

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended OCTOBER 31, 2004

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

Commission file number: 1-8551

Hovnanian Enterprises, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

22-1851059

(I.R.S. Employer
Identification No.)

10 Highway 35, P.O. Box 500, Red Bank, N.J.

(Address of Principal Executive Offices)

07701

(Zip Code)

732-747-7800

(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Class A Common Stock, \$.01 par value per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class B Common Stock, \$.01 par value per share

(Title of Class)

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2004 was \$1,248,371,115.

As of the close of business on January 3, 2005, there were outstanding 46,560,192 shares of the Registrant's Class A Common Stock and 14,683,524 shares of its Class B Common Stock.

Documents Incorporated by Reference:

Part III—Those portions of registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of shareholders to be held on March 8, 2005 which are responsive to Items 10, 11, 12, 13 and 14.

FORM 10-K
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Items 1 and 2 - Business and Properties

BUSINESS OVERVIEW

We design, construct, market and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Originally founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1982. Since the incorporation of our predecessor company, we have delivered in excess of 185,000 homes, including 14,586 homes in fiscal 2004. The Company consists of two operating groups: homebuilding and financial services. Our financial services group provides mortgage loans and title services to our homebuilding customers.

We are currently offering homes for sale in 275 communities in 24 markets in 13 states throughout the United States. We primarily market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. We offer a variety of home styles at base prices ranging from \$46,000 to \$1,350,000 with an average sales price, including options, of \$280,000 in fiscal 2004.

Our operations span all significant aspects of the home-buying process—from design, construction and sale, to mortgage origination and title services.

The following is a summary of our growth history:

1959—Founded by Kevork Hovnanian as a New Jersey homebuilder.

1983—Completed initial public offering.

1986—Entered the North Carolina market through the investment in New Fortis Homes.

1992—Entered the greater Washington D.C. market.

1994—Entered the Coastal Southern California market.

1998—Expanded in the greater Washington D.C. market through the acquisition of P.C. Homes.

1999—Entered the Dallas, Texas market through our acquisition of Goodman Homes. Further diversified and strengthened our position as New Jersey's largest homebuilder through the acquisition of Matzel & Mumford.

2001—Continued expansion in the greater Washington D.C. and North Carolina markets through the acquisition of Washington Homes. This acquisition further strengthened our operations in each of these markets.

2002—Entered the Central Valley market in Northern California and Inland Empire region of Southern California through the acquisition of Forecast Homes.

2003—Expanded operations in Texas and entered the Houston market through the acquisition of Parkside Homes and Brighton Homes. Entered the greater Ohio market through our acquisition of Summit Homes and entered the greater metro Phoenix market through our acquisition of Great Western Homes.

2004—In November 2003, we entered the greater Tampa, Florida market through the acquisition of Windward Homes, and in March 2004, we started a new division in the Minneapolis/St. Paul, Minnesota market.

Hovnanian markets and builds homes that are constructed on-site in four regions which include 19 of the nation's top 50 housing markets. These four regions are the Northeast, Southeast, Southwest, and West.

GEOGRAPHIC BREAKDOWN OF MARKETS BY REGION

Northeast: New Jersey, Southern New York, Pennsylvania, Ohio, Michigan and Minnesota

Southeast: Delaware, Maryland, North Carolina, South Carolina, Virginia, Washington D.C., West Virginia, and Florida

Southwest: Arizona and Texas

West: California

We employed approximately 3,837 full-time associates as of October 31, 2004.

Our Corporate offices are located at 10 Highway 35, P. O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732)747-7800, and our Internet website address is www.khov.com. We make available through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after they are filed with the SEC. Copies of the Company's Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request.

BUSINESS STRATEGIES

The following is a summary of our key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to improve our business, lead to higher profitability for our shareholders and give us a clear advantage over our competitors.

Our market concentration strategy is a key factor that enables us to achieve powers of scale and economies of scale and differentiate ourselves from most of our competitors. Our goal is to become a significant builder in each of the selected markets in which we operate.

We offer a broad product array to provide housing to a wide range of customers. Our customers consist of first-time buyers, first and second-time move-up buyers, luxury buyers, active adult buyers and empty nesters. Our diverse product array includes single family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes.

We are committed to customer satisfaction and quality in the homes that we build. We recognize that our future success rests in the ability to deliver quality homes to satisfied customers. We seek to expand our commitment to customer service through a variety of quality initiatives. In addition, our focus remains on attracting and developing quality associates. We use several leadership development and mentoring programs to identify key individuals and prepare them for positions of greater responsibility within our Company.

We focus on achieving high return on invested capital. Each new community, whether through organic growth or acquisition, is evaluated based on its ability to meet or exceed internal rate of return requirements. Incentives for both local and senior management are based, primarily, on the ability to generate returns on capital deployed. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital.

We adhere to a strategy of achieving growth through expansion of our organic operations and through the selected acquisition of other homebuilders with excellent management teams interested in continuing with our Company. In our existing markets, we continue to introduce a broader product array to gain market share and reach a more diverse group of customers. Selective acquisitions have expanded our geographic footprint, strengthened our market share in existing markets and further diversified our product offerings. Integration of acquired companies is a core strength and organic growth after an acquisition is boosted by deployment of our broad product array. To enhance our pattern of geographic diversification, we may also choose to start up new homebuilding operations in selected markets that allow our Company to employ our broad product array to achieve growth and market penetration. Through our presence in multiple geographic markets, our goal is to reduce the effects that housing industry cycles, seasonality and local conditions in any one area may have on our business.

We utilize a risk averse land strategy. We attempt to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. This policy significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

We enter into homebuilding and land development joint ventures from time to time as a means of increasing lot positions, expanding our market opportunities, establishing strategic alliances, reducing our risk profile, leveraging our capital base and enhancing our returns on capital. Our homebuilding joint ventures are generally entered into with third party investors to develop land and construct homes that are sold directly to third party homebuyers. Our land development joint ventures include those with developers and other homebuilders as well as financial investors to develop finished lots for sale to the joint venture's members or other third parties.

We are committed to becoming a better and more efficient homebuilding company. Over the past few years, our strategies have included several initiatives to fundamentally transform our traditional practices used to design, build and sell homes and focus on "building better." These performance enhancing initiatives, processes and systems have been successfully used in other manufacturing industries and include implementation of standardized "best practice processes", rapid cycle times, vendor consolidation, vendor partnering, co-operative purchasing, distribution, fabrication and installation, and just-in-time material procurement. Other initiatives include standardized home designs that can be deployed in multiple geographic markets with minimal architectural modification.

We seek to expand our financial services operations to better serve all of our homebuyers. Our current mortgage financing and title service operations enhance the profitability and growth of our company.

OPERATING POLICIES AND PROCEDURES

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

Training—Our training is designed to provide our associates with the knowledge, attitudes, skills and habits necessary to succeed at their jobs. Our Training Department regularly conducts training classes in sales, construction, administration, and managerial skills.

Land Acquisition, Planning and Development—Before entering into a contract to acquire land, we complete extensive comparative studies and analyses which assist us in evaluating the economic feasibility of such land acquisition. We generally follow a policy of acquiring options to purchase land for future community developments.

- We typically acquire land for future development principally through the use of land options which need not be exercised before the completion of the regulatory approval process. We attempt to structure these options with flexible take down schedules rather than with an obligation to take down the entire parcel upon receiving regulatory approval. Additionally, we purchase improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows us to minimize the economic costs and risks of carrying a large land inventory, while maintaining our ability to commence new developments during favorable market periods.
- Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional, nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In such instances, we generally are not able to recover any predevelopment costs. As land becomes more scarce, the conditions required by sellers are becoming more stringent.

Design—Our residential communities are generally located in suburban areas easily accessible through public and personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics. We strive to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures and colors. Recreational amenities such as swimming pools, tennis courts, club houses and tot lots are frequently included.

Construction—We design and supervise the development and building of our communities. Our homes are constructed according to standardized prototypes which are designed and engineered to provide innovative product design while attempting to minimize costs of construction. We generally employ subcontractors for the installation of site improvements and construction of homes. Agreements with subcontractors are generally short term and provide for a fixed price for labor and materials. We rigorously control costs through the use of computerized monitoring systems. Because of the risks involved in speculative building, our general policy is to construct an attached condominium or townhouse building only after signing contracts for the sale of at least 50% of the homes in that building. For our mid-rise and high-rise buildings our general policy is to begin building after signing contracts for the sale of at least 40% of the homes in that building. A majority of our single family detached homes are constructed after the signing of a sales contract and mortgage approval has been obtained. This limits the build-up of inventory of unsold homes and the costs of maintaining and carrying that inventory.

Materials and Subcontractors—We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors. In most instances, we use general contractors for high-rise construction. In recent years, we have experienced no significant construction delays due to shortages of materials or labor. We cannot predict, however, the extent to which shortages in necessary materials or labor may occur in the future.

Marketing and Sales—Our residential communities are sold principally through on-site sales offices. In order to respond to our customers' needs and trends in housing design, we rely upon our internal market research group to analyze information gathered from, among other sources, buyer profiles, exit interviews at model sites, focus groups and demographic data bases. We make use of newspaper, radio, magazine, our website, billboard, video and direct mail advertising, special promotional events, illustrated brochures, full-sized and scale model homes in our comprehensive marketing program. In addition, we have opened home design galleries in our New Jersey, Virginia, Maryland, Texas, North Carolina, and portions of our California markets, which offer a wide range of customer options to satisfy individual customer tastes, and which have increased option sales and profitability in these markets.

Customer Service and Quality Control—In many of our markets, associates are responsible for customer service and participate in pre-closing quality control inspections as well as responding to post-closing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by us. In some of our markets, our homes are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical and plumbing systems and a ten-year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing—We sell our homes to customers who generally finance their purchases through mortgages. During the year ended October 31, 2004, for the markets in which our mortgage subsidiaries originated loans, 8.8% of our homebuyers paid in cash and over 66.1% of our non-cash homebuyers obtained mortgages from one of our wholly-owned mortgage banking subsidiaries or our mortgage joint venture in California. Mortgages originated by our wholly-owned mortgage banking subsidiaries are sold in the secondary market.

Code of Ethics—For more than 40 years of doing business, we have been committed to sustaining our shareholders' investment through conduct that is in accordance with the highest levels of integrity. Our Code of Ethics is a collection of guidelines and policies that govern broad principles of ethical conduct and integrity embraced by our Company. Our associates are required to comply with these standards when interacting with each other, our business partners, our customers, our shareholders, and our competitors. The Company's Code of Ethics is available on the Company's website at www.khov.com under "Investor Relations/Governance/Code of Ethics".

We also remain committed to our shareholders in fostering sound corporate governance principles. The Company has adopted "Corporate Governance Guidelines" to assist the Board in fulfilling its responsibilities related to corporate governance conduct. These guidelines serve as a framework, addressing the function, structure, and operations of the Board, for purposes of promoting consistency of the Board's role in overseeing the work of management.

RESIDENTIAL DEVELOPMENT ACTIVITIES

Our residential development activities include evaluating and purchasing properties, master planning, obtaining governmental approvals and constructing, marketing and selling homes. A residential development generally includes single family detached homes and/or a number of residential buildings containing from two to twenty-four individual homes per building, together with amenities such as recreational buildings, swimming pools, tennis courts and open areas. In a few cases, we are developing mid-rise and high-rise buildings including some that contain over 300 homes per building.

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

Current base prices for our homes in contract backlog at October 31, 2004 range from \$46,000 to \$1,350,000 in our Northeast Region, from \$96,000 to \$986,000 in our Southeast Region, from \$83,000 to \$467,000 in our Southwest Region, and from \$154,000 to \$1,110,000 in our West Region. Closings generally occur and are typically reflected in revenues up to twelve months after sales contracts are signed.

Information on homes delivered by Region for the year ended October 31, 2004 is set forth below:

<i>(Housing Revenue in Thousands)</i>	Housing Revenues	Homes Delivered	Average Price
Northeast Region	\$ 1,027,356	3,188	\$ 322,257
Southeast Region	1,066,474	3,976	\$ 268,228
Southwest Region	681,083	3,875	\$ 175,763
West Region	1,307,350	3,547	\$ 368,579
Combined Total	\$ 4,082,263	14,586	\$ 279,875

The value of our net sales contracts, including unconsolidated joint ventures, increased 48.3% to \$4.9 billion for the year ended October 31, 2004 from \$3.3 billion for the year ended October 31, 2003. This increase was the net result of a 30.7% increase in the number of homes contracted to 16,148 in 2004 from 12,352 in 2003. By region, on a dollar basis, the Northeast Region increased 33.7%, the Southeast Region increased 33.8%, the Southwest Region increased 40.3% and the West Region increased 54.4%. Excluding homebuilding acquisitions made in fiscal 2004 and 2003, the value of our net contracts increased in all of our regions and we continue to experience solid demand for new homes in all our markets. Increases were due to increased sales and increased sales prices in all of our regions except in our Southwest Region, where sales prices decreased slightly due to a shift in our mix of communities to those with more entry level homes, and in our Southeast Region where the number of homes contracted decreased slightly due to timing of opening new communities.

The following table summarizes our active selling communities under development as of October 31, 2004. The contracted not delivered and remaining home sites available in our active communities under development are included in the 99,940 total home sites under the total residential real estate chart in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Active Selling Communities

Communities	Approved Home Sites	Homes Delivered	Contracted Not Delivered(1)	Remaining Home Sites Available(2)
Northeast Region	28	12,529	1,799	5,364
Southeast Region	113	21,642	1,981	10,143
Southwest Region	85	17,211	924	9,935
West Region	49	18,590	1,917	9,360
Total	275	69,972	6,621	34,802

(1) *Includes 887 home sites under option and excludes 931 contracts under our "build on your own lot" program.*

(2) *Of the total remaining home sites available, 1,623 were under construction or completed (including 312 models and sales offices), 19,823 were under option, and 415 were financed through purchase money mortgages.*

BACKLOG

At October 31, 2004 and October 31, 2003, including unconsolidated joint ventures, we had a backlog of signed contracts for 7,851 homes and 5,797 homes, respectively, with sales values aggregating \$2.7 billion and \$1.5 billion, respectively. Substantially all of our backlog at October 31, 2004 is expected to be completed and closed within the next twelve months. At November 30, 2004 and 2003, our backlog of signed contracts was 7,972 homes and 6,598 homes, respectively, with sales values aggregating \$2.8 billion and \$1.8 billion, respectively.

Sales of our homes typically are made pursuant to a standard sales contract that provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. This contract requires a nominal customer deposit at the time of signing. In addition, in the Northeast Region, excluding Ohio, and the Southeast Region, excluding Florida, we typically obtain an additional 5% to 10% down payment due 30 to 60 days after signing. The contract may include a financing contingency, which permits the customer to cancel his obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution. In markets with significant investor demand, our Company's policy states that sales contracts include an investor restriction on resale of homes for a stipulated time period, if the home is not occupied by the purchaser. Sales contracts are included in backlog once the sales contract is signed by the customer, which in some cases includes contracts that are in the rescission or cancellation periods. However, revenues from sales of homes are recognized in the income statement, in accordance with our accounting policies, when title to the home is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement.

RESIDENTIAL LAND INVENTORY

It is our objective to control a supply of land, primarily through options, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land as of October 31, 2004, exclusive of communities under development described above under "Residential Development Activities", is summarized in the following table. The proposed developable lots in communities under development are included in the 99,940 total home

Communities in Planning

<i>(Dollars in Thousands)</i>	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value(1)(2)
Northeast Region:				
Under Option	110	20,359	\$ 1,023,836	\$ 129,580
Owned	7	801		44,143
Total	117	21,160		173,723
Southeast Region:				
Under Option	122	17,567	\$ 1,018,888	28,383
Owned	18	2,130		47,657
Total	140	19,697		76,040
Southwest Region:				
Under Option	69	9,205	\$ 227,056	19,939
Owned	—	—		—
Total	69	9,205		19,939
West Region:				
Under Option	25	5,362	\$ 323,404	22,407
Owned	23	3,093		154,502
Total	48	8,455		176,909
Totals:				
Under Option	326	52,493	\$ 2,593,184	200,309
Owned	48	6,024		246,302
Combined Total	374	58,517	\$	446,611

- (1) *Properties under option also include costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2004, option fees and deposits aggregated approximately \$97.5 million. As of October 31, 2004, we spent an additional \$102.8 million in non-refundable predevelopment costs on such properties.*
- (2) *The book value of \$446.6 million is identified on the balance sheet as "Inventories—land and land options held for future development or sale", and does not include inventory in Poland amounting to \$8.8 million. The book value does include option deposits of \$3.1 million for specific performance options, \$4.0 million for other option deposits, and \$12.1 million for variable interest entity deposits reported under "Consolidated Inventory Not Owned".*

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

In our other regions, we either acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a non-recourse purchase agreement. Due to the dwindling supply of improved lots in these regions, we have been increasing the optioning of parcels of unimproved land for development.

CUSTOMER FINANCING

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

Our financial services business consists of providing our customers with competitive financing and coordinating and expediting the loan origination transaction through the steps of loan application, loan approval and closing. We originate loans in New Jersey, New York, Pennsylvania, Maryland, Washington D. C., Virginia, West Virginia, North Carolina, South Carolina, Texas, Ohio, and California. During the year ended October 31, 2004, for the markets in which our mortgage subsidiaries originate loans, approximately 8.8% of our homebuyers paid in cash and over 66.1% of our non-cash homebuyers obtained mortgages from one of our wholly-owned mortgage banking subsidiaries or our mortgage joint venture in California.

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

COMPETITION

Our residential business is highly competitive. We are among the top ten homebuilders in the United States in both homebuilding revenues and home deliveries. We compete with numerous real estate developers in each of the geographic areas in which we operate. Our competition ranges from small local builders to larger regional and publicly owned builders and developers, some of which have greater sales and financial resources than us. Previously owned homes and the availability of rental housing provide additional competition. We compete primarily on the basis of reputation, price, location, design, quality, service and amenities.

REGULATION AND ENVIRONMENTAL MATTERS

General. We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular locality. In addition, we are subject to registration and filing requirements in connection with the construction, advertisement and sale of our communities in certain states and localities in which we operate even if all necessary government approvals have been obtained. We may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums that could be implemented in the future in the states in which we operate. Generally, such moratoriums relate to insufficient water or sewerage facilities or inadequate road capacity.

Environmental. We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of health and the environment ("environmental laws"). The particular environmental laws which apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas.

Conclusion. Despite our past ability to obtain necessary permits and approvals for our communities, we anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict the effect of these requirements, they could result in time-consuming and expensive compliance programs and substantial expenditures for pollution and water quality control, which could have a material adverse effect on our profitability. In addition, the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond our control, such as changes in policies, rules and regulations and their interpretation and application.

COMPANY OFFICES

We own a 24,000 square foot office complex located in the Northeast Region that serves as our corporate headquarters. We are in the process of building a 69,000 square foot office complex near our current headquarters and anticipate moving in the Spring of 2005. We also own 224,405 square feet of office and warehouse space throughout our Northeast Region and 6,846 square feet of office space in our Southeast Region. We lease approximately 443,382 square feet of space for our other operating divisions located in our Northeast Region, Southeast Region, Southwest Region and West Region.

Item 3 - Legal Proceedings

We are involved in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on us. Over the past several years, general liability insurance for homebuilding companies and their suppliers and subcontractors has become very difficult to obtain. The availability of general liability insurance has been limited due to a decreased number of insurance companies willing to write for the industry. In addition, those few insurers willing to write liability insurance have significantly increased the premium costs. We have been able to obtain general liability insurance but at higher premium costs with higher deductibles. While no assurance can be given, we believe that we will be able to continue to obtain coverage but at higher total costs. Our suppliers and subcontractors have advised us that they have also had difficulty obtaining insurance that also provides us coverage. As a result, we have introduced an owner controlled insurance program for certain of our subcontractors, whereby the subcontractors pay us an insurance premium based on the value of their services, and we absorb the liability associated with their work on our homes. All such insurance premiums paid by our subcontractors are included in our reserves.

Item 4 - Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year ended October 31, 2004, no matters were submitted to a vote of security holders.

PART II

Item 5 - Market for the Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities

Our Class A Common Stock is traded on the New York Stock Exchange and was held by 465 shareholders of record at January 3, 2005. There is no established public trading market for our Class B Common Stock, which was held by 320 shareholders of record at January 3, 2005. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low sales prices for our Class A Common Stock, after adjustment for a 2-for-1 stock dividend on March 5, 2004, were as follows for each fiscal quarter during the years ended October 31, 2004 and 2003:

Quarter	Oct. 31, 2004		Oct. 31, 2003	
	High	Low	High	Low
First	\$ 48.31	\$ 36.51	\$ 19.40	\$ 14.56
Second	\$ 45.17	\$ 35.97	\$ 20.10	\$ 14.36
Third	\$ 36.84	\$ 29.33	\$ 34.58	\$ 19.60
Fourth	\$ 41.60	\$ 31.20	\$ 41.28	\$ 23.96

Certain debt instruments to which we are a party contain restrictions on the payment of cash dividends. As a result of the most restrictive of these provisions, approximately \$573.7 million of retained earnings was free of such restrictions at October 31, 2004. We have never paid a cash dividend nor do we currently intend to pay a cash dividend.

This table provides information with respect to purchases of shares of our Class A common stock made by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2004.

Issuer Purchases of Equity Securities (1)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
August 1, 2004 Through August 31, 2004	—	—	—	2,089,770
September 1, 2004 Through September 30, 2004	—	—	—	2,089,770
October 1, 2004 Through October 31, 2004	—	—	—	2,089,770
Total	—	—	—	2,089,770

(1) In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. On March 5, 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. All share information reflects this stock dividend.

No shares of our Class B common stock were purchased by or on behalf of Hovnanian Enterprises or any affiliated purchaser during the fiscal fourth quarter of 2004.

Item 6 - Selected Consolidated Financial Data

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

Summary Consolidated Income Statement Data (In Thousands, Except Per Share Data)	Year Ended				
	October 31, 2004	October 31, 2003	October 31, 2002	October 31, 2001	October 31, 2000
Revenues	\$ 4,160,403	\$ 3,201,857	\$ 2,551,106	\$ 1,741,990	\$ 1,135,559
Expenses	3,610,631	2,790,339	2,325,376	1,635,636	1,083,741
Income before income taxes	549,772	411,518	225,730	106,354	51,818
State and Federal income taxes	201,091	154,138	88,034	42,668	18,655
Net income	\$ 348,681	\$ 257,380	\$ 137,696	\$ 63,686	\$ 33,163
Per Share Data:					
Basic:					
Net income	\$ 5.63	\$ 4.16	\$ 2.26	\$ 1.19	\$ 0.76
Weighted average number of common shares outstanding	61,892	61,920	60,810	53,620	43,866
Assuming Dilution:					
Net income	\$ 5.35	\$ 3.93	\$ 2.14	\$ 1.15	\$ 0.75
Weighted average number of common shares outstanding	65,133	65,538	64,310	55,584	44,086
Summary Consolidated Balance Sheet Data (In Thousands)					
	October 31, 2004	October 31, 2003	October 31, 2002	October 31, 2001	October 31, 2000
Total assets	\$ 3,156,267	\$ 2,332,371	\$ 1,678,128	\$ 1,064,258	\$ 873,541
Mortgages, term loans, revolving credit agreements, and notes payable	\$ 354,055	\$ 326,216	\$ 215,365	\$ 111,795	\$ 78,206
Senior notes, and senior subordinated notes	\$ 902,737	\$ 687,166	\$ 546,390	\$ 396,544	\$ 396,430
Stockholders' equity	\$ 1,192,394	\$ 819,712	\$ 562,549	\$ 375,646	\$ 263,359

Ratios of Earnings to Fixed Charges

For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes, plus fixed charges, less interest capitalized. Fixed charges consist of all interest incurred plus the amortization of debt issuance costs and bond discount.

The following table sets forth the ratios of earnings to fixed charges for each of the periods indicated:

	Years Ended October 31,				
	2004	2003	2002	2001	2000
Ratio of earnings to fixed charges	6.3	6.7	4.7	3.1	2.1

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 No. 141 "Business Combinations" ("SFAS 141"). Under SFAS 141 (for acquisitions subsequent to June 30, 2001) and Accounting Principles Board ("APB") Opinion 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 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 and land sales is recorded when title is conveyed to the home or land buyer, adequate cash payment has been received and there is no continued involvement.

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

Interest Income Recognition for Mortgage Loans Receivable and Recognition of Related Deferred Fees and Costs—Interest income is recognized as earned for each mortgage loan during the period from the loan closing date to the sale date when legal contract passes to the buyer and the sale price is collected. All fees related to the origination of mortgage loans and direct loan origination costs are deferred and recorded as either (a) an adjustment to the related mortgage loans upon the closing of a loan or (b) recognized as a deferred asset or deferred revenue while the loan is in process. These fees and costs include loan origination fees, loan discount, and salaries and wages. Such deferred fees and costs relating to the closed loans are recognized over the life of the loans as an adjustment of yield or taken into operations under sale of the loan to a permanent investor.

Inventories—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 as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs are allocated based on buildable acres to product types within each community, then charged to cost of sales equally based upon the number of homes to be constructed in each product type. For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on discounted future cash flows generated from expected revenue, cost to complete including interest, and selling costs.

Insurance Deductible Reserves—Our deductible is \$150,000 per occurrence for worker's compensation and general liability insurance. Reserves have been established based upon actuarial analysis of estimated future losses during 2004 and 2003. For fiscal 2005, our deductible increases to \$5 million per occurrence for general liability insurance and \$500,000 per occurrence for worker's compensation insurance.

Interest—Costs related to properties under development are capitalized during the land development and home construction period and expensed as cost of sales interest as the related inventories are sold. Costs related to properties not under development are charged to interest expense separately in the Consolidated Statements of Income.

