per share is required under the fair value method of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" and is to be calculated as if we had accounted for our stock options under the fair value method of SFAS 123. The fair value for these options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2002, 2001, and 2000: risk-free interest rate of 4.3%, 4.4%, and 5.9%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.43, 0.38, and 0.41, respectively; and a weighted-average expected life of the option of 5.5, 5.1, and 7.0 years, respectively.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information follows:

	Year Ended		
	October 31, 2002	October 31, 2001	October 31, 2000
<i>(In Thousands Except Per Share Data)</i>			
Pro forma net income	\$137,136	\$63,491	\$32,322
Pro forma basic earnings per share.....	\$ 4.51	\$ 2.37	\$ 1.47
Pro forma diluted earnings per share	\$ 4.26	\$ 2.28	\$ 1.47

During the year ended October 31, 1999, we modified our bonus plan for certain associates. A portion of their bonus is paid by issuing a deferred right to receive our Class A Common Stock. The number of shares is calculated by dividing the portion of the bonus subject to the deferred right award by our stock price on the date the bonus is earned. 25% of the deferred right award will vest and shares will be issued one year after the year end and then 25% a year for the next three years. During the years ended October 31, 2002 and 2001, we issued 63,815 and 84,962 shares under the plan. During the years ended October 31, 2002 and 2001 7,355 and 41,550 shares were forfeited under this plan, respectively. For the years ended October 31, 2002, 2001, and 2000, approximately 242,000, 319,000, and 281,000 deferred rights were awarded in lieu of \$6,291,000, \$3,857,000, and \$1,923,000 of bonus payments, respectively.

14. Commitments and Contingent Liabilities

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

As of October 31, 2002 and 2001, respectively, we are obligated under various performance letters of credit amounting to \$99,984,000 and \$51,647,000. (See Note 5).

15. Acquisitions

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

On January 10, 2002 we acquired the California homebuilding operations of The Forecast Group, LP ("Forecast") for a total purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 2,208,738 shares of Class A Common Stock were issued. We acquired Forecast to expand our California homebuilding operations. In addition, we have an option to purchase additional land parcels owned by Forecast for a price of \$49.0 million. As of October 31, 2002, we have purchased \$8.1 million of these land parcels. At the date of the acquisition we also paid off approximately \$88.0 million of Forecast's third party debt. The total purchase price amounted to \$90.4 million over Forecast's book value, of which \$22.8 million was added to inventory to reflect fair value, \$18.5 million was paid for two option agreements, a two year consultant's agreement, and a three year right of first refusal agreement, and the balance recorded as a tradename, which is an indefinite life intangible asset.

A Forecast condensed balance sheet (including the effects of purchase accounting adjustments) as of the acquisition date is as follows:

<i>(Dollars in Thousands)</i>	January 10, 2002
Cash and cash equivalents	\$ 10,209
Inventories	220,110
Tradename intangible.....	49,107
Prepays and other assets.....	20,676
Total Assets.....	<u>\$300,102</u>
Accounts payable and other liabilities	\$35,028
Revolving credit agreement	219,574
Stockholders' equity	45,500
Total Liabilities and Stockholders' Equity.....	<u>\$300,102</u>

The merger with Washington Homes, Inc. and acquisition of Forecast were accounted for as purchases with the results of operations of these entities included in our consolidated financial statements as of the date of the merger and acquisition. The purchase price was allocated based on estimated fair value of the assets and liabilities at the date of the merger and acquisition. An intangible asset equal to the excess purchase price over the fair value of the net assets of \$12.8 million and \$49.8 million for Washington Homes and Forecast, respectively, were recorded as goodwill and a tradename, which is an indefinite life intangible asset on the consolidated balance sheet. The Washington Homes amount was being amortized on a straight line basis over a period of ten years during fiscal 2001. On November 1, 2001 we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". Indefinite life intangible assets are not amortized. As a result of adopting SFAS No. 142, we no longer amortize goodwill or indefinite life intangibles, but instead assess them periodically for impairment. We performed a fair value analysis as of October 31, 2002 and determined that no impairment of goodwill or intangibles existed.

The following unaudited pro forma financial data for the years ended October 31, 2002 and 2001 has been prepared as if the merger with Washington Homes, Inc. on January 23, 2001 and the acquisition of Forecast on January 10, 2002 had occurred on November 1, 2000. Unaudited pro forma financial data is presented for information purposes only and may not be indicative of the actual amounts had the events occurred on the dates listed above, nor does it purport to represent future periods.