Land Options—Costs are capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities" an interpretation of Accounting Research Bulletin No. 51, SFAS No. 49 "Accounting for Product Financing Arrangements" ("SFAS 49"), SFAS No. 98 "Accounting for Leases" ("SFAS 98"), and Emerging Issues Task Force ("EITF") No. 97-10 "The Effects of Lessee Involvement in Asset Construction" ("EITF 97-10"), we record on the Consolidated Balance Sheets specific performance options, options with variable interest entities, and other options under Consolidated inventory not owned with the offset to Liabilities from inventory not owned, Minority interest from inventory not owned and Minority interest from consolidated joint ventures.

Intangible Assets—The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements with both definite and indefinite lives resulting from company acquisitions. 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, 2004 and 2003, and determined that no impairment of intangibles existed. We are amortizing the definite life intangibles over their expected useful life, ranging from three to seven years.

In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This resulted in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles less amortization reported on our October 31, 2004 Consolidated Balance Sheet. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be substantially written off by our fourth quarter of 2008.

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

Warranty Costs—Based upon historical experience, we accrue warranty costs as part of cost of sales for essential repair costs over \$1,000 to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs under our \$150,000 per occurrence general liability insurance deductible as part of selling, general and administrative costs.

CAPITAL RESOURCES AND LIQUIDITY

Our operations consist primarily of residential housing development and sales in our Northeast Region (New Jersey, southern New York, Pennsylvania, Ohio, Michigan, and Minnesota), our Southeast Region (Washington D.C., Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, and Florida), our Southwest Region (Texas and Arizona), and our West Region (California). During the year ended October 31, 2002, we substantially liquidated our operations in the Mid-South from our fiscal 2001 acquisition of Washington Homes. In addition, we provide financial services to our homebuilding customers.

Our cash uses during the twelve months ended October 31, 2004 were for operating expenses, increases in housing inventories, construction, income taxes, interest, the payoff of our \$115 million Term Loan, the redemption of Senior Notes due 2009, the repurchase of common stock, and the acquisition of a Florida homebuilder. We provided for our cash requirements from housing and land sales, the revolving credit facility, non-recourse mortgage secured by operating property, the issuance of \$365 million Senior Notes, financial service revenues, and other revenues. We believe that these sources of cash are sufficient to finance our working capital requirements and other needs.

Cash requirements for fiscal 2005 are projected to increase as we continue to open new communities and fund organic growth. We anticipate moderate usage under the existing revolving credit facility to replenish inventory associated with the construction of new homes. On November 30, 2004, we issued \$200 million of 6¹/₄% Senior Notes due 2015 and \$100 million of 6% Senior Subordinated Notes due 2010 which generated proceeds of

approximately \$300 million. The purpose of these issuances was to repay amounts outstanding under our revolving credit facility, and for general corporate purposes.

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 write-off of computer software costs, amortization of definite life intangibles and impairment losses. When we are expanding our operations, which was the case in fiscal 2004 and 2003, inventory levels, receivables, prepaids and other assets increase causing cash flow from operating activities to decrease. Liabilities also increase as operations expand. The increase in liabilities partially offsets the negative effect on cash flow from operations caused by the increase in inventory levels, receivables, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increase, but for cash flow purposes are offset by the net change in mortgage assets and liabilities.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2004, 1.9 million shares have been purchased under this program, of which 0.1 million and 0.6 million shares were repurchased during the twelve months ended October 31, 2004 and 2003, respectively. In addition, in 2003, we retired at no cost 1.5 million shares that were held by a seller of a previous acquisition. On March 5, 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend. All share information reflects this stock dividend.

Our homebuilding bank borrowings are made pursuant to an amended and restated unsecured revolving credit agreement (the "Agreement") that provides a revolving credit line and letter of credit line of \$900 million through July 2008. The facility contains an accordion feature under which the aggregate commitment can be increased to \$1.0 billion subject to the availability of additional commitments. Interest is payable monthly at various rates of either the prime rate or a spread over LIBOR ranging from 1.10% to 2.00% per annum, depending on our consolidated Leverage Ratio, as defined in the Agreement. In addition, we pay a fee ranging from 0.20% to 0.40% per annum, depending on our consolidated Leverage Ratio and the weighted average unused portion of the revolving credit line. At October 31, 2004, there was \$115 million drawn under this Agreement and we had approximately \$65 million of homebuilding cash. At October 31, 2004, we had issued \$180.6 million of letters of credit which reduces cash available under the Agreement. We believe that we will be able either to extend the Agreement beyond July 2008 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. We currently are in compliance and intend to maintain compliance with the covenants under the Agreement. Each of our significant subsidiaries, except for our title insurance and home mortgage subsidiaries and joint ventures, is a guarantor under the Agreement.

At October 31, 2004, we had \$605.3 million of outstanding senior debt (\$602.7 million, net of discount), comprised of \$140.3 million 10¹/₂% Senior Notes due 2007, \$100 million 8% Senior Notes due 2012, \$215 million 6¹/₂% Senior Notes due 2014, and \$150 million 6³/₈% Senior Notes due 2014. At October 31, 2004, we had outstanding \$300 million of senior subordinated debt comprised of \$150 million 8⁷/₈% Senior Subordinated Notes due 2012, and \$150 million 7³/₄% Senior Subordinated Notes due 2013. On November 30, 2004, we issued \$200 million of 6¹/₄% Senior Notes due 2015 and \$100 million of 6% Senior Subordinated Notes due 2010. Each of our wholly owned subsidiaries, except for K. Hovnanian Enterprises, Inc., the issuer of the senior and senior subordinated notes, our title insurance and home mortgage subsidiaries, and joint ventures, is a guarantor of the senior notes and senior subordinated notes.

On May 3, 2004, we redeemed our 9¹/₈% Senior Notes due 2009, and we recorded \$8.7 million of expenses associated with the extinguishment of this debt. On March 18, 2004, we paid off our \$115 million Term Loan, and we recorded \$0.9 million of expenses associated with the extinguishment of the debt. In both cases, these expenses have been reported as "Expenses Related to Extinguishment of Debt" on the Consolidated Statements of Income.

Our mortgage banking subsidiary's warehousing agreement was amended on August 3, 2004. Pursuant to the agreement, we may borrow up to \$250 million. The agreement expires in July 2005 and interest is payable monthly at the Eurodollar rate plus 1.25%. We believe that we will be able either to extend this agreement beyond July 2005 or negotiate a replacement facility, but there can be no assurance of such extension or replacement facility. As of October 31, 2004, the aggregate principal amount of all borrowings under this agreement was \$188.4 million.

Total inventory increased \$766.5 million during the twelve months ended October 31, 2004. This increase excluded the change in Consolidated Inventory Not Owned of \$40.8 million consisting of specific performance options, options with variable interest entities, and other options that were added to our balance sheet in accordance with SFAS 49, SFAS 98, and EITF 97-10, and Variable Interest Entities in accordance with FIN 46. See the "Recent Accounting Pronouncements" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional explanation of FIN 46. Excluding the impact from acquisitions of \$43.5 million in our Southeast Region, total inventory in our Northeast Region increased \$79.7 million, the Southeast Region increased \$91.1 million, the Southwest Region increased \$44.0 million, and our West Region increased \$508.2 million. The increase in our existing regions was primarily the result of planned future organic growth. Substantially all homes under construction or completed and included in inventory at October 31, 2004 are expected to be closed during the next twelve months. Most inventory completed or under development is financed through our line of credit, and senior subordinated indebtedness.

We usually option property for development prior to acquisition. By optioning property, we limit our financial exposure to the amounts invested in the option deposits and predevelopment costs. This significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

The following table summarizes home sites included in our total residential real estate:

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2004:			
Northeast Region	28,323	1,799	26,524
Southeast Region	31,821	1,981	29,840
Southwest Region	20,064	924	19,140
West Region	19,732	1,917	17,815
Total	99,940	6,621	93,319
Owned	26,737	5,734	21,003
Optioned	73,203	887	72,316
Total	99,940	6,621	93,319
October 31, 2003:			
Northeast Region	24,280	1,477	22,803
Southeast Region	22,508	1,761	20,747
Southwest Region	13,940	989	12,951
West Region	13,570	793	12,777
Total	74,298	5,020	69,278
Owned	21,470	4,213	17,257
Optioned	52,828	807	52,021
Total	74,298	5,020	69,278

Housing under contract at October 31, 2004 and October 31, 2003 was 7,552 homes and 5,761 homes, respectively, including our "build on your own lot" contracts and excluding unconsolidated joint ventures not included in the above home site table.

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

	October 31, 2004			October 31, 2003		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast Region	77	39	116	130	44	174
Southeast Region	222	35	257	207	32	239
Southwest Region	683	78	761	557	94	651
West Region	329	160	489	185	105	290
Total	1,311	312	1,623	1,079	275	1,354

Receivables, deposits and notes increased \$14.2 million to \$56.8 million at October 31, 2004. The increase was primarily due to the timing of cash received from homes that closed during the last days of October. Receivables from home revenues amounted to \$17.6 million and \$4.1 million at October 31, 2004 and 2003, respectively.

Prepaid expenses and other assets are as follows as of:

<i>(In Thousands)</i>	October 31, 2004		October 31, 2003		Dollar Change
Prepaid project costs	\$	48,695	\$	34,171	\$ 14,524
Investment in joint ventures		40,840		23,232	17,608
Senior residential rental properties		8,830		9,118	(288)
Other prepaids		16,632		15,985	647
Other assets		19,459		24,019	(4,560)
Total	\$	134,456	\$	106,525	\$ 27,931

Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. The increase in prepaid project costs was primarily due to the opening of new communities in all our regions. Investments in joint ventures increased as we entered into several new joint ventures during the year ended October 31, 2004. Other than completion guarantees, no other guarantees associated with unconsolidated joint ventures have been given. Also included in other prepaids and other assets are debt issuance fees, non-qualified associate benefit plan assets, and miscellaneous prepaids and assets.

At October 31, 2004, we had \$32.7 million of goodwill. This amount resulted from company acquisitions prior to fiscal 2003. In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This resulted in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles less amortization reported on our October 31, 2004 Consolidated Balance Sheet. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be substantially written off by our fourth quarter of 2008.

Definite life intangibles increased \$68.5 million to \$125.5 million at October 31, 2004. This increase was the result of our November 6, 2003 Florida acquisition, net of amortization expense, as well as the reclassification of \$50 million related to the California acquisition brand name, net of amortization expense, as noted above. To the extent the acquisition price was greater than the book value of tangible assets which were stepped up to fair values, purchase price premiums were classified as intangibles. Professionals are hired to appraise all acquired intangibles. Such appraisals resulted in all fiscal 2004 and 2003 acquisition premiums to be categorized as definite life intangibles. See the "Critical Accounting Policies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional explanation of intangibles. For tax purposes all our intangibles, except those resulting from an acquisition classified as a tax free exchange, are being amortized over 15 years.

Mortgage loans held for sale consist of residential mortgages receivable of which \$209.2 million and \$223.9 million at October 31, 2004 and October 31, 2003, respectively, are being temporarily warehoused and

awaiting sale in the secondary mortgage market. The decrease in mortgage loans held for sale was due to the improvement in the turnaround of mortgages sold. We may incur risk with respect to mortgages that become 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.

Accounts payable and other liabilities are as follows as of:

<i>(In Thousands)</i>	October 31, 2004	October 31, 2003	Dollar Change
Accounts Payable	\$ 113,866	\$ 68,935	\$ 44,931
Reserves	72,289	46,699	25,590
Accrued expenses	28,016	27,064	952
Accrued compensation	78,283	72,495	5,788
Property secured by a mortgage	11,750	—	11,750
Other liabilities	25,417	14,793	10,624
Total	\$ 329,621	\$ 229,986	\$ 99,635

The increase in accounts payable and other liabilities was primarily due to increases in accounts payable, reserves, accrued compensation, property secured by a mortgage, and other liabilities. The increase in accounts payable was due to our November 2003 Florida acquisition as well as the opening of new communities in our existing markets. Our reserves increased in accordance with our general liability and workman's compensation policies. The increase in accrued compensation was related to bonuses due to achieving higher profits. Property secured by a mortgage increased due to the consolidation of a property in our Northeast Region that was secured by a mortgage and subsequently replaced by a letter of credit and an increase in other liabilities was due to a cash advance we received related to a structured lot option.

RESULTS OF OPERATIONS

TOTAL REVENUES

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

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Homebuilding:			
Sale of homes	\$ 952,433	\$ 667,735	\$ 768,378
Land sales and other revenues	(2,890)	(27,499)	31,396
Financial services	9,003	10,515	9,342
Total change	\$ 958,546	\$ 650,751	\$ 809,116
Total revenues percent change	29.9%	25.5%	46.4%

HOMEBUILDING

Compared to the same prior period, housing revenues increased \$952.4 million or 30.4% for the year ended October 31, 2004, increased \$667.7 million or 27.1% for the year ended October 31, 2003, and increased \$768.4 million or 45.4% for the year ended October 31, 2002 as a result of both organic growth and through the acquisition of other homebuilders. Housing revenues are recorded at the time when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement.

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

<i>(Housing Revenue in Thousands)</i>	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Northeast Region(2):			
Housing Revenues	\$ 1,027,356	\$ 774,209	\$ 660,250
Homes Delivered	3,188	2,387	2,144
Average Price	\$ 322,257	\$ 324,344	\$ 307,952
Southeast Region(1):			
Housing Revenues	\$ 1,066,474	\$ 682,210	\$ 660,328
Homes Delivered	3,976	2,720	2,806
Average Price	\$ 268,228	\$ 250,813	\$ 235,327
Southwest Region(2):			
Housing Revenues	\$ 681,083	\$ 481,634	\$ 240,181
Homes Delivered	3,875	2,431	1,033
Average Price	\$ 175,763	\$ 198,122	\$ 232,508
West Region(3):			
Housing Revenues	\$ 1,307,350	\$ 1,190,516	\$ 852,373
Homes Delivered	3,547	3,984	3,220
Average Price	\$ 368,579	\$ 298,824	\$ 264,712
Other(4):			
Housing Revenues	—	\$ 1,261	\$ 48,963
Homes Delivered	—	9	311
Average Price	—	\$ 140,111	\$ 157,437
Consolidated Total:			
Housing Revenues	\$ 4,082,263	\$ 3,129,830	\$ 2,462,095
Homes Delivered	14,586	11,531	9,514
Average Price	\$ 279,875	\$ 271,427	\$ 258,787
Unconsolidated Joint Ventures:			
Housing Revenues	\$ 36,555	\$ 11,034	\$ 9,384
Homes Delivered	84	54	43
Average Price	\$ 435,179	\$ 204,340	\$ 218,233
Total Including Unconsolidated Joint Ventures:			
Housing Revenues	\$ 4,118,818	\$ 3,140,864	\$ 2,471,479
Homes Delivered	14,670	11,585	9,514
Average Price	\$ 280,765	\$ 271,115	\$ 259,773

- (1) *October 31, 2004 includes deliveries from our Florida acquisition beginning on November 1, 2003.*
- (2) *October 31, 2003 includes deliveries from our Texas, Ohio, and Arizona acquisitions beginning on November 1, 2002, January 1, 2003, April 1, 2003, and August 13, 2003, respectively.*
- (3) *October 31, 2002 includes deliveries from our California acquisition beginning on January 10, 2002.*
- (4) *Other includes operations from markets we have exited in recent years.*

The increase in housing revenues during the year ended October 31, 2004 was primarily due to organic growth within our existing operations. Excluding acquisitions, housing revenues and average sales prices increased in all four of our regions combined by 21.4% and 12.7%, respectively. Homes delivered, excluding acquisitions, increased 14.1%, 20.5%, and 25.5% in our Northeast Region, Southeast Region, and Southwest Region, respectively. In our West Region, deliveries declined 11.0% due to severe weather conditions during 2004 in Southern California.

Unaudited quarterly housing revenues and net sales contracts by region for the years ending October 31, 2004, 2003, and 2002 are set forth below:

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 2004	July 31, 2004	April 30, 2004	January 31, 2004
Housing Revenues:				
Northeast Region	\$ 365,358	\$ 261,470	\$ 208,620	\$ 191,908
Southeast Region	349,532	272,395	253,485	191,062
Southwest Region	217,214	181,491	154,564	127,814
West Region	447,333	329,254	284,274	246,489
Consolidated Total	\$ 1,379,437	\$ 1,044,610	\$ 900,943	\$ 757,273

Sales Contracts (Net of Cancellations):				
Northeast Region	\$ 333,961	\$ 267,692	\$ 307,127	\$ 203,484
Southeast Region	274,818	293,707	351,922	241,067
Southwest Region	170,958	179,232	202,748	121,177
West Region	426,910	507,214	533,685	299,020
Consolidated Total	\$ 1,206,647	\$ 1,247,845	\$ 1,395,482	\$ 864,748

<i>(In Thousands)</i>	Quarter Ended			
	October 31, 2003	July 31, 2003	April 30, 2003	January 31, 2003
Housing Revenues:				
Northeast Region	\$ 279,252	\$ 210,039	\$ 148,155	\$ 136,763
Southeast Region	202,345	165,583	156,162	158,120
Southwest Region	151,406	129,907	106,767	72,662
West Region	392,039	325,205	255,469	238,695
Other	—	—	—	1,261
Consolidated Total	\$ 1,025,042	\$ 830,734	\$ 666,553	\$ 607,501

Sales Contracts (Net of Cancellations):				
Northeast Region	\$ 219,101	\$ 261,625	\$ 204,943	\$ 115,447
Southeast Region	230,807	239,817	248,324	149,037
Southwest Region	112,487	125,292	143,979	68,927
West Region	291,532	336,889	312,469	233,616
Other	—	—	—	313
Consolidated Total	\$ 853,927	\$ 963,623	\$ 909,715	\$ 567,340

<i>(In Thousands)</i>	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
Southeast Region	207,671	182,467	143,117	127,073
Southwest Region	67,403	65,432	52,820	54,526
West Region	316,412	242,631	178,688	114,642
Other	8,717	13,646	12,512	14,088
Consolidated Total	\$ 805,282	\$ 681,329	\$ 532,386	\$ 443,098

Sales Contracts (Net of Cancellations):				
Northeast Region	\$ 154,623	\$ 148,390	\$ 165,148	\$ 109,689
Southeast Region	138,802	154,488	253,492	132,787
Southwest Region	55,893	54,437	73,145	43,827
West Region	283,607	288,885	261,002	84,122
Other	3,206	6,443	9,053	11,365

Consolidated Total

\$ 636,131 \$ 652,643 \$ 761,840 \$ 381,790

An important indicator of our future results are recently signed contracts and our home contract backlog for future deliveries. Our consolidated contract backlog using base sales prices by market area is set forth below:

<i>(Dollars In Thousands)</i>	October 31, 2004	October 31, 2003	October 31, 2002
Northeast Region:			
Total Contract Backlog	\$ 774,016	\$ 581,865	\$ 416,264
Number of Homes	2,312	2,218	1,397
Southeast Region:			
Total Contract Backlog	\$ 770,804	\$ 526,348	\$ 331,682
Number of Homes	2,399	1,761	1,221
Southwest Region:			
Total Contract Backlog	\$ 164,655	\$ 157,655	\$ 60,532
Number of Homes	924	989	277
West Region:			
Total Contract Backlog	\$ 775,295	\$ 264,536	\$ 267,305
Number of Homes	1,917	793	955
Other:			
Total Contract Backlog	—	—	\$ 945
Number of Homes	—	—	7
Totals:			
Total Consolidated Contract Backlog	\$ 2,484,770	\$ 1,530,404	\$ 1,076,728
Number of Homes	7,552	5,761	3,857

In the month of November 2004, we signed an additional 971 net contracts amounting to \$320.2 million. Between our October 31, 2004 contract backlog and November 2004 net contracts, we have sold approximately 53% of our projected deliveries for fiscal 2005.

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, 2004	October 31, 2003	October 31, 2002
Sale of homes	\$ 4,082,263	\$ 3,129,830	\$ 2,462,095
Cost of sales, excluding interest	3,042,057	2,331,393	1,919,941
Homebuilding gross margin, before interest expense	1,040,206	798,437	542,154
Cost of sales interest	54,985	44,069	49,424
Homebuilding gross margin, after interest expense	\$ 985,221	\$ 754,368	\$ 492,730
Gross Margin Percentage, before interest expense	25.5%	25.5%	22.0%
Gross Margin Percentage, after interest expense	24.1%	24.1%	20.0%

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

<i>(Dollars In Thousands)</i>	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Sale of homes	100.0%	100.0%	100.0%
Cost of sales, excluding interest:			
Housing, land and development costs	66.5	67.1	70.6
Commissions	2.2	2.1	2.2
Financing concessions	1.0	0.9	1.0
Overheads	4.8	4.4	4.2
Total cost of sales, before interest expense	74.5	74.5	78.0
Gross margin percentage, before interest expense	25.5	25.5	22.0
Cost of sales interest	1.4	1.4	2.0
Gross Margin Percentage, after interest expense	24.1%	24.1%	20.0%

We sell a variety of home types in various local communities, each yielding a different gross margin. As a result, depending on the mix of both the communities and of home types delivered, consolidated gross margin will fluctuate up or down. During 2004, we decided to add an additional line item to the income statement to show previously capitalized interest amortized through cost of sales. The consolidated gross margins, before interest expense remained flat at 25.5% during the year ended October 31, 2004 compared to the same period last year, despite the fact that we believe gross margins were adversely impacted in 2004 due to the effect of price increases in lumber, concrete, and certain other building materials. In addition, gross margins were negatively impacted by our 2003 and 2004 acquisitions which have lower margins than our historical consolidated average margins, yet still achieve strong returns on investment due to higher than average inventory turns. During the year ended October 31, 2003, our consolidated gross margin, before interest expense, increased 3.5% from the previous year. This increase was primarily the result of increased sales prices. Also shown in the table are our results of gross margins, after interest expense. After deducting interest expense, which was previously capitalized and amortized through cost of sales, our homebuilding gross margin was 24.1% equal to the gross margin achieved in the prior fiscal year. The dollar increases in gross margin, before interest expense for each of the three years ended October 31, 2004, 2003, and 2002 were attributed to increased sales, resulting from both organic growth in deliveries and our acquisitions of other homebuilders.

Homebuilding selling, general, and administrative expenses as a percentage of homebuilding revenues have averaged approximately 8.0% for the years ended October 31, 2004, 2003, and 2002. Such expenses increased to \$332.3 million for the year ended October 31, 2004, and increased to \$253.7 million for the year ended October 31, 2003 from \$194.9 million for the previous year. The increased spending year over year was primarily due to our acquisition deliveries and increased deliveries in previously existing markets.

We have written-off or written-down certain inventories totaling \$7.0, \$5.2, and \$8.2 million during the years ended October 31, 2004, 2003, and 2002, respectively, to their estimated fair value. See "Notes to Consolidated Financial Statements—Note 11" for additional explanation. These write-offs and write-downs were incurred primarily because of the decision not to exercise certain options to purchase land, redesign of communities in planning, a change in the marketing strategy to liquidate a particular property or lower property values.

During the years ended October 31, 2004, 2003, and 2002, we wrote-off residential land options and approval and engineering costs amounting to \$5.4, \$4.5, and \$4.0 million, respectively, which are included in the total write-offs mentioned above. When a community is redesigned, abandoned engineering costs are written-off. Option and approval and engineering costs are written-off when a community's proforma profitability does not produce adequate returns on the investment commensurate with the risk and we cancel the option. Such write-offs were located in all our regions.

During the year ended October 31, 2004, we wrote-down a community \$1.2 million in our Northeast Region, \$0.1 million in our Southeast Region, and \$0.3 million in our Southwest Region. The write-down in the Northeast Region was attributed to a section of a community that was built in accordance with a low income housing clause. In preparation for selling this property, an outside appraisal was prepared resulting in a reduction in inventory carrying amount to fair value. The write-downs in our Southeast Region and Southwest Region were attributed to property that was acquired as part of our acquisition in these Regions. A decision was made to liquidate these two properties resulting in lower sales prices.

We wrote-down one community \$0.7 million in our Southwest Region during the year ended October 31, 2003. This property was acquired as part of one of our acquisitions. A decision was made to liquidate this property resulting in lower sales prices.

The write-downs of residential inventory during the year ended October 31, 2002 were 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.

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:

(In Thousands)	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Land and lot sales	\$ 2,664	\$ 14,205	\$ 42,312
Cost of sales	2,217	10,931	35,897
Land and lot sales gross margin	\$ 447	\$ 3,274	\$ 6,415

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

FINANCIAL SERVICES

Financial services 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, 2004, October 31, 2003, and October 31, 2002, financial services provided a \$25.5, \$22.9, and \$18.2 million pretax profit, respectively. The increase in 2004 was primarily due to increased activity in our mortgage operations, along with our homebuilding growth. The increases in 2003 and 2002 were primarily due to reduced costs, increased mortgage loan amounts, and the addition of mortgage operations from our acquisitions. In addition to our wholly-owned mortgage subsidiaries, customers obtained mortgages from our mortgage joint ventures in our Northeast Region (Ohio) and West Region in 2004 and 2003, and our West Region in 2002. In the market areas served by our wholly-owned mortgage banking subsidiaries, approximately 66%, 74%, and 71% of our non-cash homebuyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2004, 2003, and 2002, 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 1.5% for the year ended October 31, 2004 and 2.0% for the years ended October 31, 2003 and 2002, respectively. The decrease in corporate general and administrative expenses during the year ended October 31, 2004 compared to the same period last year was due to reduced depreciation expense as certain assets are now fully depreciated and reduced consulting services as certain non-recurring projects were completed last year. Increases in corporate general and administrative dollar expenses comparing fiscal 2003 to 2002, are primarily attributed to higher employee incentives due to higher returns on equity and an increase in the number of employees.

INTEREST

Interest expense includes housing, and land and lot interest that is capitalized while the land and homes are developed and expensed with the sold land and homes, as well as other interest. See Note 2 to the Consolidated Financial Statements for detail on interest incurred, expensed, and capitalized.

Interest related to homes sold as a percentage of home revenues amounted to 1.3%, 1.4%, and 2.0% for the years ended October 31, 2004, 2003, and 2002, respectively. These percentage decreases are due to our average debt as a percentage of average inventory decreasing and lower interest rates. These percentage decreases are primarily attributed to a decrease in debt leverage of our Company due to growth in equity from earnings and lower interest rates.

OTHER OPERATIONS

Other operations consist primarily of miscellaneous residential housing operations expenses, senior residential property operations, amortization of senior and senior subordinated note issuance expenses, earnout payments from homebuilding company acquisitions, amortization of the consultant's agreement and the right of first refusal

agreement from our California acquisition in fiscal 2002, minority interest relating to consolidated joint ventures, corporate-owned life insurance, and certain contributions. Also reported in other operations are expenses associated with exiting our Mid-South market in fiscal 2002, the write-off of an asset of a previous acquisition, as well as the write-off of costs associated with our enterprise-wide operating software.

OFF BALANCE SHEET FINANCING

In the ordinary course of business, we enter into land and lot option purchase contracts in order to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. At October 31, 2004, we had \$225.4 million options in cash and letters of credit to purchase land and lots with a total purchase price of \$3.4 billion. Only \$12.7 million of the \$3.4 billion in land and lot option purchase contracts contained specific performance clauses which require us to purchase the land or lots upon satisfaction of certain requirements by both the sellers and the Company. Additionally, our liability is generally limited to forfeiture of the nonrefundable deposits, letters of credit and other nonrefundable amounts incurred. We have no material third party guarantees.

Pursuant to FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," we consolidated \$201.7 million of inventory not owned at October 31, 2004, representing the fair value of the optioned property. Additionally, to reflect the fair value of the inventory consolidated under FIN 46, we eliminated \$18.0 million of its related cash deposits for lot option contracts, which are included in consolidated inventory not owned. Because we are unable to get the selling entities to provide us with any financial information, the fair value of the optioned property less our cash deposits and liabilities from inventory not owned, was reported on the balance sheet as minority interest from inventory not owned totaling \$155.1 million. At October 31, 2004, we had cash deposits and letters of credit totaling \$27.4 million, representing our current maximum exposure associated with the consolidation of lot option contracts. Creditors of these VIE's, if any, have no recourse against us.

CONTRACTUAL OBLIGATIONS

The following summarizes our aggregate contractual commitments at October 31, 2004:

Contractual Obligations	Payments Due by Period (in Thousands)				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long Term Debt(1)	\$ 1,481,340	\$ 74,152	\$ 287,488	\$ 117,762	\$ 1,001,938
Capital Lease Obligations	—	—	—	—	—
Operating Leases	31,344	9,974	13,235	4,954	3,181
Purchase Obligations(2)	11,440	11,440	—	—	—
Other Long Term Liabilities	—	—	—	—	—
Total	\$ 1,524,124	\$ 95,566	\$ 300,723	\$ 122,716	\$ 1,005,119

(1) *Represents our Senior Notes and Other Notes Payable, and related interest payments. Interest on variable rate obligations is based on rates effective as of October 31, 2004.*

(2) *Represents obligations under option contracts with specific performance provisions, net of cash deposits.*

We had outstanding letters of credit and performance bonds of approximately \$180.6 million and \$712.2 million, respectively, at October 31, 2004 related principally to our obligations to local governments to construct roads and other improvements in various developments. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at

inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and initial measurement provisions of FIN 45 did not have a material effect on our financial position or results of operations. Our disclosure of guarantees is included in Note 14 to the Consolidated Financial Statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"), which amends SFAS No. 123, "Accounting for Stock-Based Compensation", ("SFAS 123"). The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the affect of the method used on reported results. We have not elected to change to the fair value based method of accounting for stock-based employee compensation. We adopted the disclosure provisions of SFAS No. 148 in our second fiscal quarter ending April 30, 2003. Our disclosure of accounting for stock-based compensation is included in Notes 2 and 13 to the Consolidated Financial Statements.

In January 2003, the FASB issued FIN 46. A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 was effective immediately for VIE's created after January 31, 2003. Pursuant to FASB revision to FIN 46 R ("FIN 46-R"), issued in December 2003, our Company was not required to apply the provisions of FIN 46 to an interest held in a variable interest entity or potential variable interest entity until the end of our quarter ended April 30, 2004 for VIE's created before February 1, 2003. In accordance with FIN 46R, we have fully implemented FIN 46 as of April 30, 2004.

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

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

At October 31, 2004, all VIE's we were required to consolidate were as a result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these thirty-one VIE's totaling \$27.4 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIE's was \$201.7 million. Because we could not get the remainder of the selling entities to provide us with any financial information, the fair value of the optioned property less our cash deposits and liabilities from inventory not owned, which totaled \$155.1 million, was reported on the balance sheet as "Minority interest from inventory not owned". Creditors of these VIE's have no recourse against our Company.

We will continue to secure land and lots using options. Including the deposits with the thirty-one VIE's above, at October 31, 2004 we have total cash and letters of credit deposits amounting to approximately \$225.4 million to purchase land and lots with a total purchase price of \$3.4 billion. Not all our deposits are with VIE's. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective the beginning of the first interim period beginning after June 15, 2003. The Company currently controls several finite life partnerships which are included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely and therefore the Company has not applied SFAS 150 to the minority interest of these partnerships. Based on the estimated value of the assets owned by the partnerships at October 31, 2004, the Company estimates that the minority interest in these partnerships would be entitled to receive approximately its current carrying value upon the dissolution of the partnership. The adoption of SFAS 150 did not have a material effect on our financial position or results of operations.

In March 2004, the Securities and Exchange Commission staff issued Staff Accounting Bulletin 105 ("SAB 105"). Existing accounting guidance requires an entity to record on its balance sheet the fair value of any issued and outstanding mortgage loan commitments. SAB 105 requires that the fair value measurement include only differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any future cash flows related to (i) expected fees to be received when the loan commitment becomes a loan, (ii) gains from selling the loan, or (iii) the servicing value created from the loan. The guidance in SAB 105 must be applied to mortgage loan commitments that are accounted for as derivatives and are entered into after March 31, 2004. The adoption of the guidance in SAB 105 did not have a material adverse effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) "Share Based Payment" ("SFAS 123R"), which is a revision to SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

SFAS 123R applies to all awards granted after the required effective date (the beginning of the first interim or annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under Statement 123 will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of

the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in our fiscal fourth quarter of 2005, we will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro-forma disclosure in the notes to the financial statements. We expect the effect of adopting SFAS 123R to be similar to the effect presented in our proforma disclosure related to SFAS 123.

TOTAL TAXES

Total taxes as a percentage of income before taxes amounted to approximately 36.6%, 37.5%, and 39.0% for the years ended October 31, 2004, 2003, and 2002, respectively. The decrease in this percentage from 2003 to 2004 is primarily attributed to lower state taxes. Annually we make an adjustment to the previous year's estimated federal and state income taxes based on actual taxes per our filed income tax returns. This year's net adjustment for 2003 state income taxes was made in the fourth quarter of 2004 and totaled \$4.4 million, slightly higher than we have experienced in the past. This adjustment was primarily caused by lower than estimated state income taxes in California and New Jersey. California, a unitary tax state, allows alternative methods of allocating income between states. For the accrual we used the standard allocation method but in preparing the actual return we discovered that an alternative allocation methodology resulted in lower income taxes. In addition, fiscal 2003 was the first year for a major change in New Jersey tax laws. Being the first year to estimate taxes under the new law, we felt that it would be prudent to conservatively estimate our state income taxes. In the fourth quarter of fiscal 2004, we filed our actual New Jersey tax return for 2003 which yielded lower taxes than we accrued in fiscal 2003. 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. See "Notes to Consolidated Financial Statements—Note 10" for an additional explanation of taxes.

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 56% of our homebuilding cost of sales.

MERGERS AND ACQUISITIONS

On November 6, 2003 we acquired a Florida homebuilder for cash and 489,236 shares of our Class A Common Stock. This acquisition was accounted for as a purchase, with the results of operations of this entity included in our consolidated financial statements as of the date of acquisition. On November 1, 2002 and December 31, 2002, we acquired two Texas homebuilding companies. On April 9, 2003, we acquired a build-on-your-own lot homebuilder in Ohio, and on August 8, 2003, we acquired a homebuilder in Arizona. Our aggregate net cash purchase price, including payment of third party debt, for fiscal year 2003 acquisitions was approximately \$186.4 million. All fiscal 2004 and 2003 acquisitions provide for other payments to be made, generally dependant upon achievement of certain future operating and return objectives.

On January 10, 2002, we acquired a California homebuilder for a total purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 4,417,476 shares of our Class A Common Stock were issued. At the date of acquisition we also paid off approximately \$88.0 million of their third party debt. During the second quarter ended April 30, 2003, we exercised the right to retire at no cost 1,498,718 Class A Common Stock shares that were held by the selling principal under the terms of the acquisition.

SAFE HARBOR STATEMENT

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

- Changes in general and local economic and business conditions;
- Weather conditions;
- Changes in market conditions;
- Changes in home prices and sales activity in the 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;
- Shortages in and price fluctuations of raw materials and labor;
- The availability and cost of suitable land and improved lots;
- Levels of competition;
- Availability of financing to the Company;
- Utility shortages and outages or rate fluctuations; and
- Geopolitical risks, terrorist acts and other acts of war.

Certain risks, uncertainties, and other factors are described in detail in Item 1 and 2 "Business and Properties" in this Form 10-K.

Item 7A - Quantitative and Qualitative Disclosures About Market Risk

The primary market risk facing us is interest rate risk on our long term debt. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly the risk from mortgage loans is not material. We do not hedge interest rate risk other than on mortgage loans using financial instruments. We are also subject to foreign currency risk but this risk is not material. The following tables set forth as of October 31, 2004 and 2003, 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, 2003 to October 31, 2004.

(Dollars in Thousands)	Long Term Debt as of October 31, 2004 by Year of Debt Maturity							Total	FMV at 10/31/04
	2005	2006	2007	2008	2009	Thereafter			
Long Term Debt(1):									
Fixed Rate	\$ 26,300	\$ 654	\$ 140,949	\$ 748	\$ 800	\$ 786,438	\$ 955,889	\$ 1,025,829	
Average interest rate	7.10%	6.66%	10.48%	6.71%	6.73%	7.37%	7.82%	—	
Variable rate	—	—	—	—	—	—	—	—	
Average interest rate	—	—	—	—	—	—	—	—	

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

**Long Term Debt as of October 31, 2003
by Year of Debt Maturity**

<i>(Dollars in Thousands)</i>	2004	2005	2006	2007	2008	Thereafter	Total	FMV at 10/31/03
Long Term Debt(1):								
Fixed Rate	\$ 43,869	\$ 81	\$ 88	\$ 140,346	\$ 104	\$ 550,253	\$ 734,741	\$ 798,347
Average interest rate	6.49%	8.38%	8.38%	10.50%	8.38%	8.48%	8.74%	—
Variable rate	—	—	—	—	\$ 115,000	—	\$ 115,000	\$ 115,000
Average interest rate	—	—	—	—	(2)	—	—	—

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

(2) *LIBOR plus 2.5%.*

In addition, we have reassessed the market risk for our variable rate debt, which is based upon the prime rate or a spread over LIBOR, and we believe that a one percent increase in the prime rate or LIBOR rate would have an approximate \$1.2 million increase in interest expense for the twelve months ended October 31, 2004, assuming \$115 million of variable rate debt outstanding from November 1, 2003 to October 31, 2004.

Item 8 - Financial Statements and Supplementary Data

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

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the years ended October 31, 2004, 2003, and 2002, there have not been any changes in, or disagreements with, accountants on accounting and financial disclosure.

Item 9A - Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 31, 2004. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B - Other Information

None.

Item 10 - Directors and Executive Officers of the Registrant

The information called for by Item 10, except as set forth below in this Item 10, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with the Company's annual meeting of shareholders to be held on March 8, 2005, which will involve the election of directors.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Year Started With Company
Kevork S. Hovnanian	81	Chairman of the Board and Director of the Company.	1967
Ara K. Hovnanian	47	Chief Executive Officer, President and Director of the Company.	1979
Paul W. Buchanan	54	Senior Vice President—Corporate Controller.	1981
Kevin C. Hake	45	Senior Vice President, Finance and Treasurer.	2000
Robyn T. Mingle	39	Senior Vice President, Human Resources	2003
Peter S. Reinhart	54	Senior Vice President and General Counsel.	1978
J. Larry Sorsby	49	Executive Vice President, Chief Financial Officer and Director of the Company.	1988

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

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

Mr. Buchanan has been Senior Vice President—Corporate Controller since May 1990. Mr. Buchanan resigned as a Director of the Company on September 13, 2002, a position in which he served since March 1982, for the purpose of reducing the number of non-independent board members.

Mr. Hake was appointed Senior Vice President, Finance and Treasurer in October 2004 after serving as Vice President, Finance and Treasurer from July 2000. Mr. Hake was Director, Real Estate Finance at BankBoston Corporation from 1994 to June 2000.

Ms. Mingle joined the Company in October 2003 as Senior Vice President, Human Resources. Prior to joining the Company, Ms. Mingle was the Vice President, Human Resources at Black and Decker, U. S., Inc. since 1999.

Mr. Reinhart has been Senior Vice President and General Counsel since April 1985. Mr. Reinhart resigned as a Director of the Company on September 13, 2002, a position in which he served since December 1981, for the purpose of reducing the number of non-independent board members.

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

CODE OF ETHICS AND CORPORATE GOVERNANCE GUIDELINES

We have adopted a Code of Ethics that applies to Hovnanian's principal executive officer, principal financial officer, controller, and all other associates of the Company, including its directors and other officers. We have posted the text of this Code of Ethics on our website at www.khov.com under "Investor Relations/Corporate Governance". We have also adopted Corporate Governance Guidelines and posted them on our website at www.khov.com under "Investor Relations/Corporate Governance". A printed copy of the Code and Guidelines is also available to the public at no charge by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 10 Highway 35, P.O. Box 500, Red Bank, N.J. 07701 or calling Corporate headquarters at 732-747-7800.

AUDIT COMMITTEE AND COMPENSATION COMMITTEE CHARTERS

We have adopted charters that apply to Hovnanian's Audit Committee and Compensation Committee. We have posted the text of these charters on our website at www.khov.com under "Investor Relations/Corporate Governance". A printed copy of each charter is available to any shareholder who requests it by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 10 Highway 35, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800.

Item 11 - Executive Compensation

The information called for by Item 11 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2005, which will involve the election of directors.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2005, which will involve the election of directors.

The following table provides information as of October 31, 2004 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (in thousands)
	(a)	(b)	(c)
Equity compensation plans approved by security holders:	7,249	7.47	24,279
Equity compensation plans not approved by security holders:	—	—	—
Total	7,249	7.47	24,279

Item 13 - Certain Relationships and Related Transactions

The information called for by Item 13 is incorporated herein by reference to our definitive proxy statement, with the exception of the information regarding certain relationships, as described below, to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2005, which will involve the election of directors.

At October 31, 2002, we stopped making loans to both Mr. K. Hovnanian and Mr. A. Hovnanian. The weighted average interest rate on Mr. K. Hovnanian and Mr. A. Hovnanian's related party debt was 1.79% for the year ended October 31, 2002. The largest amount of debt outstanding held by Mr. K. Hovnanian for the year ending October 31, 2002 was \$22,000. The largest amount of debt outstanding held by Mr. A. Hovnanian for the year ending October 31, 2002 was \$1,729,000. The interest rate on six month Treasury bills at October 31, 2002 was 1.55%. As of October 31, 2004, the outstanding loan balances were zero. We provided 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. We no longer provide such services. During the years ended October 31, 2004, 2003, and 2002 we received \$0.1 million in fees for such management services. At October 31, 2004 and 2003, no amounts were due us by these partnerships. During the years ended October 31, 2004, 2003, and 2002, we received \$37,000, \$62,000, and \$62,000, respectively, from these partnerships.

Item 14 - Principal Accountant Fees and Services

The information called for by Item 14 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A, in connection with our annual meeting of shareholders to be held on March 8, 2005, which will involve the election of directors.

Item 15 - Exhibits and Financial Statement Schedules

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

Exhibits:

- 3(a) Certificate of Incorporation of the Registrant.(1)
- 3(b) Certificate of Amendment of Certificate of Incorporation of the Registrant.(5)
- 3(c) Certificate of Amendment of Certificate of Incorporation of the Registrant.(14)
- 3(d) Restated Bylaws of the Registrant.(12)
- 4(a) Specimen Class A Common Stock Certificate.(13)
- 4(b) Specimen Class B Common Stock Certificate. (15)
- 4(c) Indenture dated as of October 2, 2000, relating to 10¹/₂% Senior Notes, between the Registrant and First Union National Bank, including form of 10¹/₂% Senior Notes due October 1, 2007.(9)
- 4(d) Indenture dated March 26, 2002, relating to 8% Senior Notes, between the Registrant and First Union National Bank, including form of 8% Senior Notes due April 1, 2012.(10)
- 4(e) Indenture dated March 26, 2002, relating to 8.875% Senior Subordinated Notes, between the Registrant and First Union National Bank, including form of 8.875% Senior Subordinated Notes due April 1, 2012.(10)
- 4(f) Indenture dated May 9, 2003, relating to 7³/₄% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 7³/₄% Senior Subordinated Notes due May 15, 2013.(4)
- 4(g) Indenture dated as of November 3, 2003, relating to 6¹/₂% Senior Notes, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Wachovia Bank, National Association, as Trustee, as supplemented by the First Supplemental Indenture dated as of November 3, 2003 among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6¹/₂% Senior Notes due January 15, 2014.(2)
- 4(h) Indenture dated as of March 18, 2004, relating to 6³/₈% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6³/₈% Senior Notes due 2014.(16)
- 4(i) Indenture dated as of November 30, 2004, relating to 6¹/₄% Senior Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6¹/₄% Senior Notes due 2015.

- 4(j) Indenture dated as of November 30, 2004, relating to 6% Senior Subordinated Notes, among K. Hovnanian Enterprises, Inc., the Guarantors named therein and Wachovia Bank, National Association, as Trustee, including form of 6% Senior Notes due 2010.
- 10(a) Third Amendment to First Restated Revolving Credit Agreement dated as of August 3, 2004, among, K. Hovnanian Mortgage, Inc., and K. Hovnanian American Mortgage, LLC., Guaranty Bank, Bank of America NA, J P Morgan Chase Bank, Comerica Bank, National City Bank of Kentucky, U S Bank N A, Colonial Bank NA, and Washington Mutual Bank FA (Warehouse Agreement).(18)
- 10(b) Fourth Amended and Restated Credit Agreement dated as of June 18, 2004, among, K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., PNC Bank NA, Bank of America NA, Wachovia Bank NA, Bank One NA, Key Bank, National Association, and The Royal Bank of Scotland.(18)
- 10(c) Description of Management Bonus Arrangements.(15)
- 10(d) Description of Savings and Investment Retirement Plan.(1)
- 10(e) 1999 Stock Incentive Plan (as amended and restated).(17)
- 10(f) 1983 Stock Option Plan (as amended and restated March 8, 2002).(3)
- 10(g) Management Agreement dated August 12, 1983 for the management of properties by K. Hovnanian Investment Properties, Inc.(1)
- 10(h) Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(15)
- 10(i) Description of Deferred Compensation Plan.(15)
- 10(j) Senior Executive Short-Term Incentive Plan (as amended and restated).(8)
- 12 Ratio of Earnings to Fixed Charges.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Auditors.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32(a) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32(b) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

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- (1) ***Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.***
 - (2) ***Incorporated by reference to Exhibits to Current Report on Form 8-K filed on November 7, 2003.***
 - (3) ***Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2002 of the Registrant.***
 - (4) ***Incorporated by reference to Exhibits to Registration Statement (No. 333-107164-01) on Form S-4 of the Registrant.***
 - (5) ***Incorporated by reference to Exhibits to Registration Statement (No. 333-106761) on Form S-3 of the Registrant.***
 - (6) ***Incorporated by reference to Exhibits to Registration Statement (No. 333-75939) on Form S-3 of the Registrant.***
 - (7) ***Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2002 of the Registrant.***
 - (8) ***Incorporated by reference to Appendix A of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 10, 2004.***
 - (9) ***Incorporated by reference to Exhibits to Registration Statement (No. 333-52836-01) on Form S-4 of the Registrant.***
 - (10) ***Incorporated by reference to Exhibits to Registration Statement (No. 333-89976-01) on Form S-4 of the Registrant.***

- (11) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended April 30, 2002 of the Registrant.*
- (12) *Incorporated by reference to Exhibits to Registration Statement (No. 1-08551) on Form 8-A of the Registrant.*
- (13) *Incorporated by reference to Exhibits to Registration Statement (No. 333-111231) on Form S-3 of the Registrant.*
- (14) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 of the Registrant.*
- (15) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2003 of the Registrant.*
- (16) *Incorporated by reference to Exhibits to Registration Statement (No. 333-115742) on Form S-4 of the Registrant.*
- (17) *Incorporated by reference to Appendix B of the definitive Proxy Statement of the Registrant on Schedule 14A filed February 10, 2004.*
- (18) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2004 of the Registrant.*

SIGNATURES

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

HOVNIANIAN ENTERPRISES, INC.

By: /s/ KEVORK S. HOVNIANIAN

Kevork S. Hovnianian
Chairman of the Board

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

/s/ KEVORK S. HOVNIANIAN

Kevork S. Hovnianian

Chairman of The Board and Director

1/13/05

/s/ ARA K. HOVNIANIAN

Ara K. Hovnianian

Chief Executive Officer, President and Director

1/13/05

/s/ PAUL W. BUCHANAN

Paul W. Buchanan

Senior Vice President-Corporate Controller

1/13/05

/s/ KEVIN C. HAKE

Kevin C. Hake

Senior Vice President, Finance and Treasurer

1/13/05

/s/ DESMOND P. MCDONALD

Desmond P. McDonald

Chairman of Audit Committee and Director

1/13/05

/s/ PETER S. REINHART

Peter S. Reinhart

Senior Vice President and General Counsel

1/13/05

/s/ J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President, Chief Financial Officer and Director

1/13/05

/s/ STEPHEN D. WEINROTH

Stephen D. Weinroth

Chairman of Compensation Committee and Director

1/13/05

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

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Report of Independent Registered Public Accounting Firm

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, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2004 in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 17 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill, and in 2003, the Company adopted FASB Interpretation No. 46 "Consolidation of Variable Interest Entities".

Ernst & Young LLP

New York, New York
December 10, 2004

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

October 31, 2004

October 31, 2003

ASSETS

Homebuilding:

Cash and cash equivalents (Note 5)	\$ 65,013	\$ 121,913
Inventories—At the lower of cost or fair value (Notes 11 and 12):		
Sold and unsold homes and lots under development	1,785,706	1,184,907
Land and land options held for future development or sale	436,184	270,502
Consolidated Inventory Not Owned:		
Specific performance options	11,926	56,082
Variable interest entities (Note 17)	201,669	100,327
Other options	31,824	48,226
Total Consolidated Inventory Not Owned	245,419	204,635
Total Inventories	2,467,309	1,660,044
Receivables, deposits, and notes (Note 12)	56,753	42,506
Property, plant, and equipment—net (Note 4)	44,137	26,263
Prepaid expenses and other assets (Note 18)	134,456	106,525
Goodwill and indefinite life intangibles (Note 19)	32,658	82,658
Definite life intangibles (Note 19)	125,492	56,978
Total Homebuilding	2,925,818	2,096,887
Financial Services:		
Cash and cash equivalents	13,011	6,308
Mortgage loans held for sale (Notes 6 and 7)	209,193	224,052
Other assets	8,245	3,945
Total Financial Services	230,449	234,305
Income Taxes Receivable—Including deferred tax benefits (Note 10)		1,179
Total Assets	\$ 3,156,267	\$ 2,332,371

See notes to consolidated financial statements.

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

October 31, 2004

October 31, 2003

LIABILITIES AND STOCKHOLDERS' EQUITY

Homebuilding:

Nonrecourse land mortgages (Note 7)	\$	25,687	\$	43,795
Accounts payable and other liabilities		329,621		229,986
Customers' deposits (Note 5)		80,131		58,376
Nonrecourse mortgages secured by operating properties (Note 7)		24,951		710
Liabilities from inventory not owned		68,160		94,780
Total Homebuilding		528,550		427,647

Financial Services:

Accounts payable and other liabilities		6,080		5,917
Mortgage warehouse line of credit (Notes 6 and 7)		188,417		166,711
Total Financial Services		194,497		172,628

Notes Payable:

Revolving and term credit agreements (Note 7)		115,000		115,000
Senior notes (Note 8)		602,737		387,166
Senior subordinated notes (Note 8)		300,000		300,000
Accrued interest (Notes 7 and 8)		15,522		15,675
Total Notes Payable		1,033,259		817,841

Income Taxes Payable (Note 10)

		48,999		
Total Liabilities		1,805,305		1,418,116

Minority interest from inventory not owned (Note 17)

		155,096		90,252
Minority interest from consolidated joint ventures		3,472		4,291

Stockholders' Equity (Notes 13 and 19):

Preferred Stock, \$.01 par value—authorized 100,000 shares; none issued				
Common Stock, Class A, \$.01 par value—authorized 200,000,000 shares; issued 56,797,313 shares in 2004 and 56,036,116 shares in 2003 (including 10,395,656 shares in 2004 and 10,780,436 shares in 2003 held in Treasury)		568		560
Common Stock, Class B, \$.01 par value (convertible to Class A at time of sale)—authorized 30,000,000 shares; issued 15,376,972 shares in 2004 and 15,537,016 shares in 2003 (both years include 691,748 shares held in Treasury)		154		155
Paid in Capital		199,643		163,355
Retained Earnings (Note 8)		1,053,863		705,182
Deferred Compensation (Note 13)		(11,784)		
Treasury Stock—at cost		(50,050)		(49,540)
Total Stockholders' Equity		1,192,394		819,712

Total Liabilities and Stockholders' Equity	\$	3,156,267	\$	2,332,371
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See notes to consolidated financial statements.