<i>(In Thousands Except Per Share Data)</i>	Year Ended October 31,	
	2002	2001
Revenues.....	\$2,615,455	\$2,308,130
Expenses	2,383,466	2,145,759
Income Taxes.....	90,445	64,387
Extraordinary Loss.....	(582)	
Net Income	<u>\$ 140,962</u>	<u>\$ 97,984</u>
Diluted Net Income Per Common Share.....	<u>\$ 4.33</u>	<u>\$ 3.12</u>

16. Restructuring Charges

Restructuring charges are estimated expenses associated with the merger of our operations with those of Washington Homes, Inc. as a result of the merger on January 23, 2001. Under our merger plan, administration offices in Maryland, Virginia, and North Carolina were either closed, relocated, or combined. The merger of administration offices was completed by July 31, 2001. At January 31, 2001, expenses were accrued for salaries, severance and outplacement costs for the involuntary termination of associates, costs to close and/or relocate existing administrative offices, and lost rent and leasehold improvements. During the year ended October 31, 2001 our estimate for restructuring charges was increased to a total of \$3.2 million. We have provided for the termination of 65 associates. We accrued approximately \$2.0 million to cover termination and related costs. Associates being terminated were primarily administrative. In addition, we accrued approximately \$1.2 million to cover closing and/or relocation of various administrative offices in these three states. At October 31, 2002 all costs have been charged against this accrual.

17. Asset Write Off

We wrote off costs during the year ended October 31, 2002 associated with SAP, our enterprise-wide operating software, totaling \$12.4 million pretax included in Restructuring Charges/Asset Write Off in the accompanying consolidated statements of income or \$7.6 million after taxes equal to \$0.24 per fully diluted share. These unamortized costs are those associated with the development of the SAP system. We were not successful in implementing SAP, due to the complexities and limitations in the software program. We have \$2.1 million initiative costs remaining, all of which will be amortized over the remaining life of the communities using SAP software, which are scheduled to be substantially complete by the end of 2003.

18. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 2002 and 2001 is as follows:

	Three Months Ended			
	October 31, 2002	July 31, 2002	April 30, 2002	January 31, 2002
<i>(In Thousands Except Per Share Data)</i>				
Revenues	\$831,410	\$704,636	\$560,998	\$454,062
Expenses	\$739,011	\$642,675	\$518,530	\$424,265
Income before income taxes and extraordinary loss	\$ 92,399	\$ 61,961	\$ 42,468	\$ 29,797
State and Federal income tax	\$ 37,961	\$ 22,774	\$ 15,976	\$ 11,636
Extraordinary loss from extinguish- ment of debt, net of income taxes			\$ (582)	
Net Income	\$ 54,438	\$ 39,187	\$ 25,910	\$ 18,161
Per Share Data:				
Basic:				
Income per common share before extraordinary loss	\$ 1.75	\$ 1.27	\$ 0.86	\$ 0.63
Extraordinary loss			\$ (0.02)	
Net Income	\$ 1.75	\$ 1.27	\$ 0.84	\$ 0.63
Weighted average number of common shares outstanding	31,089	30,877	30,670	28,965
Assuming Dilution:				
Income per common share before extraordinary loss	\$ 1.66	\$ 1.20	\$ 0.82	\$ 0.60
Extraordinary loss			\$ (0.02)	
Net Income	\$ 1.66	\$ 1.20	\$ 0.80	\$ 0.60
Weighted average number of common shares outstanding	32,886	32,703	32,402	30,456

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2001	July 31, 2001	April 30, 2001	January 31, 2001
Revenues	\$537,212	\$509,250	\$402,340	\$293,188
Expenses.....	\$500,270	\$473,965	\$379,773	\$281,628
Income before income taxes	\$ 36,942	\$ 35,285	\$ 22,567	\$ 11,560
State and Federal income tax.....	\$ 15,251	\$ 14,273	\$ 8,507	\$ 4,637
Net Income	\$ 21,691	\$ 21,012	\$ 14,060	\$ 6,923
Per Share Data:				
Basic:				
Net Income	\$ 0.77	\$ 0.74	\$ 0.50	\$ 0.31
Weighted average number of common shares outstanding.....	28,288	28,375	28,176	22,286
Assuming Dilution:				
Net Income	\$ 0.74	\$ 0.71	\$ 0.48	\$ 0.30
Weighted average number of common shares outstanding.....	29,227	29,623	29,472	22,732

19. Financial Information of Subsidiary Issuer and Subsidiary Guarantors

Hovnanian Enterprises, Inc., the parent company (the “Parent”) is the issuer of publicly traded common stock. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc., (the “Subsidiary Issuer”) was the issuer of certain Senior Notes on May 4, 1999, October 2, 2000, and March 26, 2002 and Senior Subordinated Notes on March 26, 2002.