Hovnanian Enterprises, Inc. and Subsidiaries

Consolidated Statements of Income

	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
<i>(In Thousands Except Per Share Data)</i>			
Revenues:			
Homebuilding:			
Sale of homes	\$ 4,082,263	\$ 3,129,830	\$ 2,462,095
Land sales and other revenues (Note 12)	17,852	20,742	48,241
Total Homebuilding	4,100,115	3,150,572	2,510,336
Financial services	60,288	51,285	40,770
Total Revenues	4,160,403	3,201,857	2,551,106
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	3,044,274	2,342,324	1,955,838
Cost of sales interest	54,985	44,069	49,424
Total Cost of Sales	3,099,259	2,386,393	2,005,262
Selling, general and administrative	332,305	253,724	194,903
Inventory impairment loss (Note 11)	6,990	5,150	8,199
Total Homebuilding	3,438,554	2,645,267	2,208,364
Financial services	34,782	28,415	22,543
Corporate general and administrative	63,423	66,008	51,974
Interest (Notes 7 and 8)	20,057	19,589	10,947
Expenses related to extinguishment of debt (Note 8)	9,597	1,619	895
Other operations	15,295	21,061	30,653
Intangible amortization (Note 19)	28,923	8,380	
Total Expenses	3,610,631	2,790,339	2,325,376
Income Before Income Taxes	549,772	411,518	225,730
State and Federal Income Taxes:			
State (Note 10)	21,595	17,458	8,993
Federal (Note 10)	179,496	136,680	79,041
Total Taxes	201,091	154,138	88,034
Net Income	\$ 348,681	\$ 257,380	\$ 137,696
Per Share Data:			
Basic:			
Income Per Common Share	\$ 5.63	\$ 4.16	\$ 2.26
Weighted Average Number of Common Shares Outstanding	61,892	61,920	60,810
Assuming Dilution:			
Income Per Common Share	\$ 5.35	\$ 3.93	\$ 2.14
Weighted Average Number of Common Shares Outstanding	65,133	65,538	64,310

See notes to consolidated financial statements.

Hovnanian Enterprises, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

<i>(Dollars In Thousands)</i>	<i>A Common Stock</i>		<i>B Common Stock</i>		<i>Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Deferred Comp</i>	<i>Treasury Stock</i>	<i>Total</i>
	<i>Shares Issued and Outstanding</i>	<i>Amount</i>	<i>Shares Issued and Outstanding</i>	<i>Amount</i>					
Balance, October 31, 2001	40,807,516	\$ 492	14,946,106	\$ 155	\$ 100,634	\$ 310,106	(127)	\$ (35,614)	\$ 375,646
Acquisitions	4,805,538	48			48,027		106		48,181
Sale of common stock under employee stock option plan	714,330	8			3,573				3,581
Stock Bonus issuances	127,630	2			391				393
Conversion of Class B to Class A common stock	61,732		(61,732)						
Treasury stock purchases	(295,238)							(2,948)	(2,948)
Net Income						137,696			137,696
Balance, October 31, 2002	46,221,508	550	14,884,374	155	152,625	447,802	(21)	(38,562)	562,549
Acquisitions	101,644				3,713		21		3,734
Shares returned in connection with prior year acquisition	(1,498,718)								
Sale of common stock under employee stock option plan	810,220	8			7,039				7,047
Stock Bonus issuances	177,158	2			(22)				(20)
Conversion of Class B to Class A common stock	39,106		(39,106)						
Treasury stock purchases	(595,238)							(10,978)	(10,978)
Net Income						257,380			257,380
Balance, October 31, 2003	45,255,680	560	14,845,268	155	163,355	705,182		(49,540)	819,712
Acquisitions	489,236				16,311			2,512	18,823
Sale of common stock under employee stock option plan	334,166	4			1,742				1,746
Stock Bonus issuances	212,335	2	54,652	1	503				506
Restricted Stock granted					17,732		(11,867)		5,865
Amortization of Restricted Stock							83		83
Conversion of Class B to Class A common stock	214,696	2	(214,696)	(2)					
Treasury stock purchases	(104,456)							(3,022)	(3,022)
Net Income						348,681			348,681
Balance, October 31, 2004	46,401,657	\$ 568	14,685,224	\$ 154	\$ 199,643	\$ 1,053,863	(11,784)	\$ (50,050)	\$ 1,192,394

Hovnanian Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(In Thousands)	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Cash Flows From Operating Activities:			
Net Income	\$ 348,681	\$ 257,380	\$ 137,696
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	6,189	6,714	6,506
Intangible Amortization	28,923	8,380	
Loss (gain) on sale and retirement of property and assets	(621)	2,872	12,328
Expenses related to extinguishment of debt	9,597	1,619	895
Deferred income taxes	(21,495)	4,223	(18,307)
Impairment losses	6,990	5,150	8,199
Decrease (increase) in assets:			
Mortgage notes receivable	15,049	(130,591)	14,870
Receivables, prepaids and other assets	(34,711)	(9,446)	38,557
Inventories	(709,577)	(367,773)	(31,573)
Increase (decrease) in liabilities:			
State and Federal income taxes	72,154	(548)	21,138
Tax effect from exercise of stock options	(481)	(5,631)	(1,335)
Customers' deposits	15,285	18,948	1,006
Interest and other accrued liabilities	35,579	45,831	38,494
Accounts payable	40,289	(29,492)	20,066
Net cash (used in) provided by operating activities	(188,149)	(192,364)	248,540
Cash Flows From Investing Activities:			
Net proceeds from sale of property and assets	1,881	3,123	627
Purchase of property, equipment, and other fixed assets and acquisitions of homebuilding companies	(104,796)	(198,095)	(144,485)
Net return of capital from unconsolidated affiliates	(17,778)	(2,783)	(15,828)
Net cash (used in) investing activities	(120,693)	(197,755)	(159,686)
Cash Flows From Financing Activities:			
Proceeds from mortgages and notes	3,871,659	1,940,718	1,895,429
Proceeds from senior debt	365,000		99,152
Proceeds from senior subordinated debt		150,000	150,000
Principal payments on mortgages and notes	(3,826,348)	(1,830,756)	(1,880,873)
Principal payments on subordinated debt	(156,844)	(11,369)	(99,747)
Purchase of treasury stock	(3,022)	(10,978)	(2,948)
Proceeds from sale of stock and employee stock plan	8,200	10,735	3,974
Net cash provided by financing activities	258,645	248,350	164,987
Net Increase (Decrease) In Cash	(50,197)	(141,769)	253,841
Cash and Cash Equivalents Balance, Beginning Of Year	128,221	269,990	16,149
Cash and Cash Equivalents Balance, End Of Year	\$ 78,024	\$ 128,221	\$ 269,990
Supplemental Disclosures Of Cash Flows:			
Cash paid during the period for:			
Interest, net of capitalized interest	\$ 78,166	\$ 59,367	\$ 64,141
Income Taxes	\$ 150,260	\$ 152,532	\$ 85,203
Supplemental disclosures of noncash operating activities:			
Consolidated Inventory Not Owned:			
Specific performance options	\$ 11,440	\$ 52,996	\$ 58,494
Variable interest entities	183,653	87,312	
Other options	29,309	44,764	39,489
Total Inventory Not Owned	\$ 224,402	\$ 185,072	\$ 97,983

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003, and 2002

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 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, 2004, 2003, and 2002 contributed by the homebuilding operations. We are a Delaware corporation, currently building and selling homes in more than 275 new home communities in New Jersey, Pennsylvania, New York, Ohio, Virginia, West Virginia, Maryland, North Carolina, South Carolina, Florida, Texas, Arizona, and California. We have also begun planning for new communities in Minnesota and Delaware. 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 U. S. generally accepted accounting principles 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" ("SFAS 141"). Under SFAS No. 141 (for acquisitions subsequent to June 30, 2001) and Accounting Principles Board ("APB") Opinion 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 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 and land sales are recorded when title is conveyed to the buyer, adequate cash payment has been received and there is no continued involvement.

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

Interest Income Recognition for Mortgage Loans Receivable and Recognition of Related Deferred Fees and Costs—Interest income is recognized as earned for each mortgage loan during the period from the loan closing date to the sale date when legal contract passes to the buyer and the sale price is collected. All fees related to the origination of mortgage loans and direct loan origination costs are deferred and recorded as either (a) an adjustment to the related mortgage loans upon the closing of a loan or (b) recognized as a deferred asset or deferred revenue while the loan is in process. These fees and costs include loan origination fees, loan discount, and salaries and wages. Such deferred fees and costs relating to the closed loans are recognized over the life of the loans as an adjustment of yield or taken into operations under sale of the loan to a permanent investor.

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. The Company's cash balances are held primarily at one financial institution and may, at times, exceed insurable amounts. The Company believes it mitigates its risk by investing in or through a major financial institution.

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 revolving credit agreement, our term loan, and the senior and senior subordinated notes payable. 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 \$645.9 million and \$329.3 million, respectively, as of October 31, 2004. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

Inventories—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 as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs are allocated based on buildable acres to product types within each community, then charged to cost of sales equally based upon the number of homes to be constructed in each product type. For inventories of communities under development, a loss is recorded when events and circumstances indicate impairment and the undiscounted future cash flows generated are less than the related carrying amounts. The impairment loss is based on discounted future cash flows generated from expected revenue, cost to complete including interest, and selling costs.

Insurance Deductible Reserves—Our deductible is \$150,000 per occurrence for worker's compensation and general liability insurance. Reserves have been established based upon actuarial analysis of estimated future losses during 2004 and 2003. For fiscal 2005, our deductible increases to \$5 million per occurrence for general liability insurance and \$500,000 per occurrence for worker's compensation insurance.

Interest—Costs related to properties under development are capitalized during the land development and home construction period and expensed as cost of sales interest as the related inventories are sold. Costs related to properties not under development are charged to interest expense separately in the Consolidated Statements of Income.

Interest costs incurred, expensed and capitalized were:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Interest capitalized at beginning of year	\$ 24,833	\$ 22,159	\$ 25,124
Plus interest incurred (1)	87,674	66,332	57,406
Less cost of sales interest expensed(2)	54,985	44,069	49,424
Less other interest expensed	20,057	19,589	10,947
Interest capitalized at end of year	\$ 37,465	\$ 24,833	\$ 22,159

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

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

Land Options—Costs are capitalized when incurred and either included as part of the purchase price when the land is acquired or charged to operations when we determine we will not exercise the option. In accordance with Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 "Consolidation of Variable Interest Entities" an interpretation of Accounting Research Bulletin No. 51 ("FIN 46"), SFAS No. 49 "Accounting for Product Financing Arrangements" ("SFAS 49"), SFAS No. 98 "Accounting for Leases" ("SFAS 98"), and Emerging Issues Task Force ("EITF") No. 97-10 "The Effects of Lessee Involvement in Asset Construction" ("EITF 97-10"), we record on the Consolidated Balance Sheets specific performance options, options with variable interest entities, and other options under Consolidated inventory not owned with the offset to Liabilities from inventory not owned, Minority interest from inventory not owned and Minority interest from consolidated joint ventures.

Intangible Assets—The intangible assets recorded on our balance sheet are goodwill, tradenames, architectural designs, distribution processes, and contractual agreements with both definite and indefinite lives resulting from our acquisitions. 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, 2004 and 2003, and determined that no impairment of intangibles existed. We are amortizing the definite life intangibles over their expected useful life, ranging from three to seven years. The weighted average amortization period remaining for definite life intangibles was 2.5 years as of October 31, 2004.

In May 2004, we made a decision to change our fiscal 2002 California acquisition brand name to K. Hovnanian Homes. This resulted in a reclassification of \$50 million from goodwill and indefinite life intangibles to definite life intangibles reported on our October 31, 2004 Consolidated Balance Sheet. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be substantially written off by our fourth quarter of 2008.

As of October 31, 2004, the gross amount of definite life intangibles and related accumulated amortization was \$162.8 million and \$37.3 million, respectively. The expected amortization expense for these definite life intangibles in future years follow:

Year Ending October 31,	<i>(Dollars in Thousands)</i>	
2005	\$	46,215
2006		30,324
2007		19,217
2008		12,231
2009		10,654
After 2009		6,851
	\$	125,492

Finance Subsidiary Net Worth—In accordance with Statement of Position 01-6 ("SOP 01-6") of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, we are required to disclose the minimum net worth requirements by regulatory agencies, secondary market investors and states in which it conducts business. At October 31, 2004 and 2003, our mortgage subsidiary's net worth was \$36.0 million and \$61.5 million, respectively, which exceeded all our regulatory agencies net worth requirements.

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.

Warranty Costs—Based upon historical experience, we accrue warranty costs as part of cost of sales for estimated repair costs over \$1,000 to homes, community amenities and land development infrastructure. In addition, we accrue for warranty costs under our \$150,000 per occurrence general liability insurance deductible as part of Selling, general and administrative costs. See Note 14 for further detail on warranty costs.

Advertising Costs—Advertising costs are treated as period costs and expensed as incurred. During the years ended October 31, 2004, 2003, and 2002, advertising costs expensed amounted to \$40.5 million, \$30.8 million, and \$23.4 million, 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.

In March 2004, our Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend of Class A and Class B Common Stock payable to stockholders of record on March 19, 2004. The additional shares were distributed on March 26, 2004. All share and per share amounts (except par value) have been retroactively adjusted to reflect the stock split. There was no net affect on total stockholders' equity as a result of the stock split.

In July 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. As of October 31, 2004, 1.9 million shares have been purchased under this program, of which 0.1 million and 0.6 million were repurchased during the twelve months ended October 31, 2004 and 2003, respectively. In addition, during the twelve months ended October 31, 2003, we retired at no cost 1.5 million shares that were held by a seller of a previous acquisition.

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 program fees, 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—SFAS No. 123 "Accounting for Stock-Based Compensation", ("SFAS 123") establishes a fair value-based method of accounting for stock-based compensation plans, including stock options and non-vesting stock. Registrants may elect to continue accounting for stock option plans under APB Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"), but are required to provide pro forma net income and earnings per share information "as if" the new fair value approach had been adopted. 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). However, for non-vested stock, compensation expense equal to the market price of the stock on the grant date is recognized ratably over the vesting period.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily adopts the fair value recognition method of recording stock option expense. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, "Interim Financial Reporting" to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements.

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

	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Net income to common shareholders; as reported	\$ 348,681	\$ 257,380	\$ 137,696
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	4,477	2,075	560
Pro forma net income	\$ 344,204	\$ 255,305	\$ 137,136
Pro forma basic earnings per share	\$ 5.56	\$ 4.12	\$ 2.26
Basic earnings per share as reported	\$ 5.63	\$ 4.16	\$ 2.26
Pro forma diluted earnings per share	\$ 5.28	\$ 3.90	\$ 2.13
Diluted earnings per share as reported	\$ 5.35	\$ 3.93	\$ 2.14

Pro forma information regarding net income and earnings per share is calculated as if we had accounted for our stock-based compensation under the fair value method of SFAS No. 123. The fair value for those options is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2004, 2003, and 2002: risk-free interest rate of 4.2%, 4.3%, and 4.3%, respectively; dividend yield of zero; volatility factor of the expected market price of our common stock of 0.48, 0.43, and 0.43, respectively; and a weighted-average expected life of the option of 5.0, 5.1, and 5.5 years, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of our traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) "Share Based Payment" ("SFAS 123R"), which is a revision of SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

SFAS 123R applies to all awards granted after the required effective date (the beginning of the first interim or annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair value based method for either recognition or disclosure under Statement 123 will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of

the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in our fiscal fourth quarter of 2005, we will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro forma disclosure in the notes to the financial statements. We expect the effect of adopting SFAS 123R to be similar to the effect represented in our proforma disclosure related to SFAS 123.

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 and non-vested common stock of approximately 3.2 million, 3.6 million, and 3.5 million for the years ended October 31, 2004, 2003, and 2002, respectively.

Computer Software Development—We capitalize certain costs incurred in connection with developing or obtaining software for internal use. Upon entering the application and development phase, the capitalized costs are amortized over the systems estimated useful life. For the year ended October 31, 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. We also wrote off the majority of the 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 other operations in the accompanying Consolidated Statements of Income, or \$7.6 million after taxes equal to \$0.12 per fully diluted share. Such costs were written off as a result of the decision to not use the SAP software after October 31, 2003. Certain costs in the amount of \$2.0 million related to active communities using the SAP software were not written off in 2002, but were amortized over the life of these communities. As of October 31, 2003, all costs associated with the SAP software had been expensed.

Accounting for Derivative Instruments and Hedging Activities—In April 2003, the Financial Accounting Standards Board issued (SFAS) No. 149, "Amendment of Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities that fall within the scope of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective the beginning of the first interim period beginning after June 15, 2003. The Company currently controls several finite life partnerships which are included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely and therefore the Company has not applied SFAS 150 to the minority interest of these partnerships. Based on the estimated value of the assets owned by the partnerships at October 31, 2004, the Company estimates that the minority interest in these partnerships would be entitled to receive approximately its current carrying value upon the dissolution of the partnership. The adoption of SFAS 150 did not have a material effect on our financial position or results of operations.

In March 2004, the Securities and Exchange Commission staff issued Staff Accounting Bulletin 105 ("SAB 105"). Existing accounting guidance requires an entity to record on its balance sheet the fair value of any issued and outstanding mortgage loan commitments. SAB 105 requires that the fair value measurement include only differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any future cash flows related to (i) expected fees to be received when the loan commitment becomes a loan, (ii) gains from selling the loan, or (iii) the servicing value created from the loan. The guidance in SAB 105 must be applied to mortgage loan commitments that are accounted for as derivatives and are entered into after March 31, 2004. The adoption of the guidance in SAB 105 did not have a material adverse effect on our financial position or results of operations.

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.

Reclassifications—Certain amounts in the 2003 and 2002 Consolidated Financial Statements have been reclassified to conform to the 2004 presentation.

3. Leases

We lease certain property under non-cancelable leases. Office leases are generally for terms of three to five years and generally provide renewal options. Model home leases are generally for shorter terms approximately one to three years with renewal options on a month-to-month basis. In most cases, we expect that in the normal course of business, leases that will expire will be renewed or replaced by other leases. The future lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

Years Ending October 31,	<i>(Dollars in Thousands)</i>
2005	\$ 9,974
2006	7,365
2007	5,870
2008	3,386
2009	1,568
After 2009	3,181
	\$ 31,344

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, 2004 and October 31, 2003 amounted to \$27.8 million and \$23.9 million, respectively. In addition we have two senior citizen residential rental communities included in prepaid and other assets on the accompanying Consolidated Balance Sheets. Accumulated depreciation on senior residential rental properties at October 31, 2004 and October 31, 2003 amounted to \$3.9 million and \$3.5 million, respectively.

5. Deposits

We hold escrow cash, included in cash and cash equivalents on the Consolidated Balance Sheets, amounting to \$17.1 million and \$8.0 million at October 31, 2004 and October 31, 2003, 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, 2004 and 2003, respectively, \$209.2 million and \$223.9 million 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, 2004 or 2003.

7. Mortgages and Notes Payable

The construction loans for our new Corporate Headquarters are secured by the real property and any improvements. The carrying value of these assets are \$17.4 million at October 31, 2004. These loans have installment obligations with annual principal maturities in the following years ending October 31, of approximately \$0.6 million in 2005, \$0.7 million in 2006, 2007, and 2008, \$0.8 million in 2009, and \$21.4 million after 2009. The interest rate on these obligations are 5.67% and 8.82%.

Our amended and restated unsecured Revolving Credit Agreement ("Agreement") with a group of banks provides a revolving credit line of \$900 million through July 2008. The facility contains an accordion feature under which the aggregate commitment can be increased to \$1.0 billion subject to the availability of additional commitments. Interest is payable monthly at various rates of either the prime rate or a spread over LIBOR ranging from 1.10% to 2.00% per annum, depending on our consolidated Leverage Ratio, as defined in the Agreement. In addition, we pay a fee ranging from 0.20% to 0.40% per annum, depending on our consolidated Leverage Ratio and the weighted average unused portion of the revolving credit line. Each of our significant subsidiaries, except for our title insurance and mortgage subsidiaries and joint ventures, is a guarantor under the Agreement. As of October 31, 2004 and October 31, 2003, the outstanding balances under the Agreement were \$115.0 million and zero, respectively.

Average interest rates and average balances outstanding under the Agreement are as follows:

<i>(Dollars in Thousands)</i>	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Average monthly outstanding borrowings	\$ 114,846	\$ 2,485	\$ 10,717
Average interest rate during period	4.3%	4.5%	4.4%
Average interest rate at end of period(1)	3.6%	2.8%	3.6%
Maximum outstanding at any month end	\$ 335,650	\$ 29,800	\$ 36,425

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

On January 22, 2002, we issued a \$165 million five year Term Loan. The Term Loan was scheduled to mature January 22, 2007, and bore interest 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 our California acquisition on January 10, 2002. Each of our significant subsidiaries, except for our title insurance and mortgage subsidiaries and joint ventures, is a guarantor under the Term Loan. As of October 31, 2003, borrowings under the Term Loan were \$115 million. On March 18, 2004, we paid off this Term Loan as discussed further in Note 8.

Our amended secured mortgage loan warehouse agreement with a group of banks, which is a short-term borrowing, provides up to \$250 million through July 2005. Interest is payable monthly at the Eurodollar Rate plus 1.25%. The loan is repaid when the underlying mortgage loans are sold to permanent investors by us. As of October 31, 2004 and October 31, 2003, borrowings under the agreement were \$188.4 million and \$166.7 million, respectively.

8. Senior and Senior Subordinated Notes

Senior Notes and Senior Subordinated Notes balances as of October 31, 2004 and 2003 were as follows:

<i>(In Thousands)</i>	October 31, 2004		October 31, 2003	
Senior Notes:				
10 ¹ / ₂ % Senior Notes due October 1, 2007 (net of discount)	\$	138,428	\$	137,922
9 ¹ / ₈ % Senior Notes due May 1, 2009		—		150,000
8% Senior Notes due April 1, 2012 (net of discount)		99,309		99,244
6 ¹ / ₂ % Senior Notes due January 15, 2014		215,000		—
6 ³ / ₈ % Senior Notes due December 15, 2014		150,000		—
Total Senior Notes	\$	602,737	\$	387,166
Senior Subordinated Notes:				
8 ⁷ / ₈ % Senior Subordinated Notes due April 1, 2012	\$	150,000	\$	150,000
7 ³ / ₄ % Senior Subordinated Notes due May 15, 2013		150,000		150,000
Total Senior Subordinated Notes	\$	300,000	\$	300,000

On June 7, 1993, we issued \$100 million principal amount of 9³/₄% Subordinated Notes due June 1, 2005. In April 2001, we retired \$0.3 million 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. We recorded \$0.9 million of expenses associated with the early extinguishment of this debt in "Expenses Related to Extinguishment of Debt" on the Consolidated Statement of Income in 2002.

On May 4, 1999, we issued \$150 million principal amount of 9¹/₈% Senior Notes due May 1, 2009. Interest was payable semi-annually. The notes were redeemed on May 3, 2004 as discussed further below.

On October 2, 2000, we issued \$150 million principal amount of 10¹/₂% Senior Notes due October 1, 2007. During the year ended October 31, 2003, we paid down \$9.8 million of these notes. We recorded \$1.6 million of expenses associated with the early extinguishment of the debt in "Expenses Related to Extinguishment of Debt" on the

Consolidated Statement of Income in 2003. The 10¹/₂% Senior Notes were issued at a discount to yield 11% and have been reflected net of the unamortized discount in the accompanying Consolidated Balance Sheets. Interest is payable semi-annually. The notes are redeemable in whole or in part, at any time, at our option at 100% of their principal amount upon payment of a make-whole price.

On March 26, 2002, we issued \$100 million 8% Senior Notes due 2012 and \$150 million 8⁷/₈% 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 Sheets. Interest on both notes is paid semi-annually. The notes are redeemable in whole or in part, at any time on or after April 1, 2007, at our option at redemption prices expressed as percentages of principal amount that decline to 100% on April 1, 2010. The proceeds were used to redeem the remaining 9³/₄% 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.

On May 9, 2003, we issued \$150 million 7³/₄% Senior Subordinated Notes due 2013. The notes are redeemable in whole or in part, at any time on or after May 15, 2008, at redemption prices expressed as percentages of principal amount that decline to 100% on May 15, 2011. The net proceeds of the note offering were used to repay the current outstanding indebtedness under the Revolving Credit Agreement and the remainder for general corporate purposes.

On November 3, 2003, we issued \$215 million 6¹/₂% Senior Notes due 2014. 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 net proceeds of the issuance were used for general corporate purposes.

On March 18, 2004, we issued \$150 million 6³/₈% Senior Notes due 2014. 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 net proceeds of the issuance were used to redeem all of our \$150 million outstanding 9¹/₈% Senior Notes due 2009, which occurred on May 3, 2004 and for general corporate purposes. Also on March 18, 2004, we paid off our \$115 million Term Loan with available cash. The redemption of the Senior Notes and the payoff of the Term Loan resulted in expenses due to the early extinguishment of debt of \$8.7 million and \$0.9 million, respectively, before taxes, which have been reported as "Expenses Related to Extinguishment of Debt" on our Consolidated Statements of Income.

As a subsequent event to our October 31, 2004 Consolidated Balance Sheet, on November 30, 2004, we issued \$200 million 6¹/₄% Senior Notes due 2015 and \$100 million 6% Senior Subordinated Notes due 2010. 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 net proceeds of the issuance were used to repay the outstanding balance on our Revolving Credit Facility and for general corporate purposes.

The indentures relating to the Senior and Subordinated Notes and the Revolving Credit Agreement contain a Company guarantee (see Note 21) and restrictions on the payment of cash dividends. At October 31, 2004, \$573.7 million of retained earnings were free of such restrictions.

At October 31, 2004, we had total issued and outstanding \$905.2 million (\$902.7 million, net of discount) Senior and Senior Subordinated Notes. These notes plus the \$200.0 million Senior Notes and \$100.0 million Senior Subordinated Notes issued November 30, 2004 have annual principal maturities in the following years ending October 31, of \$140.2 million in 2007 and \$1,065.0 million after 2008.

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003, and 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 \$9.2 million, \$7.5 million, and \$6.6 million for the years ended October 31, 2004, 2003, and 2002, 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:

(Dollars In Thousands)	Year Ended	
	October 31, 2004	October 31, 2003
State income taxes:		
Current	\$ 13,420	\$ 8,455
Deferred	(11,077)	(9,009)
Federal income taxes:		
Current	88,775	19,999
Deferred	(42,119)	(20,624)
Total	\$ 48,999	\$ (1,179)

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

(Dollars In Thousands)	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Current income tax expense:			
Federal	\$ 200,857	\$ 130,536	\$ 97,347
State(1)	23,625	19,379	13,808
	224,482	149,915	111,155
Deferred income tax (benefit) expense:			
Federal	(21,361)	6,144	(18,307)
State	(2,030)	(1,921)	(4,814)
	(23,391)	4,223	(23,121)
Total	\$ 201,091	\$ 154,138	\$ 88,034

(1) The current state income tax expense is net of the use of state loss carryforwards amounting to \$32 million, \$13.5 million, and \$45.8 million for the years ended October 31, 2004, 2003, and 2002, respectively.

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, 2004	October 31, 2003
Deferred tax assets:		
Association subsidy reserves	\$ 570	\$ 231
Inventory impairment loss	1,236	700
Uniform capitalization of overhead	14,683	5,980
Warranty, general liability and worker's compensation reserves	8,874	7,989
Deferred Income	6,615	
Acquisition intangibles	17,008	8,806
Restricted stock bonus	7,122	8,790
Provision for losses and reserves	22,829	8,952
State net operating loss carryforwards	37,438	24,816
Other	10,131	9,433
Total	126,506	75,697
Valuation allowance	(37,438)	(24,816)
Total deferred tax assets	89,068	50,881
Deferred tax liabilities:		
Rebates and Discounts	23,745	13,437
Installment sales	1,897	
Accelerated depreciation	3,620	2,816
Acquisition intangibles	5,550	4,735
Other	1,060	260
Total deferred tax liabilities	35,872	21,248
Net deferred tax assets	\$ 53,196	\$ 29,633

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

	Year Ended		
	October 31, 2004	October 31, 2003	October 31, 2002
Computed "expected" tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	2.4	2.7	2.6
Permanent differences	(0.4)	—	1.4
Low income housing tax credit	(0.2)	(0.3)	(0.6)
Other	(0.2)	0.1	0.6

We have state net operating loss carryforwards of \$458.7 million due to expire between the years October 31, 2005 and October 31, 2024.

The company is currently under audit by the Internal Revenue Service for the year ended October 31, 2002.

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, 2004, we wrote-down a community \$1.2 million in our Northeast Region, \$0.1 million in our Southeast Region, and \$0.3 million in our Southwest Region. The write-down in the Northeast Region was attributed to a section of a community that was built in accordance with a low income housing clause. In preparation for selling this property, an outside appraisal was prepared resulting in a reduction in inventory carrying amount to fair value. The write-down in our Southeast Region and Southwest Region was attributed to property that was acquired as part of our acquisition in these Regions. A decision was made to liquidate these two properties resulting in lower sales prices.

As of October 31, 2003, inventory with a carrying amount of \$3.1 million was written down by \$0.7 million in our Southeast Region. This property was acquired as part of one of our acquisitions. In 2003, a decision was made to liquidate this property resulting in lower sales prices. As of October 31, 2002, inventory with a carrying amount of \$9.4 million was written down by \$4.2 million to its fair market value. This write-down was attributed to two properties in Poland and one community in the Mid-South. We have made a decision to discontinue selling homes in these two markets and offer the remaining lots for sale.

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 \$1.6 million, \$0.7 million, and \$4.2 million for the years ended October 31, 2004, 2003, and 2002, respectively.

On the Consolidated Statements of Income the line entitled "Homebuilding—Inventory impairment loss" also includes write-offs of options, and approval, engineering, and capitalized interest costs. During the years ended October 31, 2004, 2003, and 2002 write-offs amounted to \$5.4 million, \$4.5 million, and \$4.0 million, respectively. During the years ended October 31, 2004, 2003, and 2002 we redesigned communities, abandoning certain engineering costs, and 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 our Northeast Region, Southeast Region, West Region, and Poland.

12. Transactions with Related Parties

Prior to fiscal 2003, our Board of Directors had adopted a general policy providing that it would 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 million 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. In 2003, in accordance with Sarbanes Oxley, we now prohibit any related party loans. At October 31, 2004 and 2003 related party receivables from officers and directors amounted to zero. Interest income from these loans for the years ended October 31, 2004 and 2003, amounted to zero, and in 2002 amounted to \$18,000, respectively.

We provided 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. We no longer provide such services. During the years ended October 31, 2004, 2003, and 2002 we received \$0.1 million in fees for such management services. At October 31, 2004 and 2003, no amounts were due us by these partnerships.

During the year ended October 31, 2003, we entered into an agreement to purchase land in California for approximately \$33.4 million 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, 2004, we have an option deposit of \$3.0 million related to this land acquisition agreement. In connection with this agreement, we also have consolidated \$30.4 million in accordance with FIN 46 under "Consolidated Inventory Not Owned" in the Consolidated Balance Sheets (see Note 17). 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.

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, totaling \$26.9 million. As of October 31, 2004 and 2003, land aggregating \$22.1 million and \$18.4 million, respectively, has been purchased. 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.

During the year ended October 31, 2001, we entered into an agreement to purchase land in Maryland for approximately \$3.0 million from a group that consists of relatives of Geaton Decesaris, Jr., a member of our Board of Directors. We had posted a deposit of \$100,000 and purchased the property when final approvals were in place. The property was purchased in November 2001 and there are 41 of an original 147 lots remaining in inventory as of October 31, 2004. Geaton Decesaris, Jr. has no financial interest in the relative's ownership and sale of land to the Company.

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 Southeast Region associates were granted and held options to purchase the stock from the acquired company prior to the January 23, 2001 acquisition. 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 acquisition the options were exchanged for options to purchase the Company's Class A Common Stock. All options expire ten years after the date of the grant. During the year ended October 31, 2004 each of the five outside directors of the Company were granted options to purchase 15,000 shares. All shares granted to the

outside directors were issued at the same price and terms as those granted to officers and key employees, except the outside directors' options vest evenly over three years. Stock option transactions are summarized as follows:

	October 31, 2004	Weighted Average Fair Value(1) And Exercise Price	October 31, 2003	Weighted Average Fair Value(1) And Exercise Price	October 31, 2002	Weighted Average Fair Value(1) And Exercise Price
Options outstanding at beginning of period	4,913,582	\$ 7.33	4,954,324	\$ 4.84	4,561,314	\$ 3.76
Granted	1,215,625	\$ 39.73	991,000	\$ 16.53	1,167,340	\$ 7.51
Exercised	334,166	\$ 4.26	1,027,992	\$ 4.76	714,330	\$ 3.14
Forfeited	20,500	\$ 9.47	3,750	\$ 3.75	60,000	\$ 3.86
Options outstanding at end of period	5,774,541	\$ 13.98	4,913,582	\$ 7.33	4,954,324	\$ 4.84
Options exercisable at end of period	1,758,165		1,645,998		3,179,026	
Price range of options outstanding	\$1.33–\$44.13		\$1.33–\$31.50		\$1.33–\$17.38	
Weighted-average remaining contractual life	6.5 years		6.4 years		6.0 years	

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

The following table summarizes the exercise price range and related number of options outstanding at October 31, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Price
\$1.33–\$5.00	2,052,750	\$ 3.07
\$5.00–\$10.00	1,224,500	\$ 5.98
\$10.01–\$15.00	230,666	\$ 12.21
\$15.01–\$20.00	995,000	\$ 16.22
\$20.01–\$25.00	—	—
\$25.01–\$30.00	6,000	\$ 25.31
\$30.01–\$44.13	1,265,625	\$ 37.92
	5,774,541	\$ 13.98

The following table summarizes the exercise price range and related number of exercisable options at October 31, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Price
\$1.33–\$5.00	1,557,665	\$ 2.96
\$5.00–\$10.00	171,750	\$ 6.17
\$10.01–\$15.00	—	—
\$15.01–\$20.00	28,750	\$ 15.95
\$20.01–\$25.00	—	—
\$25.01–\$30.00	—	—
\$30.01–\$44.13	—	—
	1,758,165	\$ 3.48

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 for each bonus year by dividing the portion of the bonus subject to the deferred right award by our average stock price for the year or the stock price at year end, whichever is lower. Twenty-five percent 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. Participants with 20 years of service or over 58 years of age vest immediately. During the years ended October 31, 2004 and 2003, we issued 209,975 and 177,158 shares under the plan. During the years ended October 31, 2004 and 2003, 23,122 and 20,068 shares were forfeited under this plan, respectively. For the years ended October 31, 2004, 2003, and 2002, approximately 436,435, 411,273, and 555,000 rights were awarded in lieu of \$15.8 million, \$9.8 million, and \$7.2 million of bonus payments, respectively. The deferred portion of these rights are recorded as deferred compensation in stockholders' equity. For the years ended October 31, 2004, 2003 and 2002, total compensation cost recognized in the income statement for stock based employee compensation awards was \$5.9 million, \$9.8 million and \$7.2 million, respectively.

14. Warranty Costs

Over the past several years, general liability insurance for homebuilding companies and their suppliers and subcontractors has become very difficult to obtain. The availability of general liability insurance has been limited due to a decreased number of insurance companies willing to write for the industry. In addition, those few insurers willing to write liability insurance have significantly increased the premium costs. We have been able to obtain general liability insurance but at higher premium costs with higher deductibles. We have been advised that a significant number of our subcontractors and suppliers have also had difficulty obtaining insurance that also provides us coverage. As a result, we have introduced an owner controlled insurance program for certain of our subcontractors, whereby the subcontractors pay us an insurance premium based on the value of their services, and we absorb the liability associated with their work on our homes. All such insurance premiums paid by our subcontractors are included in our reserves.

We provide a warranty accrual for repair costs over \$1,000 to homes, community amenities, and land development infrastructure. We accrue for warranty costs at the time each home is closed and title and possession have been transferred to the homebuyer as part of cost of sales. In addition, we accrue for warranty costs under our \$150,000 per occurrence general liability insurance deductible and for our recently introduced owner controlled insurance program that we offer to certain subcontractors as part of selling, general and

administrative costs. Warranty accruals are based upon historical experience. Charges in the warranty accrual and general liability accrual for the years ended October 31, 2004 and 2003 are as follows:

	Year Ended	
	October 31, 2004	October 31, 2003
<i>(Dollars In Thousands)</i>		
Balance, beginning of year	\$ 39,532	\$ 22,392
Company acquisitions during year		2,524
Additions during year	43,835	24,336
Charges incurred during year	(18,445)	(9,720)
Balance, end of year	\$ 64,922	\$ 39,532

15. Commitments and Contingent Liabilities

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

16. Performance Letters of Credit

As of October 31, 2004 and 2003, respectively, we are obligated under various performance letters of credit amounting to \$180.6 million and \$130.3 million. (See Note 5).

17. Variable Interest Entities

In January 2003, the FASB issued FIN 46. A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 was effective immediately for VIE's created after January 31, 2003. Pursuant to FASB revision to FIN 46 ("FIN 46-R"), issued in December 2003, our Company was not required to apply the provisions of FIN 46 to an interest held in a variable interest entity or potential variable interest entity until the end of our quarter ended April 30, 2004 for VIE's created before February 1, 2003. In accordance with FIN 46R, we have fully implemented FIN 46 as of April 30, 2004.

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

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

At October 31, 2004, all VIE's we were required to consolidate were as a result of our options to purchase land or lots from the selling entities. We paid cash or issued letters of credit deposits to these thirty-one VIE's totaling \$27.4 million. Our option deposits represent our maximum exposure to loss. The fair value of the property owned by the VIE's was \$201.7 million. Because we could not get the remainder of the selling entities to provide us with any financial information, the fair value of the optioned property less our cash deposits and liabilities from inventory not owned, which totaled \$155.1 million, was reported on the balance sheet as "Minority interest from inventory not owned". Creditors of these VIE's have no recourse against our Company.

We will continue to secure land and lots using options. Including the deposits with the thirty-one VIE's above, at October 31, 2004, we have total cash and letters of credit deposits amounting to approximately \$225.4 million to purchase land and lots with a total purchase price of \$3.4 billion. Not all our deposits are with VIE's. The maximum exposure to loss is limited to the deposits although some deposits are refundable at our request or refundable if certain conditions are not met.

18. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

We enter into homebuilding and land development joint ventures from time to time as a means of accessing lot positions, expanding our market opportunities, establishing strategic alliances, managing our risk profile and leveraging our capital base. Our homebuilding joint ventures are generally entered into with third party investors to develop land and construct homes that are sold directly to third party homebuyers. Our land development joint ventures include those with developers and other homebuilders as well as financial investors to develop finished lots for sale to the joint venture's members or other third parties. The tables set forth below summarize the

combined financial information related to our unconsolidated homebuilding and land development joint ventures that are accounted for under the equity method.

(In Thousands)

October 31, 2004

October 31, 2003

Assets:			
Cash	\$	30,519	\$ 5,225
Inventories		176,360	56,017
Other assets		5,477	619
Total assets	\$	212,356	\$ 61,861
Liabilities and Equity:			
Accounts payable and accrued liabilities	\$	39,065	\$ 5,149
Notes payable		82,742	25,612
Equity		90,549	31,100
Total liabilities and equity	\$	212,356	\$ 61,861

Our share of equity related to these joint ventures, included in prepaids and other assets in our Consolidated Balance Sheets, was approximately \$40.8 million and \$23.1 million at October 31, 2004 and 2003, respectively. Additionally, as of October 31, 2004 and 2003, we had advances outstanding of approximately \$12.7 and \$1.7 million to these unconsolidated joint ventures, which were included in the accounts payable and accrued liabilities balances in the table above.

	For the Year Ended October 31,		
	2004	2003	2002
Revenues	\$ 46,639	\$ 9,608	\$ 8,383
Cost of sales and expenses	(40,862)	(10,035)	(11,006)
Net income (loss)	\$ 5,777	\$ (427)	\$ (2,623)

Income (loss) from unconsolidated joint ventures are included in other revenue in the accompanying Consolidated Financial Statements and reflects our proportionate share of the income of these unconsolidated homebuilding and land development joint ventures. Our ownership interests in the joint ventures vary but are generally less than or equal to 50 percent.

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing for each venture. Generally, the amount of such financing is limited to no more than 50% of the joint venture's total assets, and such financing is obtained on a non-recourse basis, with guarantees from us limited only to completion of development and environmental indemnification. In some instances, the joint venture entity is considered a variable interest entity (VIE) under FIN 46 due to the returns being capped to the equity holders; however, in these instances, we are not the primary beneficiary, therefore we do not consolidate these entities. (See Note 17)

19. Acquisitions

On January 10, 2002, we acquired a California homebuilder for a total purchase price of \$196.5 million, of which \$151.6 million was paid in cash and 4,417,476 shares of Class A Common Stock were issued. At the date of acquisition we also paid off approximately \$88.0 million of their third party debt. During the second quarter ended April 30, 2003, we exercised the right to retire at no cost 1,498,718 Class A Common Stock shares that were held by the selling principal under the terms of the acquisition. The total purchase price amounted to \$90.4 million over 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 was initially recorded as an indefinite life intangible asset. However, as discussed in Note 2, in May 2004 we made a decision to change this acquisition's brand name to K. Hovnanian Homes. As a result, we reclassified \$50 million from goodwill and indefinite life intangibles to definite life intangibles on our 2004 Consolidated Balance Sheet. We are amortizing the definite life intangible as the homes in the communities still using the old California acquisition brand name are delivered to customers and the revenue on the sale of these homes is recognized. Using this methodology, we expect this intangible to be substantially written off by our fourth quarter of 2008.

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

(In Thousands Except Per Share)

January 10, 2002

Cash and cash equivalents	\$	10,209
Inventories		220,110
Tradename intangible		49,107
Prepays and other assets		20,676
Total Assets	\$	300,102
Accounts payable and other liabilities	\$	35,028
Revolving credit agreement		219,574
Stockholders' equity		45,500
Total Liabilities and Stockholders' Equity	\$	300,102

Our California acquisition was accounted for as a purchase with the results of operations of the entity included in our Consolidated Financial Statements as of the date of the acquisition. The purchase price was allocated based on estimated fair value of the assets and liabilities at the date of the acquisition.

The following unaudited pro forma financial data for the year ended October 31, 2002 has been prepared as if the acquisition of a California homebuilder on January 10, 2002 had occurred on November 1, 2001. 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)</i>	Year Ended October 31, 2002
Revenues	\$ 2,615,455
Expenses	2,384,361
Income Taxes	90,132
Net Income	\$ 140,962
Diluted Net Income Per Common Share	\$ 2.19

On November 1, 2002, and December 31, 2002, we acquired two Houston homebuilding companies. On April 9, 2003, we acquired a build-on-your-own lot homebuilder in Ohio, and on August 8, 2003, we acquired a homebuilder in Phoenix, Arizona. Our aggregate net cash purchase price, including payment of third party debt, for our fiscal 2003 acquisitions was approximately \$186.4 million. In connection with the December 31, 2002 and April 9, 2003 acquisitions, we have definite life intangible assets equal to the excess purchase price over the fair value of the net assets of \$65.4 million. It is our policy to obtain appraisals of acquisition intangibles. We have received the appraisals for the December 31, 2002 acquisition and the April 9, 2003 acquisition. We are amortizing our definite life intangibles over a period of three to seven years (See Note 2). All 2003 acquisitions provide for other payments to be made, generally dependent upon achievement of certain future operating and return objectives. These additional payments, if any, will be recorded as additional purchase price and allocated to the acquired definite life intangible assets.

On November 6, 2003, we acquired a Florida homebuilder for cash and 489,236 shares of our Class A Common Stock. This acquisition was accounted for as a purchase, with the results of operations of this entity included in our Consolidated Financial Statements as of the date of acquisition. In connection with the acquisition, based on an appraisal of acquisition intangibles we have definite life intangible assets equal to the excess purchase price over the fair value of the net assets of \$33 million. We are amortizing the various definite life intangibles over their estimated lives. This acquisition provides for other payments to be made, generally dependent upon achievement of certain future operating and return objectives.

20. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 2004 and 2003 is as follows:

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2004	July 31, 2004	April 30, 2004	January 31, 2004
Revenues	\$ 1,402,692	\$ 1,063,688	\$ 918,808	\$ 775,215
Expenses	1,197,788	923,672	806,651	682,520
Income before income taxes	204,904	140,016	112,157	92,695
State and Federal income tax	71,144	53,278	41,685	34,984
Net Income	\$ 133,760	\$ 86,738	\$ 70,472	\$ 57,711

Per Share Data:

Basic:

Net Income	\$ 2.16	\$ 1.40	\$ 1.13	\$ 0.92
Weighted average number of common shares outstanding	61,950	62,001	62,608	62,430

Assuming Dilution:

Net Income	\$ 2.06	\$ 1.33	\$ 1.06	\$ 0.87
Weighted average number of common shares outstanding	65,072	65,115	66,408	66,470

<i>(In Thousands Except Per Share Data)</i>	Three Months Ended			
	October 31, 2003	July 31, 2003	April 30, 2003	January 31, 2003
Revenues	\$ 1,045,588	\$ 848,817	\$ 679,817	\$ 627,635
Expenses	899,442	739,009	595,389	556,499
Income before income taxes	146,146	109,808	84,428	71,136
State and Federal income tax	54,897	41,006	31,860	26,375
Net Income	\$ 91,249	\$ 68,802	\$ 52,568	\$ 44,761

Per Share Data:

Basic:

Net Income	\$ 1.49	\$ 1.12	\$ 0.84	\$ 0.71
Weighted average number of common shares outstanding	61,418	61,260	62,286	62,742

Assuming Dilution:

Net Income	\$ 1.40	\$ 1.06	\$ 0.80	\$ 0.68
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Weighted average number of common shares outstanding

65,318

65,086

65,522

66,160

21. 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"), acts as a finance entity that as of October 31, 2004 had issued and outstanding approximately \$300 million Senior Subordinated Notes, \$603 million face value Senior Notes, and \$115 million drawn on a Revolving Credit Agreement. The Senior Subordinated Notes, Senior Notes, and the Revolving Credit Agreement are fully and unconditionally guaranteed by the Parent.

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

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

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

Consolidating Condensed Balance Sheet

October 31, 2004

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Homebuilding	\$ (99)	\$ 51,441	\$ 2,804,800	\$ 69,676	\$	\$ 2,925,818
Financial Services			149	230,300		230,449
Investments in and amounts due to and from consolidated subsidiaries	1,262,169	1,037,671	(1,319,839)	(41,423)	(938,578)	
Total Assets	\$ 1,262,070	\$ 1,089,112	\$ 1,485,110	\$ 258,553	\$ (938,578)	\$ 3,156,267
Liabilities						
Homebuilding	\$	\$ 149	\$ 526,278	\$ 2,123	\$	\$ 528,550
Financial Services			(1)	194,498		194,497
Notes Payable		1,032,259	(28,324)	29,324		1,033,259
Income Taxes Payable (Receivable)	69,676	1,961	(23,579)	941		48,999
Minority Interest			155,096	3,472		158,568
Stockholders' Equity	1,192,394	54,743	855,640	28,195	(938,578)	1,192,394
Total Liabilities and Stockholders' Equity	\$ 1,262,070	\$ 1,089,112	\$ 1,485,110	\$ 258,553	\$ (938,578)	\$ 3,156,267

Consolidating Condensed Balance Sheet

October 31, 2003

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Homebuilding	\$ (279)	\$ 151,050	\$ 1,910,484	\$ 35,632	\$	\$ 2,096,887
Financial Services			(252)	234,557		234,305
Income Taxes (Payable) Receivable	18,713	(1,241)	(15,656)	(637)		1,179
Investments in and amounts due to and from consolidated subsidiaries	801,278	690,971	(851,398)	(56,837)	(584,014)	
Total Assets	\$ 819,712	\$ 840,780	\$ 1,043,178	\$ 212,715	\$ (584,014)	\$ 2,332,371
Liabilities						
Homebuilding	\$	\$	\$ 425,847	\$ 1,800	\$	\$ 427,647
Financial Services			(35)	172,663		172,628
Notes Payable		816,960	(2,984)	3,865		817,841
Minority Interest			90,252	4,291		94,543
Stockholders' Equity	819,712	23,820	530,098	30,096	(584,014)	819,712
Total Liabilities and Stockholders' Equity	\$ 819,712	\$ 840,780	\$ 1,043,178	\$ 212,715	\$ (584,014)	\$ 2,332,371

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2004

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 4,860	\$ 4,068,195	\$ 27,143	\$ (83)	\$ 4,100,115
Financial Services			5,582	54,706		60,288
Intercompany Charges		106,181	145,052		(251,233)	
Equity In Pretax Income of Consolidated Subsidiaries	549,772				(549,772)	
Total Revenues	549,772	111,041	4,218,829	81,849	(801,088)	4,160,403
Expenses:						
Homebuilding		10,999	3,683,093	24,268	(142,511)	3,575,849
Financial Services			2,734	32,684	(636)	34,782
Total Expenses		10,999	3,685,827	56,952	(143,147)	3,610,631
Income (Loss) Before Income Taxes	549,772	100,042	533,002	24,897	(657,941)	549,772
State and Federal Income Taxes	201,091	34,971	193,672	10,308	(238,951)	201,091
Net Income (Loss)	\$ 348,681	\$ 65,071	\$ 339,330	\$ 14,589	\$ (418,990)	\$ 348,681

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2003

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	\$	\$ 620	\$ 3,129,090	\$ 20,843	\$ 19	\$ 3,150,572
Financial Services			6,707	44,578		51,285
Intercompany Charges		38,610	90,674		(129,284)	
Equity In Pretax Income of Consolidated Subsidiaries	411,518				(411,518)	
Total Revenues	411,518	39,230	3,226,471	65,421	(540,783)	3,201,857
Expenses:						
Homebuilding		2,978	2,869,413	14,998	(125,465)	2,761,924
Financial Services			2,555	26,344	(484)	28,415
Total Expenses		2,978	2,871,968	41,342	(125,949)	2,790,339
Income (Loss) Before Income Taxes	411,518	36,252	354,503	24,079	(414,834)	411,518
State and Federal Income Taxes	154,138	12,688	133,929	8,682	(155,299)	154,138
Net Income (Loss)	\$ 257,380	\$ 23,564	\$ 220,574	\$ 15,397	\$ (259,535)	\$ 257,380

Consolidating Condensed Statement of Income

Twelve Months Ended October 31, 2002

(Thousands of Dollars)	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	225,730				(225,730)	
Total Revenues	225,730	140,561	2,551,968	47,710	(414,863)	2,551,106
Expenses:						
Homebuilding		140,561	2,313,094	18,165	(168,987)	2,302,833
Financial Services			2,397	20,324	(178)	22,543
Total Expenses		140,561	2,315,491	38,489	(169,165)	2,325,376
Income (Loss) Before Income Taxes	225,730		236,477	9,221	(245,698)	225,730
State and Federal Income Taxes	88,034	(195)	89,530	5,797	(95,132)	88,034
Net Income (Loss)	\$ 137,696	\$ 195	\$ 146,947	\$ 3,424	\$ (150,566)	\$ 137,696

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2004

(Thousands of Dollars)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$ 348,681	\$ 65,071	\$ 339,330	\$ 14,589	\$ (418,990)	\$ 348,681
Adjustments to reconcile net income to net cash provided by (used in) operating activities	149,008	(39,848)	(1,051,067)	(13,913)	418,990	(536,830)
Net Cash Provided By (Used In) Operating Activities	497,689	25,223	(711,737)	676		(188,149)
Net Cash (Used In) Investing Activities	(36,288)		(84,086)	(319)		(120,693)
Net Cash Provided By (Used In) Financing Activities	(510)	215,000	22,631	21,524		258,645
Intercompany Investing and Financing Activities—Net	(460,891)	(346,700)	823,005	(15,414)		
Net Increase (Decrease) In Cash and Cash Equivalents Balance, Beginning of Period	15	135,846	(14,372)	6,732		128,221
Cash and Cash Equivalents Balance, End of Period	\$ 15	\$ 29,369	\$ 35,441	\$ 13,199	\$	\$ 78,024

Consolidating Condensed Statement of Cash Flows

Twelve Months Ended October 31, 2003

<i>(Thousands of Dollars)</i>	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:						
Net Income	\$ 257,380	\$ 23,564	\$ 220,574	\$ 15,397	\$ (259,535)	\$ 257,380
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(25,172)	12,029	(577,511)	(118,625)	259,535	(449,744)
Net Cash Provided By (Used In) Operating Activities	232,208	35,593	(356,937)	(103,228)		(192,364)
Net Cash (Used In) Investing Activities	(10,821)		(186,603)	(331)		(197,755)
Net Cash Provided By (Used In) Financing Activities	(12,597)	140,250	40,374	80,323		248,350
Intercompany Investing and Financing Activities—Net	(208,785)	(258,841)	445,105	22,521		
Net Increase (Decrease) In Cash	5	(82,998)	(58,061)	(715)		(141,769)
Cash and Cash Equivalents Balance, Beginning of Period	10	218,844	43,689	7,447		269,990
Cash and Cash Equivalents Balance, End of Period	\$ 15	\$ 135,846	\$ (14,372)	\$ 6,732	\$	\$ 128,221

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	24,611	(217,944)	30,909	150,879	110,844
Net Cash Provided By (Used In) Operating Activities	260,085	24,224	(70,103)	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)	263,951	(82,403)	(13,613)		164,987
Intercompany Investing and Financing Activities—Net	(208,362)	(56,616)	284,781	(19,803)		
Net Increase In Cash		224,684	28,073	1,084		253,841
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

22. Subsequent Event

On November 30, 2004, we issued \$200 million of 6¹/₄% Senior Notes due 2015 and \$100 million of 6% Senior Subordinated Notes due 2010. The notes are redeemable in whole or in part, at any time, at our option at 100% of their principal amount upon payment of a make-whole price. The net proceeds of the issuances were used to repay the outstanding balance on our Revolving Credit Facility and for general corporate purposes.