The Subsidiary Issuer acts as a finance and management entity that as of October 31, 2002 had issued and outstanding approximately \$150,000,000 senior subordinated notes, \$400,000,000 face value senior notes, a term loan with an outstanding balance of \$115,000,000, and a revolving credit agreement with an outstanding balance of zero. The senior subordinated notes, senior notes, the revolving credit agreement, and the term loan are fully and unconditionally guaranteed by the Parent.

Each of the wholly owned subsidiaries of the Parent (collectively the “Guarantor Subsidiaries”), with the exception of various subsidiaries formerly engaged in the issuance of collateralized mortgage obligations, a mortgage lending subsidiary, a subsidiary holding and licensing the “K. Hovnanian” trade name, a subsidiary engaged in homebuilding activity in Poland, our Title subsidiaries, and in 2001 and 2002 joint ventures (collectively the “Non-guarantor Subsidiaries”), have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the senior notes, subordinated notes, revolving credit agreement and term loan of the Subsidiary Issuer.

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

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

Consolidating Condensed Balance Sheet

October 31, 2002

<i>(Thousands of Dollars)</i>	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
Investments in and amounts due to and from consolidated subsidiaries....	584,103	432,130	(628,246)	(34,316)	(353,671)	
Total Assets	\$585,604	\$693,237	\$ 641,379	\$111,579	\$(353,671)	\$1,678,128
Liabilities						
Homebuilding	\$	\$ 35,736	\$ 314,171	\$ 3,595	\$	\$ 353,502
Financial Services.....				90,355		90,355
Notes Payable		661,390	2,345	7,210		670,945
Income Taxes Payable (Receivables)....	23,055	(3,147)	(18,184)	(947)		777
Stockholders' Equity.....	562,549	(742)	343,047	11,366	(353,671)	562,549
Total Liabilities and Stockholders' Equity.....	\$585,604	\$693,237	\$ 641,379	\$111,579	\$(353,671)	\$1,678,128

Consolidating Condensed Balance Sheet

October 31, 2001

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

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2002

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding.....	\$	\$ 1,059	\$2,523,632	\$ 14,093	\$ (28,448)	\$2,510,336
Financial Services.....			7,153	33,617		40,770
Intercompany Charges.....		139,502	21,183		(160,685)	
Equity In Pretax Income of Consolidated Subsidiaries.....	226,625				(226,625)	
Total Revenues	226,625	140,561	2,551,968	47,710	(415,758)	2,551,106
Expenses:						
Homebuilding.....		140,561	2,312,199	18,165	(168,987)	2,301,938
Financial Services			2,397	20,324	(178)	22,543
Total Expenses.....		140,561	2,314,596	38,489	(169,165)	2,324,481
Income(Loss) Before Income Taxes	226,625		237,372	9,221	(246,593)	226,625
State and Federal Income Taxes.....	88,347	(195)	89,530	5,797	(95,132)	88,347
Extraordinary Loss From						
Extinction of Debt, Net of Income Taxes.....	(582)	(582)			582	(582)
Net Income (Loss).....	\$137,696	\$ (387)	\$ 147,842	\$ 3,424	\$ (150,879)	\$ 137,696

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2001

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding.....	\$	\$ 431	\$1,701,421	\$46,190	\$ (37,480)	\$1,710,562
Financial Services.....			10,391	21,037		31,428
Intercompany Charges.....		96,368	30,480		(126,848)	
Equity In Pretax Income of Consolidated Subsidiaries.....	106,354				(106,354)	
Total Revenues.....	106,354	96,799	1,742,292	67,227	(270,682)	1,741,990
Expenses:						
Homebuilding.....		96,799	1,637,265	8,935	(128,806)	1,614,193
Financial Services.....			5,748	15,821	(126)	21,443
Total Expenses.....		96,799	1,643,013	24,756	(128,932)	1,635,636
Income (Loss) Before Income Taxes.....	106,354		99,279	42,471	(141,750)	106,354
State and Federal Income Taxes.....	42,668	109	39,278	16,448	(55,835)	42,668
Net Income (Loss).....	\$63,686	\$ (109)	\$ 60,001	\$26,023	\$ (85,915)	\$ 63,686