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K. HOVNIANIAN ENTERPRISES, INC.,
as Issuer

HOVNIANIAN ENTERPRISES, INC.
and
the other Guarantors party hereto

and

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Senior Trustee

Indenture

Dated as of November 30, 2004

6¹/₄% Senior Notes Due 2015

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(b)	7.08
(c)	Inapplicable
311	Inapplicable
312	11.02
313	7.06
314(a)	4.15, 4.16
(b)	Inapplicable
(c)	11.04
(d)	Inapplicable
(e)	11.05
(f)	Inapplicable
315(a)	7.01, 7.02
(b)	7.02, 7.05
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(e)	5.09
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EXHIBIT F	Rule 144A Certificate
EXHIBIT G	Institutional Accredited Investor Certificate
EXHIBIT H	Certificate of Beneficial Ownership
EXHIBIT I	Regulation S Temporary Global Note Legend

INDENTURE, dated as of November 30, 2004, among K. HOVNIANIAN ENTERPRISES, INC., a California corporation (the “**Issuer**”), HOVNIANIAN ENTERPRISES, INC., a Delaware corporation (the “**Company**”), each of the other Guarantors (as defined hereafter) and WACHOVIA BANK, NATIONAL ASSOCIATION, as Senior Trustee (the “**Senior Trustee**”).

RECITALS

The Issuer has duly authorized the execution and delivery of the Indenture to provide for the issuance of up to \$200,000,000 aggregate principal amount of the Issuer’s 6¹/₄% Senior Notes Due 2015, and, if and when issued, any Initial Additional Notes (together with any Exchange Notes issued therefor as provided herein, the “**Notes**”). All things necessary to make the Indenture a valid agreement of the Issuer, in accordance with its terms, have been done, and the Issuer has done all things necessary to make the Notes (in the case of any Additional Notes, when duly authorized), when duly issued and executed by the Issuer and authenticated and delivered by the Senior Trustee, the valid obligations of the Issuer as hereinafter provided.

In addition, the Guarantors party hereto have duly authorized the execution and delivery of the Indenture as guarantors of the Notes. All things necessary to make the Indenture a valid agreement of each Guarantor, in accordance with its terms, have been done, and each Guarantor has done all things necessary to make the Guarantees (in the case of the Guarantee of any Additional Notes, when duly authorized), when duly issued and executed by each Guarantor and when the Notes have been authenticated and delivered by the Senior Trustee, the valid obligation of such Guarantor as hereinafter provided.

This Indenture is subject to, and will be governed by, the provisions of the Trust Indenture Act that are required to be a part of, and govern indentures qualified under, the Trust Indenture Act.

THIS INDENTURE WITNESSETH

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, the parties hereto covenant and agree, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE 1 DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01. Definitions.

“**Acquired Indebtedness**” means (a) with respect to any Person that becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or

any Restricted Subsidiary) after the Issue Date, Indebtedness of such Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary (or being merged into the Company, the Issuer or any Restricted Subsidiary) and (b) with respect to the Company, the Issuer or any Restricted Subsidiary, any Indebtedness expressly assumed by the Company, the Issuer or any Restricted Subsidiary in connection with the acquisition of any assets from another Person (other than the Company, the Issuer or any Restricted Subsidiary), which Indebtedness was not incurred by such other Person in connection with or in contemplation of such acquisition. Indebtedness incurred in connection with or in contemplation of any transaction described in clause (a) or (b) of the preceding sentence shall be deemed to have been incurred by the Company or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) in the case of clause (a) or at the time of the acquisition of such assets in the case of clause (b), but shall not be deemed Acquired Indebtedness.

“**Additional Interest**” means additional interest or liquidated damages owed to the Holders pursuant to a Registration Rights Agreement.

“**Additional Notes**” means any notes of the Issuer issued under the Indenture in addition to the Original Notes, including any Exchange Notes issued in exchange for such Additional Notes, having the same terms in all respects as the Original Notes except that interest will accrue on the Additional Notes from their date of issuance.

“**Affiliate**” means, when used with reference to a specified Person, any Person directly or indirectly controlling, or controlled by or under direct or indirect common control with, the Person specified.

“**Affiliate Transaction**” has the meaning ascribed to it in Section 4.13 hereof.

“**Agent**” means any Registrar, Paying Agent or Authenticating Agent.

“**Agent Member**” means a member of, or a participant in, the Depository.

“**Applicable Debt**” means all Indebtedness of the Company or any of its Restricted Subsidiaries (a) under Credit Facilities or (b) that is publicly traded (including in the Rule 144A market), including, without limitation, the Issuer’s senior notes and senior subordinated notes outstanding on the Issue Date.

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“**Asset Acquisition**” means (a) an Investment by the Company, the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary or shall be consolidated or merged with or into the Company, the Issuer or any Restricted Subsidiary or (b) the acquisition by the Company, the Issuer or any Restricted Subsidiary of the assets of any Person, which constitute all or substantially all of the assets or of an operating unit or line of business of such Person or which is otherwise outside the ordinary course of business.

“**Asset Disposition**” means any sale, transfer, conveyance, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback or sale of shares of Capital Stock in any Subsidiary) (each, a “**transaction**”) by the Company, the Issuer or any Restricted Subsidiary to any Person of any Property having a Fair Market Value in any transaction or series of related transactions of at least \$5 million. The term “**Asset Disposition**” shall not include:

- (a) a transaction between the Company, the Issuer and any Restricted Subsidiary or a transaction between Restricted Subsidiaries,
- (b) a transaction in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to governmental authorities, leases and sales and leasebacks of (i) homes, improved land and unimproved land and (ii) real estate (including related amenities and improvements),
- (c) a transaction involving the sale of Capital Stock of, or the disposition of assets in, an Unrestricted Subsidiary,
- (d) any exchange or swap of assets of the Company, the Issuer or any Restricted Subsidiary for assets that (i) are to be used by the Company, the Issuer or any Restricted Subsidiary in the ordinary course of its Real Estate Business and (ii) have a Fair Market Value not less than the Fair Market Value of the assets exchanged or swapped,
- (e) any sale, transfer, conveyance, lease or other disposition of assets and properties that is governed by Section 4.14 hereof, or
- (f) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business.

“**Attributable Debt**” means, with respect to any Capitalized Lease Obligations, the capitalized amount thereof determined in accordance with GAAP.

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“**Authenticating Agent**” refers to a Person engaged to authenticate the Notes in the stead of the Senior Trustee.

“**Bankruptcy Law**” means title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

“**Board of Directors**” means, when used with reference to the Issuer or the Company, as the case may be, the board of directors or any duly authorized committee of that board or any director or directors and/or officer or officers to whom that board or committee shall have duly delegated its authority.

“**Board Resolution**” means a resolution duly adopted by the Board of Directors which, as of the date of any certification thereof, remains in full force and effect.

“**Business Day**” means any day except a Saturday, Sunday or other day on which commercial banks in New York City or in the city where the Corporate Trust Office of the Senior Trustee is located are authorized or required by law or regulation to close.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person’s capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Disqualified Stock and Preferred Stock.

“**Capitalized Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

“**Cash Equivalents**” means

- (a) U.S. dollars;
- (b) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;
- (c) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight bank deposits, in each case

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with any domestic commercial bank having capital and surplus in excess of \$500 million;

(d) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (b) and (c) entered into with any financial institution meeting the qualifications specified in clause (c) above;

(e) commercial paper rated P-1, A-1 or the equivalent thereof by Moody's or S&P, respectively, and in each case maturing within six months after the date of acquisition; and

(f) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (a) through (e).

“**cash transaction**” has the meaning ascribed to it in Section 7.03 hereof.

“**Certificate of Beneficial Ownership**” means a certificate substantially in the form of Exhibit H.

“**Certificated Note**” means a Note in registered individual form without interest coupons.

“**Change of Control**” means

(a) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); *provided, however*, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;

(b) a “**person**” or “**group**” (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders)) becomes the “**beneficial owner**” (as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;

(c) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;

(d) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however*, that a liquidation or dissolution of the Company which is part of a transaction that does

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not constitute a Change of Control under the proviso contained in clause (a) above shall not constitute a Change of Control; or

(e) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

“**Clearstream**” means Clearstream Banking, société anonyme, Luxembourg, formerly Cedelbank.

“**Commission**” means the Securities and Exchange Commission.

“**Common Equity**” of any Person means Capital Stock of such Person that is generally entitled to (a) vote in the election of directors of such Person or (b) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“**Company**” has the meaning ascribed to it in the preamble hereof and shall also refer to any successor obligor under the Indenture and its Guarantee(s).

“**Consolidated Adjusted Tangible Assets**” of the Company as of any date means the Consolidated Tangible Assets of the Company, the Issuer and the Restricted Subsidiaries at the end of the fiscal quarter immediately preceding the date less any assets securing any Non-Recourse Indebtedness, as determined in accordance with GAAP.

“**Consolidated Cash Flow Available for Fixed Charges**” means, for any period, Consolidated Net Income for such period plus (each to the extent deducted in calculating such Consolidated Net Income and determined in accordance with GAAP) the sum for such period, without duplication, of:

(a) income taxes,

(b) Consolidated Interest Expense,

(c) depreciation and amortization expenses and other non-cash charges to earnings, and

(d) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

all other non-cash items (other than the receipt of notes receivable) increasing such Consolidated Net Income.

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“**Consolidated Fixed Charge Coverage Ratio**” means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the “**Four Quarter Period**”) for which financial results have been reported immediately preceding the determination date (the “**Transaction Date**”), to (y) the aggregate Consolidated Interest Incurred for the Four Quarter Period. For purposes of this definition, “**Consolidated Cash Flow Available for Fixed Charges**” and “**Consolidated Interest Incurred**” shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

(a) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, “**repayment**”) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the Four Quarter Period (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

(b) any Asset Disposition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Company, the Issuer or any Restricted Subsidiary (including any Person that becomes a Restricted Subsidiary as a result of any such Asset Acquisition) incurring Acquired Indebtedness at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date), as if such Asset Disposition or Asset Acquisition (including the incurrence or repayment of any such Indebtedness) and the inclusion, notwithstanding clause (b) of the definition of “Consolidated Net Income,” of any Consolidated Cash Flow Available for Fixed Charges associated with such Asset Acquisition as if it occurred on the first day of the Four Quarter Period; *provided, however*, that the Consolidated Cash Flow Available for Fixed Charges associated with any Asset Acquisition shall not be included to the extent the net income so associated would be excluded pursuant to the definition of “Consolidated Net Income,” other than clause (b) thereof, as if it applied to the Person or assets involved before they were acquired; and

(c) the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Interest Incurred attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded.

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Furthermore, in calculating “Consolidated Cash Flow Available for Fixed Charges” for purposes of determining the denominator (but not the numerator) of this “Consolidated Fixed Charge Coverage Ratio,”

(a) interest on Indebtedness in respect of which a *pro forma* calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and

(b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

“**Consolidated Interest Expense**” of the Company for any period means the Interest Expense of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Interest Incurred**” for any period means the Interest Incurred of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Net Income**” for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; *provided*, that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

(a) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company’s, the Issuer’s or such Restricted Subsidiary’s (as applicable) pro rata share of such Unrestricted Subsidiary’s or such other Person’s net income earned during such period,

(b) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (a), the net income (or loss) of any Person that accrued prior to the date that (i) such Person becomes a Restricted Subsidiary or is

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merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such redesignation) or (ii) the assets of such Person are acquired by the Company or any Restricted Subsidiary,

(c) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,

(d) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (i) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (ii) any Asset Disposition by the Company or any Restricted Subsidiary,

(e) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary, and

(f) any non-recurring expense recorded by the Company, the Issuer or any Restricted Subsidiary in connection with a merger accounted for as a “pooling-of-interests” transaction;

provided further, that for purposes of calculating Consolidated Net Income solely as it relates to clause (iii) of Section 4.07(a) hereof, clause (d)(ii) above shall not be applicable.

“**Consolidated Net Worth**” of any Person as of any date means the stockholders’ equity (including any Preferred Stock that is classified as equity under GAAP, other than Disqualified Stock) of such Person and its Restricted Subsidiaries on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less any amount attributable to Unrestricted Subsidiaries.

“**Consolidated Tangible Assets**” of the Company as of any date means the total amount of assets of the Company, the Issuer and the Restricted Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less (a) Intangible Assets and (b) appropriate adjustments on account of minority interests of other Persons holding equity investments in Restricted Subsidiaries.

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“**Continuing Director**” means a director who either was a member of the Board of Directors of the Company on the date of the Indenture or who became a director of the Company subsequent to such date and whose election or nomination for election by the Company’s stockholders was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

“**control**” when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Corporate Trust Office**” means the office of the Senior Trustee at which the corporate trust business of the Senior Trustee is principally administered, which at the date of the Indenture is located at 21 South Street, Morristown, NJ 07960.

“**Covenant Defeasance**” has the meaning ascribed to it in Section 8.02 hereof.

“**Credit Facilities**” means, collectively, each of the credit facilities and lines of credit of the Company or one or more Restricted Subsidiaries in existence on the Issue Date and one or more other facilities and lines of credit among or between the Company or one or more Restricted Subsidiaries and one or more lenders pursuant to which the Company or one or more Restricted Subsidiaries may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit.

“**Currency Agreement**” of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

“**Custodian**” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

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“**Default**” means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

“**Depository**” means the depository of each Global Note, which will initially be DTC.

“**Designation Amount**” has the meaning provided in the definition of Unrestricted Subsidiary.

“**Disqualified Stock**” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the Notes or (b) is convertible into or exchangeable or exercisable for (whether at the option of the issuer or the holder thereof) (i) debt securities or (ii) any Capital Stock referred to in (a) above, in each case, at any time prior to the final maturity date of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Capital Stock is convertible, exchangeable or exercisable) the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change in control occurring prior to the final maturity date of the Notes shall not constitute Disqualified Stock if the change in control provision applicable to such Capital Stock are no more favorable to such holders than Section 4.12 hereof and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company’s repurchase of the Notes as are required pursuant to Section 4.12 hereof.

“**DTC**” means The Depository Trust Company, a New York corporation.

“**DTC Legend**” means the legend set forth in Exhibit D.

“**Euroclear**” means Euroclear Bank S.A./N.V. and its successors or assigns, as operator of the Euroclear System.

“**Event of Default**” has the meaning ascribed to such term in Section 5.01.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Exchange Notes**” means the notes of the Issuer issued under the Indenture in exchange for, and in an aggregate principal amount equal to, the Initial Notes or any Initial Additional Notes in compliance with the terms of a Registration Rights Agreement and containing terms substantially identical to the Initial Notes or any Initial Additional Notes (except that (i) such Exchange Notes

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will be registered under the Securities Act and will not be subject to transfer restrictions or bear the Restricted Legend, and (ii) the provisions relating to Additional Interest will be eliminated).

“**Exchange Offer**” means an offer by the Issuer to the Holders of the Initial Notes or any Initial Additional Notes to exchange such Notes for Exchange Notes, as provided for in a Registration Rights Agreement.

“**Exchange Offer Registration Statement**” means the Exchange Offer Registration Statement as defined in a Registration Rights Agreement.

“**expiration date**” has the meaning ascribed to it in Section 3.04(b) hereof.

“**Extinguished Covenants**” has the meaning ascribed to such term in Section 4.18 hereof.

“**Fair Market Value**” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm’s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Company or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

“**GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on May 4, 1999.

“**Global Note**” means a Note in registered, global form without interest coupons.

“**Guarantee**” means the guarantee of the Notes by each Guarantor under the Indenture.

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to

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maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; *provided*, that the term “**guarantee**” does not include endorsements for collection or deposit in the ordinary course of business. The term “**guarantee**” used as a verb has a corresponding meaning.

“**Guarantors**” means (a) initially, the Company and each of the other Guarantors signatory hereto as set forth on Schedule A hereto, which includes each of the Company’s Restricted Subsidiaries in existence on the Issue Date, other than the Issuer, KHL, Inc. and K. Hovnanian Poland, sp.zo.o. and (b) each of the Company’s Subsidiaries which becomes a Guarantor of the Notes pursuant to the provisions of this Indenture, and their successors, in each case until released from its respective Guarantee pursuant to this Indenture.

“**Holder**” or “**Holder of Notes**” means the Person in whose name a Note is registered in the books of the Registrar for the Notes.

“**incurrence**” has the meaning ascribed to it in Section 4.06(a) hereof.

“**Indebtedness**” of any Person means, without duplication,

(a) any liability of such Person (i) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than standby letters of credit or similar instrument issued for the benefit of, or surety, performance, completion or payment bonds, earnest money notes or similar purpose undertakings or indemnifications issued by, such Person in the ordinary course of business), (ii) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with capital expenditures (other than any obligation to pay a contingent purchase price which, as of the date of incurrence thereof, is not required to be recorded as a liability in accordance with GAAP), or (iii) in respect of Capitalized Lease Obligations (to the extent of the Attributable Debt in respect thereof),

(b) any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided, however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to Section 4.07 hereof,

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(c) to the extent not otherwise included, the obligations of such Person under Currency Agreements or Interest Protection Agreements to the extent recorded as liabilities not constituting Interest Incurred, net of amounts recorded as assets in respect of such agreements, in accordance with GAAP, and

(d) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

provided, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be (i) the outstanding balance at such date of all unconditional obligations as described above, net of any unamortized discount to be accounted for as Interest Expense, in accordance with GAAP, (ii) the maximum liability of such Person for any contingent obligations under clause (a) above at such date, net of an unamortized discount to be accounted for as Interest Expense in accordance with GAAP, and (iii) in the case of clause (d) above, the lesser of (x) the fair market value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (y) the amount of the Indebtedness secured.

“Indenture” means this indenture, as amended or supplemented from time to time.

“Initial Additional Notes” means Additional Notes of the Issuer issued under the Indenture in an offering not registered under the Securities Act and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange thereof.

“Initial Notes” means the notes of the Issuer issued under the Indenture on the Issue Date and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange thereof.

“Initial Purchasers” means the initial purchasers party to a purchase agreement with the Issuer, the Company and the Guarantors party thereto relating to the sale of the Initial Notes by the Issuer.

“Institutional Accredited Investor Certificate” means a certificate substantially in the form of Exhibit G hereto.

“Intangible Assets” of the Company means all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with

GAAP) and all other items which would be treated as intangible on the consolidated balance sheet of the Company, the Issuer and the Restricted Subsidiaries prepared in accordance with GAAP.

“Interest Expense” of any Person for any period means, without duplication, the aggregate amount of (a) interest which, in conformity with GAAP, would be set opposite the caption “interest expense” or any like caption on an income statement for such Person (including, without limitation, imputed interest included in Capitalized Lease Obligations, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing, the net costs (but reduced by net gains) associated with Currency Agreements and Interest Protection Agreements, amortization of other financing fees and expenses, the interest portion of any deferred payment obligation, amortization of discount or premium, if any, and all other noncash interest expense (other than interest and other charges amortized to cost of sales)), and (b) all interest actually paid by the Company or a Restricted Subsidiary under any guarantee of Indebtedness (including, without limitation, a guarantee of principal, interest or any combination thereof) of any Person other than the Company, the Issuer or any Restricted Subsidiary during such period; *provided*, that Interest Expense shall exclude any expense associated with the complete write-off of financing fees and expenses in connection with the repayment of any Indebtedness.

“Interest Incurred” of any Person for any period means, without duplication, the aggregate amount of (a) Interest Expense and (b) all capitalized interest and amortized debt issuance costs.

“Interest Payment Date” means each January 15 and July 15 of each year, commencing January 15, 2005.

“Interest Protection Agreement” of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Debt permitted to be incurred under the Indenture.

“Investment Grade” means, with respect to a debt rating of the Notes, a rating of Baa3 or higher by Moody’s together with a rating of BBB- or higher by S&P or, in the event S&P or Moody’s or both shall cease rating the Notes (for reasons outside the control of the Company or the Issuer) and the Company shall select any other Rating Agency, the equivalent of such ratings by such other Rating Agency.

“Investments” of any Person means (a) all investments by such Person in any other Person in the form of loans, advances or capital contributions, (b) all

guarantees of Indebtedness or other obligations of any other Person by such Person, (c) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Capital Stock or other securities of any other Person and (d) all other items that would be classified as investments in any other Person (including, without limitation, purchases of assets outside the ordinary course of business) on a balance sheet of such Person prepared in accordance with GAAP.

“**Issue Date**” means November 30, 2004.

“**Issuer**” has the meaning ascribed to it in the preamble hereof and shall also refer to any successor obligor under the Indenture.

“**Legal Defeasance**” has the meaning ascribed to it in Section 8.01 hereof.

“**Lien**” means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

“**Make-Whole Amount**” means, in connection with any optional redemption of any Note pursuant to Section 3.01 hereof, the excess, if any, of: (a) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the Business Day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over (b) the principal amount of the Note being redeemed.

“**Marketable Securities**” means (a) equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or The Nasdaq National Market and (b) debt securities that are rated by a nationally recognized rating agency, listed on the New York Stock Exchange or the American Stock Exchange or covered by at least two reputable market makers.

“**Moody’s**” means Moody’s Investors Service, Inc. or any successor to its debt rating business.

“**Mortgage Subsidiary**” means any Subsidiary of the Company substantially all of whose operations consist of the mortgage lending business.

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“**Net Cash Proceeds**” means with respect to an Asset Disposition, cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise (including any cash received upon sale or disposition of such note or receivable), but only as and when received), excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the Property disposed of in such Asset Disposition or received in any other non-cash form unless and until such non-cash consideration is converted into cash therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, and in each case net of a reasonable reserve for the after-tax cost of any indemnification or other payments (fixed and contingent) attributable to the seller’s indemnities or other obligations to the purchaser undertaken by the Company, the Issuer or any of its Restricted Subsidiaries in connection with such Asset Disposition, and net of all payments made on any Indebtedness which is secured by or relates to such Property, in accordance with the terms of any Lien or agreement upon or with respect to such Property or which must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all contractually required distributions and payments made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition.

“**Non-Recourse Indebtedness**” with respect to any Person means Indebtedness of such Person for which (a) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 90 days after the acquisition of such property and (b) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (i) environmental warranties and indemnities, or (ii) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics’ liens.

“**Non-U.S. Person**” means a Person that is not a “U.S. person,” as such term is defined in Regulation S.

“**Notes**” has the meaning ascribed to such term in the Recitals.

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“**offer**” has the meaning ascribed to such term in Section 3.04(a).

“**Offer to Purchase**” has the meaning ascribed to such term in Section 3.04(a).

“**Officer**,” when used with respect to the Issuer or the Company, means the chairman of the Board of Directors, the president or chief executive officer, any vice president, the chief financial officer, the treasurer, any assistant treasurer, the controller, any assistant controller, the secretary or any assistant secretary of the Issuer or the Company, as the case may be.

“**Officers’ Certificate**,” when used with respect to the Issuer or the Company, means a certificate signed by the chairman of the Board of Directors, the president or chief executive officer, or any vice president and by the chief financial officer, the treasurer, any assistant treasurer, the controller, any assistant controller, the secretary or any assistant secretary of the Issuer or the Company, as the case may be.

“**Opinion of Counsel**” means a written opinion signed by legal counsel of the Issuer or the Company, who may be an employee of, or counsel to, the Issuer or the Company, and who shall be reasonably satisfactory to the Senior Trustee.

“**Original Notes**” means the Initial Notes and any Exchange Notes issued in exchange therefor.

“**Paying Agent**” refers to a Person engaged to perform the obligations of the Senior Trustee in respect of payments made or funds held hereunder in respect of the Notes.

“**Permanent Regulation S Global Note**” means a Regulation S Global Note that does not bear the Regulation S Temporary Global Note Legend.

“**Permitted Hovnanian Holders**” means, collectively, Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any *bona fide* trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof, or any entity of which any of the foregoing, individually or collectively, beneficially own more than 50% of the Common Equity.

“**Permitted Indebtedness**” means

- (a) Indebtedness under Credit Facilities which does not exceed \$1.0 billion principal amount outstanding at any one time;

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- (b) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;

(c) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; *provided, however*, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of Section 4.06(a) hereof at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;

(d) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;

- (e) Purchase Money Indebtedness;

- (f) Capitalized Lease Obligations;

(g) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;

(h) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed \$10 million aggregate principal amount outstanding at any one time;

(i) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and

(j) Indebtedness of the Company or any Restricted Subsidiary which, together with all other Indebtedness under this clause (j), does not exceed \$50 million aggregate principal amount outstanding at any one time.

“**Permitted Investment**” means

- (a) Cash Equivalents;

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(b) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;

(c) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the Indenture;

(d) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the Indenture;

- (e) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness;

(f) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; *provided, however*, that any such loan or advance exceeding \$1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;

(g) Investments in joint ventures in a Real Estate Business with unaffiliated third parties in an aggregate amount at any time outstanding not to exceed 10% of Consolidated Tangible Assets at such time;

(h) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;

- (i) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and
- (j) Investments in an aggregate amount outstanding not to exceed \$10 million.

“Permitted Liens” means

(a) Liens for taxes, assessments or governmental or quasi-governmental charges or claims that (i) are not yet delinquent, (ii) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been

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established or other provisions have been made in accordance with GAAP, if required, or (iii) encumber solely property abandoned or in the process of being abandoned,

(b) statutory Liens of landlords and carriers’, warehousemen’s, mechanics’, suppliers’, materialmen’s, repairmen’s or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the extent applicable, either (i) are not yet delinquent or (ii) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

(c) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security,

(d) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contracts, utility services, developer’s or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (a)(i) of the definition of “Indebtedness”), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(e) attachment or judgment Liens not giving rise to a Default or an Event of Default,

(f) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(g) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(h) Liens securing Indebtedness incurred pursuant to clause (h) or (i) of the definition of Permitted Indebtedness,

(i) Liens securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary permitted to be incurred under the Indenture; *provided*, that

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the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (i) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof),

(j) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; *provided*, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,

(k) Liens securing Purchase Money Indebtedness; *provided*, that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,

(l) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries,

(m) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,

(n) purchase money security interests (including, without limitation, Capitalized Lease Obligations); *provided*, that such Liens apply only to the Property acquired and the related Indebtedness is incurred within 90 days after the acquisition of such Property,

(o) any right of first refusal, right of first offer, option, contract or other agreement to sell an asset; *provided*, that such sale is not otherwise prohibited under the Indenture,

(p) any right of a lender or lenders to which the Company, the Issuer or a Restricted Subsidiary may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company, the Issuer or a Restricted Subsidiary with or held by such lender or lenders or its Affiliates,

(q) any pledge or deposit of cash or property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or

similar purpose undertakings or indemnifications in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(r) Liens for homeowner and property owner association developments and assessments,

(s) Liens securing Refinancing Indebtedness; *provided*, that such Liens extend only to the assets securing the Indebtedness being refinanced,

(t) Liens incurred in the ordinary course of business as security for the obligations of the Company, the Issuer and the Restricted Subsidiaries with respect to indemnification in respect of title insurance providers,

(u) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or becomes a Subsidiary of the Company; *provided*, that such Liens were in existence prior to the contemplation of such merger or consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with the Company or the Subsidiary or acquired by the Company or its Subsidiaries,

(v) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company, *provided*, that such Liens were in existence prior to the contemplation of such acquisition,

(w) Liens existing on the Issue Date and any extensions, renewals or replacements thereof, and

(x) Liens on specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

"Property" of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

"purchase amount" has the meaning ascribed to it in Section 3.04(b) hereof.

"purchase date" has the meaning ascribed to it in Section 3.04(b) hereof.

"Purchase Money Indebtedness" means Indebtedness of the Company, the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company, the Issuer and the Restricted Subsidiaries; *provided, however*, that (a) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (b) such Indebtedness shall be incurred no later than 90 days after the acquisition of such property or completion of such construction or improvement.

"Qualified Stock" means Capital Stock of the Company other than Disqualified Stock.

"Rating Agency" means a statistical rating agency or agencies, as the case may be, nationally recognized in the United States and selected by the Company (as certified by a resolution of the Board of Directors of the Company) which shall be substituted for S&P or Moody's, or both, as the case may be.

"Real Estate Business" means homebuilding, housing construction, real estate development or construction and related real estate activities, including the provision of mortgage financing or title insurance.

"Record Date" for the interest payable on any Interest Payment Date means the January 1 or July 1 (whether or not a Business Day) next preceding such Interest Payment Date.

"Refinancing Indebtedness" means Indebtedness (to the extent not Permitted Indebtedness) that refunds, refinances or extends any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (to the extent not Permitted Indebtedness) outstanding on the Issue Date or other Indebtedness (to the extent not Permitted Indebtedness) permitted to be incurred by the Company, the Issuer or any Restricted Subsidiary pursuant to the terms of the Indenture, but only to the extent that:

(a) the Refinancing Indebtedness is subordinated, if at all, to the Notes or the Guarantees, as the case may be, to the same extent as the Indebtedness being refunded, refinanced or extended,

(b) the Refinancing Indebtedness is scheduled to mature either (i) no earlier than the Indebtedness being refunded, refinanced or extended or (ii) after the maturity date of the Notes,

(c) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Indebtedness being refunded, refinanced or extended that is scheduled to mature on or prior to the maturity date of the Notes, and

(d) such Refinancing Indebtedness is in an aggregate principal amount that is equal to or less than the aggregate principal amount then outstanding under the Indebtedness being refunded, refinanced or extended.

“**Register**” has the meaning ascribed to such term in Section 2.09.

“**Registrar**” means a Person engaged to maintain the Register.

“**Registration Rights Agreement**” means (i) the Registration Rights Agreement dated the Issue Date among the Company, the Issuer, the other Guarantors party thereto and the Initial Purchasers with respect to the Initial Notes, and (ii) with respect to any Initial Additional Notes, any registration rights agreements among the Company, the Issuer, the other Guarantors party thereto and the initial purchasers party thereto relating to rights given by the Issuer to the purchasers of Initial Additional Notes to register such Initial Additional Notes or exchange them for Exchange Notes registered under the Securities Act.

“**Regulation S**” means Regulation S under the Securities Act.

“**Regulation S Certificate**” means a certificate substantially in the form of Exhibit E hereto.

“**Regulation S Global Note**” means a Global Note representing Notes issued and sold pursuant to Regulation S.

“**Regulation S Temporary Global Note**” means an Regulation S Global Note that bears the Regulation S Temporary Global Note Legend.

“**Regulation S Temporary Global Note Legend**” means the legend set forth in Exhibit I.

“**Repurchase Date**” has the meaning ascribed to it in Section 4.12(a) hereof.

“**Responsible Officer**,” when used with respect to the Senior Trustee, means any officer of the Senior Trustee with direct responsibility for the administration of the trust created by this Indenture.

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“**Restricted Legend**” means the legend set forth in Exhibit C.

“**Restricted Payment**” means any of the following:

(a) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company, the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than (i) dividends or distributions payable solely in Qualified Stock and (ii) in the case of the Issuer or Restricted Subsidiaries, dividends or distributions payable to the Company, the Issuer or a Restricted Subsidiary);

(b) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary); and

(c) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (b) of the definition of Indebtedness.

“**Restricted Period**” means the relevant 40-day “distribution compliance period” as such term is defined in Regulation S, which, for each relevant Note, commences on the date such Note is issued.

“**Restricted Subsidiary**” means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

“**Rule 144A**” means Rule 144A under the Securities Act.

“**Rule 144A Certificate**” means a certificate substantially in the form of Exhibit F hereto.

“**Rule 144A Global Note**” means a Global Note that bears the Restricted Legend representing Notes issued and sold pursuant to Rule 144A.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., a New York corporation, or any successor to its debt rating business.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**self-liquidating paper**” has the meaning ascribed to it in Section 7.03 hereof.

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“**Senior Trustee**” means the party named as such in the preamble of the Indenture until such time, if any, a successor replaces such party in accordance with the applicable provisions of the Indenture and thereafter means the successor serving hereunder.

“**Shelf Registration Statement**” means the Shelf Registration Statement as defined in a Registration Rights Agreement.

“**Significant Subsidiary**” means any Subsidiary of the Company which would constitute a “**significant subsidiary**” as defined in Rule 1-02(w)(1) or (2) of Regulation S-X under the Securities Act and the Exchange Act as in effect on the Issue Date.

“**Subsidiary**” of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the Board of Directors or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

“**Successor**” has the meaning ascribed to it in Section 4.14 hereof.

“**Treasury Rate**” means, in connection with the calculation of any Make-Whole Amount with respect to any Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

“**Trust Indenture Act**” means the Trust Indenture Act of 1939, as amended.

“**U.S. Government Obligations**” means non-callable, non-payable bonds, notes, bills or other similar obligations issued or guaranteed by the United States government or any agency thereof the full and timely payment of which are backed by the full faith and credit of the United States.

“**Unrestricted Subsidiary**” means any Subsidiary of the Company so designated by a resolution adopted by the Board of Directors of the Company or a duly authorized committee thereof as provided below; *provided*, that (a) the

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holders of Indebtedness thereof do not have direct or indirect recourse against the Company, the Issuer or any Restricted Subsidiary, and neither the Company, the Issuer nor any Restricted Subsidiary otherwise has liability for, any payment obligations in respect of such Indebtedness (including any undertaking, agreement or instrument evidencing such Indebtedness), except, in each case, to the extent that the amount thereof constitutes a Restricted Payment permitted by the Indenture, in the case of Non-Recourse Indebtedness, to the extent such recourse or liability is for the matters discussed in the last sentence of the definition of “Non-Recourse Indebtedness,” or to the extent such Indebtedness is a guarantee by such Subsidiary of Indebtedness of the Company, the Issuer or a Restricted Subsidiary and (b) no holder of any Indebtedness of such Subsidiary shall have a right to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity as a result of a default on any Indebtedness of the Company, the Issuer or any Restricted Subsidiary. As of the Issue Date, the Unrestricted Subsidiaries will be the following:

Alford, L.L.C., Brightbeach Development, Ltd., Brightchase, Ltd., Brighton Homes At Walden, Ltd., Brighton Homes At Walden Management, L.L.C., Eastern Title Agency, Inc., Founders Title Agency, Inc., Founders Title Agency of Maryland, L.L.C., Gosling Road Development Co., Inc., Governor’s Abstract Co., Inc., Heritage Pines, L.L.C., Hexter Fair Land Title Company I, Inc., Homebuyer’s Mortgage, Inc., Hovnanian Financial Services I, Inc., Hovnanian Financial Services II, Inc., Hovnanian Financial Services IV, Inc., Hovnanian Land Investment Group, L.L.C., Hovnanian Land Investment Group of California, L.L.C., Hovnanian Land Investment Group of Florida, L.L.C., Hovnanian Land Investment Group of Maryland, L.L.C., Hovnanian Land Investment Group of North Carolina, L.L.C., Hovnanian Land Investment Group of Texas, L.L.C., Hovnanian Land Investment Group of Virginia, L.L.C., K. Hovnanian American Mortgage, L.L.C., K. Hovnanian Chesterfield Investment, L.L.C., K. Hovnanian At Lake Rancho Viejo, L.L.C., Jaeger Road 530, L.L.C., K. Hovnanian At Manalapan III, L.L.C., K. Hovnanian At Philadelphia I, L.L.C., K. Hovnanian At Philadelphia Investment I, L.L.C., K. Hovnanian At Port Imperial Urban Renewal II, L.L.C., K. Hovnanian At Port Imperial Urban Renewal III, L.L.C., K. Hovnanian At Thompson Ranch, L.L.C., K. Hovnanian’s Four Seasons At Beaumont, L.L.C., K. Hovnanian Investment Properties, Inc., K. Hovnanian Mortgage, Inc., K. Hovnanian Skye Isle, L.L.C., K. Hovnanian Title Reinsurance, Inc., K. Hovnanian Venture I, L.L.C., Hunter Mill Village, L.L.C., Kings Crossing at Montgomery, L.L.C., Laurel Highlands, L.L.C., McKinley Court, L.L.C., M&M at Monroe Woods, L.L.C., MM-Beachfront North I, L.L.C., New Homebuyers Title Company, L.L.C., New Homebuyers Title Co. (Virginia) L.L.C., New Homebuyers Title Company (West Virginia), L.L.C., NRD, L.L.C., Park Title Company, L.L.C., Parkway Development, Sovereign Group, L.P., PI Investments, L.L.C., Pinnacle Mortgage Group, Inc., Preston Grande Homes, Inc., Preston Parker, L.L.C., RR Houston Developers, L.L.C., RR Houston

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Development, L.P., RR Houston Investment, L.P., RR Houston Investors, L.L.C., Title Group II, L.L.C., Thompson Ranch Joint Development, L.L.C., Town Homes at Montgomery, L.L.C., 12th Street Residential, Ltd., WHI-Republic, L.L.C., and Wright Farm, L.L.C.

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided, however*, that (a) the net amount (the “**Designation Amount**”) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under Section 4.07 hereof to the extent provided therein, (b) the Company must be permitted under Section 4.07 hereof to make the Restricted Payment deemed to have been made pursuant to clause (a), and (c) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person’s merger with the Company or any Restricted Subsidiary (but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that (a) the Indebtedness of such Unrestricted Subsidiary as of the date of such redesignation could then be incurred under Section 4.06 hereof and (b) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur \$1.00 of additional Indebtedness under Section 4.06(a) hereof. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the Senior Trustee by the filing with the Senior Trustee of a certified copy of the resolution of the Board of Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers' Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers' Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided, however*, that the ownership of the general partnership interest (or a similar member's interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness or portion thereof at any date, the number of years obtained by dividing (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including, without limitation, payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (b) the sum of all such payments described in clause (a)(i) above.

Section 1.02. Rules of Construction. Unless the context otherwise requires or except as otherwise expressly provided,

- (a) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (b) "herein," "hereof" and other words of similar import refer to the Indenture as a whole and not to any particular Section, Article other subdivision;
- (c) all references to Sections or Articles or Exhibits refer to Sections or Articles or Exhibits of or to the Indenture unless otherwise indicated;
- (d) references to agreements or instruments, or to statutes or regulations, are to such agreements or instruments, or statutes or regulations, as amended from time to time (or to successor statutes and regulations); and
- (e) in the event that a transaction meets the criteria of more than one category of permitted transactions or listed exceptions, the Issuer may classify such transaction as it, in its sole discretion, determines.

ARTICLE 2 THE NOTES

Section 2.01. Form, Dating and Denominations; Legends. (a) The Notes and the Senior Trustee's certificate of authentication will be substantially in the form attached as Exhibit A. The terms and provisions contained in the form of the Note annexed as Exhibit A constitute and are hereby expressly made a part of the Indenture. The Notes may have notations, legends or endorsements required by this Indenture, law, rules of or agreements with national securities exchanges to which the Issuer is subject, or usage. Each Note will be dated the date of its authentication. The Notes will be issuable in denominations of \$1,000 in principal amount and any multiple of \$1,000 in excess thereof.

(b) (i) Except as otherwise provided in paragraph (c) or Section 2.09(b)(iv) or Sections 2.10(b)(iii), (b)(v), or (c), each Initial Note or Initial Additional Note will bear the Restricted Legend.

(ii) Each Global Note, whether or not an Original Note or Additional Note, will bear the DTC Legend.

(iii) Each Regulation S Temporary Global Note will bear the Regulation S Temporary Global Note Legend.

(iv) Initial Notes and Initial Additional Notes offered and sold in reliance on Regulation S will be issued as provided in Section 2.11(a).

(v) Initial Notes and Initial Additional Notes offered and sold in reliance on any exception under the Securities Act other than Regulation S and Rule 144A will be issued, and upon the request of the Issuer to the Senior Trustee, Initial Notes offered and sold in reliance on Rule 144A may be issued, in the form of Certificated Notes.

(vi) Exchange Notes will be issued, subject to Section 2.09(b), in the form of one or more Global Notes.

(c) (i) If the Issuer determines (upon the advice of counsel and after consideration of other certifications and evidence as the Issuer may reasonably require) that a Note is eligible for resale pursuant to Rule 144(k) under the Securities Act (or a successor provision) and that the Restricted Legend is no longer necessary or appropriate in order to ensure that subsequent transfers of the Note (or a beneficial interest therein) are effected in compliance with the Securities Act, or

(ii) after an Initial Note or any Initial Additional Note is

(A) sold pursuant to an effective registration statement under the Securities Act, filed pursuant to a Registration Rights Agreement or otherwise, or

(B) is validly tendered for an Exchange Note pursuant to an Exchange Offer

then, the Issuer may instruct the Senior Trustee to cancel the Note and issue to the Holder thereof (or to its transferee) a new Note of like tenor and amount, registered in the name of the Holder thereof (or its transferee), that does not bear the Restricted Legend, and the Senior Trustee will comply with such instruction.

(d) By its acceptance of any Note bearing the Restricted Legend (or any beneficial interest in such a Note), each Holder thereof and each owner of a beneficial interest therein acknowledges the restrictions on transfer of such Note (and any such beneficial interest) set forth in this Indenture and in the Restricted Legend and agrees that it will transfer such Note (and any such beneficial interest) only in accordance with the Indenture and such legend.

Section 2.02. Execution and Authentication; Exchange Notes; Additional Notes. (a) An Officer shall execute the Notes for the Issuer by facsimile or manual signature in the name and on behalf of the Issuer. If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note will still be valid.

(b) A Note will not be valid until the Senior Trustee manually signs the certificate of authentication on the Note, with the signature conclusive evidence that the Note has been authenticated under the Indenture.

(c) At any time and from time to time after the execution and delivery of the Indenture, the Issuer may deliver Notes executed by the Issuer to the Senior Trustee for authentication. The Senior Trustee will authenticate and deliver:

- (i) Initial Notes for original issue in the aggregate principal amount not to exceed \$200,000,000,
- (ii) Initial Additional Notes from time to time for original issue in aggregate principal amounts specified by the Issuer, and
- (iii) Exchange Notes from time to time for issue in exchange for a like principal amount of Initial Notes or Initial Additional Notes

after the following conditions have been met:

(A) Receipt by the Senior Trustee of a certificate, executed by an Officer specifying

- (1) the amount of Notes to be authenticated and the date on which the Notes are to be authenticated,
- (2) whether the Notes are to be Initial Notes, Initial Additional Notes or Exchange Notes,
- (3) in the case of Initial Additional Notes, that the issuance of such Notes does not contravene any provision of

Article 4,

- (4) whether the Notes are to be issued as one or more Global Notes or Certificated Notes, and
- (5) other information the Issuer may determine to include or the Senior Trustee may reasonably request.

(B) In the case of Initial Additional Notes, receipt by the Senior Trustee of an Opinion of Counsel confirming that the Holders of the outstanding Notes will be subject to federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such Initial Additional Notes were not issued.

(C) In the case of Exchange Notes, effectiveness of an Exchange Offer Registration Statement and Consummation (as defined in the Registration Rights Agreement) of the exchange offer thereunder (and receipt by the Senior Trustee of an Officers' Certificate to that effect). Initial Notes or Initial Additional Notes exchanged for Exchange Notes will be cancelled by the Senior Trustee, who will dispose of them in accordance with its normal procedures or the written instructions of the Issuer.

Section 2.03. Registrar, Paying Agent and Authenticating Agent; Paying Agent to Hold Money in Trust. (a) The Issuer may appoint one or more Registrars and one or more Paying Agents, and the Senior Trustee may appoint an Authenticating Agent, in which case each reference in the Indenture to the Senior Trustee in respect of the obligations of the Senior Trustee to be performed by that Agent will be deemed to be references to the Agent. The Issuer may act as Registrar or (except for purposes of Article 8) Paying Agent. In each case, the Issuer and the Senior Trustee will enter into an appropriate agreement with the Agent implementing the provisions of the Indenture relating to the obligations of the Senior Trustee to be performed by the Agent and the related rights.

(b) The Issuer will require each Paying Agent other than the Senior Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of the Holders or the Senior Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, and interest and Additional Interest, if any, on, the Notes and will promptly notify the Senior Trustee of any default by the Issuer in making any such payment. The Issuer at any time may require a Paying Agent to pay all money held by it to the Senior Trustee and account for any funds disbursed, and the Senior Trustee may at any time during the continuance of any payment default, upon written request to a Paying Agent, require the Paying Agent to pay all money held by it to the Senior Trustee and to

account for any funds disbursed. Upon doing so, the Paying Agent will have no further liability for the money so paid over to the Senior Trustee.

Section 2.04. Replacement Notes. If a mutilated Note is surrendered to the Senior Trustee or if a Holder claims that its Note has been lost, destroyed or wrongfully taken, the Issuer will issue and the Senior Trustee will authenticate a replacement Note of like tenor and principal amount and bearing a number not contemporaneously outstanding. Every replacement Note is an additional obligation of the Issuer and entitled to the benefits of the Indenture. If required by the Senior Trustee or the Issuer, an indemnity must be furnished that is sufficient in the judgment of both the Senior Trustee and the Issuer to protect the Issuer and the Senior Trustee from any loss they may suffer if a Note is replaced. The Issuer may charge the Holder for the expenses of the Issuer and the Senior Trustee in replacing a Note. In case the mutilated, lost, destroyed or wrongfully taken Note has become or is about to become due and payable, the Issuer in its discretion may pay the Note instead of issuing a replacement Note.

Section 2.05. Outstanding Notes. (a) Notes outstanding at any time are all Notes that have been authenticated by the Senior Trustee except for:

- (i) Notes cancelled by the Senior Trustee or delivered to it for cancellation;
- (ii) any Note which has been replaced pursuant to Section 2.04 unless and until the Senior Trustee and the Issuer receive proof satisfactory to them that the replaced Note is held by a *bona fide* purchaser; and
- (iii) on or after the maturity date or any redemption date or date for purchase of the Notes pursuant to an Offer to Purchase, those Notes payable or to be redeemed or purchased on that date for which the Senior Trustee (or Paying Agent, other than the Issuer or an Affiliate of the Issuer) holds money sufficient to pay all amounts then due.

(b) A Note does not cease to be outstanding because the Issuer or one of its Affiliates holds the Note; *provided*, that in determining whether the Holders of the requisite principal amount of the outstanding Notes have given or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder, Notes owned by the Issuer or any Affiliate of the Issuer will be disregarded and deemed not to be outstanding (it being understood that in determining whether the Senior Trustee is protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Notes which the Senior Trustee knows to be so owned will be so disregarded). Notes so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Senior

Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Issuer or any Affiliate of the Issuer.

Section 2.06. Temporary Notes. Until definitive Notes are ready for delivery, the Issuer may prepare and the Senior Trustee will authenticate temporary Notes. Temporary Notes will be substantially in the form of definitive Notes but may have insertions, substitutions, omissions and other variations determined to be appropriate by the Officer executing the temporary Notes, as evidenced by the execution of the temporary Notes. If temporary Notes are issued, the Issuer will cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes will be exchangeable for definitive Notes upon surrender of the temporary Notes at the office or agency of the Issuer designated for the purpose pursuant to Section 4.02 without charge to the Holder. Upon surrender for cancellation of any temporary Notes, the Issuer will execute and the Senior Trustee will authenticate and deliver in exchange therefor a like principal amount of definitive Notes of authorized denominations. Until so exchanged, the temporary Notes will be entitled to the same benefits under the Indenture as definitive Notes.

Section 2.07. Cancellation. The Issuer at any time may deliver to the Senior Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever, and may deliver to the Senior Trustee for cancellation any Notes previously authenticated hereunder which the Issuer has not issued and sold. Any Registrar or the Paying Agent will forward to the Senior Trustee any Notes surrendered to it for transfer, exchange or payment. The Senior Trustee will cancel all Notes surrendered for transfer, exchange, payment or cancellation and dispose of them in accordance with its normal procedures or the written instructions of the Issuer. The Issuer may not issue new Notes to replace Notes that it has paid in full or delivered to the Senior Trustee for cancellation, except for Exchange Notes.

Section 2.08. CUSIP and ISIN Numbers. The Issuer in issuing the Notes may use "CUSIP" and "ISIN" numbers, and the Senior Trustee will use CUSIP numbers or ISIN numbers in notices of redemption or exchange or in Offers to Purchase as a convenience to Holders, the notice to state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of redemption or exchange or Offer to Purchase. The Issuer will promptly notify the Senior Trustee of any change in the CUSIP or ISIN numbers.

Section 2.09. Registration, Transfer and Exchange. (a) The Notes will be issued in registered form only, without coupons, and the Issuer shall cause the Senior Trustee to maintain a register (the "**Register**") of the Notes, for registering

the record ownership of the Notes by the Holders and transfers and exchanges of the Notes.