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2000

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

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2002

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income.....	\$137,696	\$ (387)	\$147,841	\$3,425	\$(150,879)	\$137,696
Adjustments to reconcile net income to net cash provided by (used in) operating activities.	122,389	23,716	(217,049)	30,909	150,879	110,844
Net Cash Provided By (Used In) Operating Activities.....	260,085	23,329	(69,208)	34,334		248,540
Net Cash Provided By (Used In) Investing Activities	(48,775)	(6,875)	(104,202)	166		(159,686)
Net Cash Provided By (Used In) Financing Activities	(2,948)	264,846	(83,298)	(13,613)		164,987
Intercompany Investing and Financing Activities – Net.....	(208,362)	(56,616)	284,781	(19,803)		
Net Increase (Decrease).....		224,684	28,073	1,084		253,841
In 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	\$218,844	\$ 43,689	\$7,447	\$ —	\$269,990

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2001

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$63,686	\$ (109)	\$60,001	\$26,023	\$(85,915)	\$63,686
Adjustments to reconcile net income to net cash provided by (used in) operating activities	102,908	99,063	(264,122)	(50,381)	85,915	(26,617)
Net Cash Provided By (Used In)						
Operating Activities	166,594	98,954	(204,121)	(24,358)		37,069
Net Cash Provided By (Used In)						
Investing Activities	(49,622)	(3,770)	13,393	264		(39,735)
Net Cash Provided By (Used In)						
Financing Activities	(6,215)	114	(59,549)	41,212		(24,438)
Intercompany Investing and Financing Activities – Net	(110,684)	(118,767)	243,387	(13,936)		
Net Increase (Decrease)	73	(23,469)	(6,890)	3,182		(27,104)
In Cash and Cash Equivalents						
Balance, Beginning of Period	(63)	17,629	22,506	3,181		43,253
Cash and Cash Equivalents						
Balance, End of Period	\$ 10	\$(5,840)	\$15,616	\$ 6,363	\$ —	\$16,149

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2000

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

**20. Subsequent Event
(Unaudited)**

During the first quarter we purchased two Houston based homebuilders for approximately \$100.0 million.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 2002 and 2001 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hovnanian Enterprises, Inc. and subsidiaries at October 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2002 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill.

New York, New York
December 6, 2002,
except for Note 20, as to which the date is
December 31, 2002



Ernst & Young LLP

Hovnanian Enterprises, Inc.

Board of Directors and Corporate Officers

Kevorg S. Hovnanian
*Chairman of the Board
and Director*

Ara K. Hovnanian
*President, Chief Executive Officer
and Director*

Arthur M. Greenbaum, Esq.
*Director and Partner
Greenbaum, Rowe, Smith, Ravin
& Davis*

Edward A. Kangas
Director

Desmond P. McDonald
Director

John J. Robbins
Director

Stephen D. Weinroth
*Director and Partner
Anderson Weinroth & Co. L.P.*

Geaton A. DeCesaris, Jr.
*Chief Operating Officer
and President of Homebuilding
Operations and Director*

J. Larry Sorsby
*Executive Vice President
Chief Financial Officer and Director*

Paul W. Buchanan
*Senior Vice President
Corporate Controller*

Louis J. Csabay
*Vice President
Human Resources*

Kevin C. Hake
Vice President and Treasurer

Mark S. Hodges
*Senior Vice President
Corporate Operations*

Jane M. Hurd
*Assistant Vice President
Audit Services*

Nancy A. Marrazzo
*Assistant Vice President and
Assistant Treasurer*

Timothy P. Mason
*Vice President
Risk Management*

Bill Moore
*Vice President
Organizational Development*

Peter S. Reinhart
*Senior Vice President
General Counsel*

John F. Ulen
*Vice President and
Chief Information Officer*

Corporate Information

Annual Meeting

Annual Meeting
March 7, 2003, 10:00 a.m.
Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017-3954

Stock Listing

Hovnanian Enterprises, Inc.
Class A common stock is traded
on the New York Stock Exchange
under the symbol HOV.

Form 10-K

A copy of form 10-K, as filed
with the Securities and Exchange
Commission, is available upon
request to the
Office of the Controller
Hovnanian Enterprises, Inc.
10 Highway 35, P.O. Box 500
Red Bank, New Jersey 07701
732-747-7800

Investor Relations Contact

Kevin C. Hake
Vice President and Treasurer
732-747-7800

Brian A. Cheripka
Assistant Director of
Investor Relations
732-747-7800
Email: ir@khov.com

Auditors

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Counsel

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New York, New York 10017-3909

Transfer Agent and Registrar

EquiServe Limited Partnership
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Providence, Rhode Island
02940-3010

Trustee

First Union National Bank
Corporate Trust Bond
Administration
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Morristown, New Jersey 07960

For additional information,
visit our website khov.com



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(732) 747-7800

For additional information, visit our
website at khov.com