(b) (i) Each Global Note will be registered in the name of the Depository or its nominee and, so long as DTC is serving as the Depository thereof, will bear the DTC Legend.

(ii) Each Global Note will be delivered to the Senior Trustee as custodian for the Depository. Transfers of a Global Note (but not a beneficial interest therein) will be limited to transfers thereof in whole, but not in part, to the Depository, its successors or their respective nominees, except (A) as set forth in Section 2.09(b)(iv) and (B) transfers of portions thereof in the form of Certificated Notes may be made upon request of an Agent Member (for itself or on behalf of a beneficial owner) by 20 days' prior written notice given to the Senior Trustee by or on behalf of the Depository in accordance with customary procedures of the Depository and in compliance with this Section and Section 2.10.

(iii) Agent Members will have no rights under the Indenture with respect to any Global Note held on their behalf by the Depository, and the Depository may be treated by the Issuer, the Senior Trustee and any agent of the Issuer or the Senior Trustee as the absolute owner and Holder of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, the Depository or its nominee may grant proxies and otherwise authorize any Person (including any Agent Member and any Person that holds a beneficial interest in a Global Note through an Agent

Member) to take any action which a Holder is entitled to take under the Indenture or the Notes, and nothing herein will impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any security.

(iv) If (x) the Depository (i) notifies the Issuer that it is unwilling or unable to continue as Depository for a Global Note and a successor depository is not appointed by the Issuer within 90 days of the notice or (ii) has ceased to be a clearing agency registered under the Exchange Act, (y) the Issuer, at its option, notifies the Senior Trustee in writing that it elects to cause the issuance of Certificated Notes or (z) a Default or an Event of Default with respect to the Notes has occurred and is continuing, the Senior Trustee will promptly exchange each beneficial interest in the Global Note for one or more Certificated Notes in authorized denominations having an equal aggregate principal amount registered in the name of the owner of such beneficial interest, as identified to the Senior Trustee by the Depository, and thereupon the Global Note will be deemed canceled. If such Note does not bear the

Restricted Legend, then the Certificated Notes issued in exchange therefor will not bear the Restricted Legend. If such Note bears the Restricted Legend, then the Certificated Notes issued in exchange therefor will bear the Restricted Legend; *provided*, that any Holder of any such Certificated Note issued in exchange for a beneficial interest in a Regulation S Temporary Global Note will have the right upon presentation to the Senior Trustee of a duly completed Certificate of Beneficial Ownership after the Restricted Period to exchange such Certificated Note for a Certificated Note of like tenor and amount that does not bear the Restricted Legend, registered in the name of such Holder.

(c) Each Certificated Note will be registered in the name of the holder thereof or its nominee.

(d) A Holder may transfer a Note (or a beneficial interest therein) to another Person or exchange a Note (or a beneficial interest therein) for another Note or Notes of any authorized denomination by presenting to the Senior Trustee a written request therefor stating the name of the proposed transferee or requesting such an exchange, accompanied by any certification, opinion or other document required by Section 2.10. The Senior Trustee will promptly register any transfer or exchange that meets the requirements of this Section and Section 2.10 noting the same in the register maintained by the Senior Trustee for the purpose; *provided*, that

(i) no transfer or exchange will be effective until it is registered in such register, and

(ii) the Senior Trustee will not be required (x) to issue, register the transfer of or exchange any Note for a period of 15 days before a selection of Notes to be redeemed or purchased pursuant to an Offer to Purchase, (y) to register the transfer of or exchange any Note so selected for redemption or purchase in whole or in part, except, in the case of a partial redemption or purchase, that portion of any Note not being redeemed or purchased, or (z) if a redemption or a purchase pursuant to an Offer to Purchase is to occur after a Record Date but on or before the corresponding Interest Payment Date, to register the transfer of or exchange any Note on or after the Record Date and before the date of redemption or purchase. Prior to the registration of any transfer, the Issuer, the Senior Trustee and their agents will treat the Person in whose name the Note is registered as the owner and Holder thereof for all purposes (whether or not the Note is overdue), and will not be affected by notice to the contrary.

From time to time the Issuer will execute and the Senior Trustee will authenticate additional Notes as necessary in order to permit the registration of a transfer or exchange in accordance with this Section.

No service charge will be imposed in connection with any transfer or exchange of any Note, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than a transfer tax or other similar governmental charge payable upon exchange pursuant to subsection (b)(iv)).

(e) (i) *Global Note to Global Note*. If a beneficial interest in a Global Note is transferred or exchanged for a beneficial interest in another Global Note, the Senior Trustee will (x) record a decrease in the principal amount of the Global Note being transferred or exchanged equal to the principal amount of such transfer or exchange and (y) record a like increase in the principal amount of the other Global Note. Any beneficial interest in one Global Note that is transferred to a Person who takes delivery in the form of an interest in another Global Note, or exchanged for an interest in another Global Note, will, upon transfer or exchange, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer and exchange restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

(ii) *Global Note to Certificated Note*. If a beneficial interest in a Global Note is transferred or exchanged for a Certificated Note, the Senior Trustee will (x) record a decrease in the principal amount of such Global Note equal to the principal amount of such transfer or exchange and (y) deliver one or more new Certificated Notes in authorized denominations having an equal aggregate principal amount to the transferee (in the case of a transfer) or the owner of such beneficial interest (in the case of an exchange), registered in the name of such transferee or owner, as applicable.

(iii) *Certificated Note to Global Note*. If a Certificated Note is transferred or exchanged for a beneficial interest in a Global Note, the Senior Trustee will (x) cancel such Certificated Note, (y) record an increase in the principal amount of such Global Note equal to the principal amount of such transfer or exchange and (z) in the event that such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more new Certificated Notes in authorized denominations having an aggregate

principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

(iv) *Certificated Note to Certificated Note.* If a Certificated Note is transferred or exchanged for another Certificated Note, the Senior Trustee will (x) cancel the Certificated Note being transferred or exchanged, (y) deliver one or more new Certificated Notes in authorized denominations having an aggregate principal amount equal to the principal amount of such transfer or exchange to the transferee (in the case of a transfer) or the Holder of the canceled Certificated Note (in the case of an exchange), registered in the name of such transferee or Holder, as applicable, and (z) if such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more Certificated Notes in authorized denominations having an aggregate principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

Section 2.10. Restrictions on Transfer and Exchange. (a) The transfer or exchange of any Note (or a beneficial interest therein) may only be made in accordance with this Section and Section 2.09 and, in the case of a Global Note (or a beneficial interest therein), the applicable rules and procedures of the Depository. The Senior Trustee shall refuse to register any requested transfer or exchange that does not comply with the preceding sentence.

(b) Subject to paragraph (c), the transfer or exchange of any Note (or a beneficial interest therein) of the type set forth in column A below for a Note (or a beneficial interest therein) of the type set forth opposite in column B below may only be made in compliance with the certification requirements (if any) described in the clause of this paragraph set forth opposite in column C below.

A	B	C
Rule 144A Global Note	Rule 144A Global Note	(i)
Rule 144A Global Note	Regulation S Global Note	(ii)
Rule 144A Global Note	Certificated Note	(iii)
Regulation S Global Note	Rule 144A Global Note	(iv)
Regulation S Global Note	Regulation S Global Note	(i)
Regulation S Global Note	Certificated Note	(v)
Certificated Note	Rule 144A Global Note	(iv)
Certificated Note	Regulation S Global Note	(ii)
Certificated Note	Certificated Note	(iii)

(i) No certification is required.

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(ii) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Senior Trustee a duly completed Regulation S Certificate; *provided*, that if the requested transfer or exchange is made by the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required.

(iii) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Senior Trustee (x) a duly completed Rule 144A Certificate, (y) a duly completed Regulation S Certificate or (z) a duly completed Institutional Accredited Investor Certificate, and/or an opinion of counsel and such other certifications and evidence as the Issuer may reasonably require in order to determine that the proposed transfer or exchange is being made in compliance with the Securities Act and any applicable securities laws of any state of the United States; *provided*, that if the requested transfer or exchange is made by the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required. In the event that a Rule 144A Global Note or a Certificated Note that does not bear the Restricted Legend is surrendered for transfer or exchange, upon transfer or exchange the Senior Trustee will deliver a Certificated Note that does not bear the Restricted Legend.

(iv) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Senior Trustee a duly completed Rule 144A Certificate and must comply with all applicable securities laws of any state of the United States or any other jurisdiction.

(v) If the requested transfer involves a beneficial interest in a Regulation S Temporary Global Note, the Person requesting the registration of transfer must deliver or cause to be delivered to the Senior Trustee (x) a duly completed Rule 144A Certificate or (y) a duly completed Institutional Accredited Investor Certificate and/or an opinion of counsel and such other certifications and evidence as the Issuer may reasonably require in order to determine that the proposed transfer is being made in compliance with the Securities Act and any applicable securities laws of any state of the United States. If the requested transfer or exchange involves a beneficial interest in a Permanent Regulation S Global Note, no certification is required and the Senior Trustee will deliver a Certificated Note that does not bear the Restricted Legend. Notwithstanding anything to the contrary contained herein, no such exchange is permitted if the requested exchange involves a beneficial interest in a Regulation S Temporary Global Note.

(c) No certification is required in connection with any transfer or exchange of any Note (or a beneficial interest therein)

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(i) after such Note is eligible for resale pursuant to Rule 144(k) under the Securities Act (or a successor provision); *provided*, that the Issuer has provided the Senior Trustee with a certificate to that effect, and the Issuer may require from any Person requesting a transfer or exchange in reliance upon this clause (i) an opinion of counsel and any other reasonable certifications and evidence in order to support such certificate; or

(ii) (A) sold pursuant to an effective registration statement under the Securities Act, filed pursuant to a Registration Rights Agreement or otherwise (B) which is validly tendered for exchange into an Exchange Note pursuant to an Exchange Offer.

Any Certificated Note delivered in reliance upon this paragraph will not bear the Restricted Legend.

(d) The Senior Trustee will retain copies of all certificates, opinions and other documents received in connection with the transfer or exchange of a Note (or a beneficial interest therein), and the Issuer will have the right to inspect and make copies thereof at any reasonable time upon written notice to the Senior Trustee.

Section 2.11. Regulation S Temporary Global Notes. (a) Each Note originally sold by the Initial Purchasers in reliance upon Regulation S will be evidenced by one or more Regulation S Global Notes that bear the Regulation S Temporary Global Note Legend.

(b) An owner of a beneficial interest in a Regulation S Temporary Global Note (or a Person acting on behalf of such an owner) may provide to the Senior Trustee (and the Senior Trustee will accept) a duly completed Certificate of Beneficial Ownership at any time after the Restricted Period (it being understood that the Senior Trustee will not accept any such certificate during the Restricted Period). Promptly after acceptance of a Certificate of Beneficial Ownership with respect to such a beneficial interest, the Senior Trustee will cause such beneficial interest to be exchanged for an equivalent beneficial interest in a Permanent Regulation S Global Note, and will (x) permanently reduce the principal amount of such Regulation S Temporary Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Regulation S Global Note by the amount of such beneficial interest.

(c) Notwithstanding anything to the contrary contained herein, beneficial interests in a Regulation S Temporary Global Note may be held through the Depository only through Euroclear or Clearstream and their respective direct and indirect participants.

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(d) Notwithstanding paragraph (b), if after the Restricted Period any Initial Purchaser owns a beneficial interest in a Regulation S Temporary Global Note, such Initial Purchaser may, upon written request to the Senior Trustee accompanied by a certification as to its status as an Initial Purchaser, exchange such beneficial interest for an equivalent beneficial interest in a Permanent Regulation S Global Note, and the Senior Trustee will comply with such request and will (x) permanently reduce the principal amount of such Regulation S Temporary Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Regulation S Global Note by the amount of such beneficial interest.

ARTICLE 3 REDEMPTION; OFFER TO PURCHASE

Section 3.01. Optional Redemption. The Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (a) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date; *plus*
- (b) the Make-Whole Amount.

The Senior Trustee shall have no responsibility in connection with the calculation of such redemption price.

Section 3.02. Sinking Fund; Mandatory Redemption. There is no sinking fund for, or mandatory redemption of, the Notes.

Section 3.03. Method And Effect of Redemption. (a) If the Issuer elects to redeem Notes, it must notify the Senior Trustee of the redemption date and the principal amount of Notes to be redeemed by delivering an Officers' Certificate at least 45 days before the redemption date (unless a shorter period is satisfactory to the Senior Trustee). If fewer than all of the Notes are being redeemed, the Officers' Certificate must also specify a record date not less than 15 days after the date of the notice of redemption is given to the Senior Trustee, and the Senior Trustee will select the Notes to be redeemed pro rata, or as nearly a pro rata basis as is practicable (subject to the procedures of DTC), unless such method is otherwise prohibited, in which case, by lot or by any other method the Senior Trustee in its sole discretion deems fair and appropriate, in denominations of \$1,000 principal amount and multiples thereof. The Senior Trustee will notify the Issuer promptly of the Notes or portions of Notes to be called for redemption.

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Notice of redemption must be sent by the Issuer or, at the Issuer's request, by the Senior Trustee in the name and at the expense of the Issuer to Holders whose Notes are to be redeemed at least 30 days but not more than 60 days before the redemption date. Notices of redemption may not be conditional.

(b) The notice of redemption will identify the Notes to be redeemed and will include or state the following:

- (i) the redemption date;
- (ii) the redemption price, including the portion thereof representing any accrued interest or Additional Interest, if any;
- (iii) the place or places where Notes are to be surrendered for redemption (Notes called for redemption must be so surrendered in order to collect the redemption price);
- (iv) that on the redemption date, the redemption price will become due and payable on Notes called for redemption, and interest on Notes called for redemption will cease to accrue on and after the redemption date;
- (v) that if any Note is redeemed in part, the portion of the principal amount thereof to be redeemed, and that on and after the redemption date, upon surrender of such Note, new Notes equal in principal amount to the unredeemed portion will be issued; and
- (vi) if any Note contains a CUSIP or ISIN number, no representation is being made as to the correctness of the CUSIP or ISIN number either as printed on the Notes or as contained in the notice of redemption and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Once notice of redemption is sent to the Holders, Notes called for redemption become due and payable at the redemption price on the redemption date, and upon surrender of the Notes called for redemption, the Issuer shall redeem such Notes at the redemption price. Commencing on the redemption date, Notes redeemed will cease to accrue interest. Upon surrender of any Note redeemed in part, the Holder will receive a new Note equal in principal amount to the unredeemed portion of the surrendered Note.

Section 3.04. Offer to Purchase. (a) An “Offer to Purchase” means an offer by the Issuer to purchase Notes as required by the Indenture. An Offer to Purchase must be made by written offer (the “offer”) sent to the Holders. The Issuer will notify the Senior Trustee at least 15 days (or such shorter period as is

acceptable to the Senior Trustee) prior to sending the offer to Holders of its obligation to make an Offer to Purchase, and the offer will be sent by the Issuer or, at the Issuer’s request, by the Senior Trustee in the name and at the expense of the Issuer.

(b) The offer must include or state the following as to the terms of the Offer to Purchase:

- (i) the provision of the Indenture pursuant to which the Offer to Purchase is being made;
- (ii) the aggregate principal amount of the outstanding Notes offered to be purchased by the Issuer pursuant to the Offer to Purchase (including, if less than 100%, the manner by which such amount has been determined pursuant to the Indenture) (the “purchase amount”);
- (iii) the purchase price, including the portion thereof representing accrued interest and Additional Interest, if any;
- (iv) an expiration date (the “expiration date”) not less than 30 days or more than 60 days after the date of the offer, and a settlement date for purchase (the “purchase date”) not more than five Business Days after the expiration date;
- (v) information concerning the business of the Company, the Issuer and its Subsidiaries which the Issuer in good faith believes will enable the Holders to make an informed decision with respect to the Offer to Purchase, at a minimum to include:
 - (A) the most recent annual and quarterly financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for the Company,
 - (B) a description of material developments in the Company’s business subsequent to the date of the latest of the financial statements (including a description of the events requiring the Issuer to make the Offer to Purchase), and
 - (C) if applicable, appropriate *pro forma* financial information concerning the Offer to Purchase and the events requiring the Issuer to make the Offer to Purchase;
- (vi) a Holder may tender all or any portion of its Notes, subject to the requirement that any portion of a Note tendered must be in a multiple of \$1,000 principal amount;

- (vii) the place or places where Notes are to be surrendered for tender pursuant to the Offer to Purchase;
- (viii) each Holder electing to tender a Note pursuant to the offer will be required to surrender such Note at the place or places specified in the offer prior to the close of business on the expiration date (such Note being, if the Issuer or the Senior Trustee so requires, duly endorsed or accompanied by a duly executed written instrument of transfer);
- (ix) interest on any Note not tendered, or tendered but not purchased by the Issuer pursuant to the Offer to Purchase, will continue to accrue;
- (x) on the purchase date the purchase price will become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date;
- (xi) Holders are entitled to withdraw Notes tendered by giving notice, which must be received by the Issuer or the Senior Trustee not later than the close of business on the expiration date, setting forth the name of the Holder, the principal amount of the tendered Notes, the certificate number of the tendered Notes and a statement that the Holder is withdrawing all or a portion of the tender;
- (xii) (A) if Notes in an aggregate principal amount less than or equal to the purchase amount are duly tendered and not withdrawn pursuant to the Offer to Purchase, the Issuer will purchase all such Notes, and (B) if the Offer to Purchase is for less than all of the outstanding Notes and Notes in an aggregate principal amount in excess of the purchase amount are tendered and not withdrawn pursuant to the offer, the Issuer will purchase Notes having an aggregate principal amount equal to the purchase amount on a *pro rata* basis, with adjustments so that only Notes in multiples of \$1,000 principal amount will be purchased;
- (xiii) if any Note is purchased in part, new Notes equal in principal amount to the unpurchased portion of the Note will be issued; and
- (xiv) if any Note contains a CUSIP or ISIN number, no representation is being made as to the correctness of the CUSIP or ISIN number either as printed on the Notes or as contained in the offer and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Prior to the purchase date, the Issuer will accept tendered Notes for purchase as required by the Offer to Purchase and deliver to the Senior Trustee all Notes so accepted together with an Officers’ Certificate specifying which Notes have been accepted for purchase. On the purchase date, the

purchase price will become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date. The Senior Trustee will promptly return to Holders any Notes not accepted for purchase and send to Holders new Notes equal in principal amount to any unpurchased portion of any Notes accepted for purchase in part.

(d) The Issuer will comply with Rule 14e-1 under the Exchange Act and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

ARTICLE 4 COVENANTS

Section 4.01. Payment of Notes. (a) The Issuer agrees to pay the principal of, premium, if any, and interest and Additional Interest, if any, on the Notes on the dates and in the manner provided in the Notes and the Indenture. The Issuer shall pay Additional Interest in the amounts set forth in the Registration Rights Agreement. Not later than 9:00 A.M. (New York City time) on the due date of any principal of, premium, if any, or interest and Additional Interest, if any, on any Notes, or any redemption or purchase price of the Notes, the Issuer will deposit with the Senior Trustee (or Paying Agent) money in immediately available funds sufficient to pay such amounts; *provided*, that if the Issuer or any Affiliate of the Issuer is acting as Paying Agent, it will, on or before each due date, segregate and hold in a separate trust fund for the benefit of the Holders a sum of money sufficient to pay such amounts until paid to such Holders or otherwise disposed of as provided in the Indenture. In each case the Issuer will promptly notify the Senior Trustee of its compliance with this paragraph.

(b) An installment of principal, premium, if any, or interest and Additional Interest, if any, will be considered paid on the date due if the Senior Trustee (or Paying Agent, other than the Issuer or any Affiliate of the Issuer) holds on that date money designated for and sufficient to pay the installment. If the Issuer or any Affiliate of the Issuer acts as Paying Agent, an installment of principal, premium, if any, or interest and Additional Interest, if any, will be considered paid on the due date only if paid to the Holders.

(c) The Issuer agrees to pay interest on overdue principal, and, to the extent lawful, overdue installments of interest and Additional Interest at the rate per annum specified in the Notes.

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(d) Payments in respect of the Notes represented by the Global Notes are to be made by wire transfer of immediately available funds to the accounts specified by the Holders of the Global Notes. With respect to Certificated Notes, the Issuer will make all payments by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to each Holder's registered address.

Section 4.02. Maintenance of Office or Agency. The Company and the Issuer will maintain an office or agency where Notes may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company and the Issuer in respect of the Notes and the Indenture may be served. The Issuer and the Company hereby initially designate the Corporate Trust Office of the Senior Trustee as such office of the Issuer and the Company. The Issuer will give prompt written notice to the Senior Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuer and the Company fail to maintain any such required office or agency or fail to furnish the Senior Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served to the Senior Trustee.

The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be surrendered or presented for any of such purposes and may from time to time rescind such designations. The Issuer will give prompt written notice to the Senior Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 4.03. Existence. The Company and the Issuer will each do or cause to be done all things necessary to preserve and keep in full force and effect their existence and the existence of each of the Restricted Subsidiaries in accordance with their respective organizational documents, and the material rights, licenses and franchises of the Company, the Issuer and each Restricted Subsidiary; *provided*, that the Company and the Issuer are not required to preserve any such right, license or franchise, or the existence of any Restricted Subsidiary, if the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries taken as a whole; and *provided, further*, that this Section not prohibit any transaction otherwise permitted by Section 4.10 or Section 4.14.

Section 4.04. Payment of Taxes and Other Claims. The Company will pay or discharge, and cause each of its Subsidiaries to pay or discharge before the same become delinquent (a) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or its income or profits or property, and (b) all material lawful claims for labor, materials and supplies that, if unpaid, might by law become a Lien upon the property of the

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Company or any Subsidiary, other than any such tax, assessment, charge or claim the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves have been established.

Section 4.05. Maintenance of Properties and Insurance. (a) The Company will cause all properties used or useful in the conduct of its business or the business of any of its Restricted Subsidiaries to be maintained and kept in good condition, repair and working order as in the judgment of the Company may be necessary so that the business of the Company and its Restricted Subsidiaries may be properly and advantageously conducted at all times; *provided*, that nothing in this Section prevents the Company or any Restricted Subsidiary from discontinuing the use, operation or maintenance of any of such properties or disposing of any of them, if such discontinuance or disposal is, in the judgment of the Company, desirable in the conduct of the business of the Company and its Restricted Subsidiaries taken as a whole.

(b) The Company will provide or cause to be provided, for itself and its Restricted Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds customarily insured against by corporations similarly situated and owning like properties, including, but not limited to, products liability insurance and public liability insurance, with reputable insurers, in such amounts, with such deductibles and by such methods as are customary for corporations similarly situated in the industry in which the Company and its Restricted Subsidiaries are then conducting business.

Section 4.06. Limitations on Indebtedness. (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary, directly or indirectly, to create, incur, assume, become liable for or guarantee the payment of (collectively, an “**incurrence**”) any Indebtedness (including Acquired Indebtedness) unless, after giving effect thereto and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio on the date thereof would be at least 2.0 to 1.0.

(b) Notwithstanding the foregoing, the provisions of the Indenture will not prevent the incurrence of:

- (i) Permitted Indebtedness,
- (ii) Refinancing Indebtedness,
- (iii) Non-Recourse Indebtedness,
- (iv) any Guarantee of Indebtedness represented by the Notes or the Issuer’s 6% Senior Subordinated Notes due 2010, and

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(v) any guarantee of Indebtedness incurred under Credit Facilities in compliance with the Indenture.

(c) For purposes of determining compliance with this covenant, in the event that an item of Indebtedness may be incurred through the first paragraph of this covenant or by meeting the criteria of one or more of the types of Indebtedness described in the second paragraph of this covenant (or the definitions of the terms used therein), the Company, in its sole discretion,

- (i) may classify such item of Indebtedness under and comply with either of such paragraphs (or any of such definitions), as applicable,
- (ii) may classify and divide such item of Indebtedness into more than one of such paragraphs (or definitions), as applicable, and
- (iii) may elect to comply with such paragraphs (or definitions), as applicable, in any order.

(d) The Company and the Issuer will not, and will not cause or permit any Guarantor to, directly or indirectly, in any event incur any Indebtedness that purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated to any other Indebtedness of the Company or of such Guarantor, as the case may be, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinated to the Notes or the Guarantee of such Guarantor, as the case may be, to the same extent and in the same manner as such Indebtedness is subordinated to such other Indebtedness of the Company or such Guarantor, as the case may be.

Section 4.07. Limitations on Restricted Payments. (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

- (i) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;
- (ii) immediately after giving effect to such Restricted Payment, the Company could incur at least \$1.00 of Indebtedness pursuant to Section 4.06(a) hereof; and
- (iii) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made after May 4, 1999 does not exceed the sum of:

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(A) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including February 1, 1999 and ending on the last day of the Company’s fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, minus 100% of such deficit), *plus*

(B) 100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after February 1, 1999 or any issue or sale after February 1, 1999 of Qualified Stock (other than to any Subsidiary of the Company) and (2) the issue or sale after February 1, 1999 of any Indebtedness or other securities of the Company convertible into or exercisable for Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*

(C) in the case of the disposition or repayment of any Investment constituting a Restricted Payment made after May 4, 1999, an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (A)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (A)), *plus*

(D) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after May 4, 1999, in accordance with the definition of Unrestricted Subsidiary (so long as the designation of such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after the Issue Date, and only to the extent not included in the calculation of Consolidated Net Income referred to in (A)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value

(E) \$17 million, minus

(F) the aggregate amount of all Restricted Payments (other than Restricted Payments referred to in clause (iii) of paragraph (b) below) made after February 1, 1999 through May 4, 1999.

(b) clauses (ii) and (iii) of paragraph (a) will not prohibit:

(i) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the Indenture;

(ii) the repurchase, redemption or retirement of any shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, other shares of Qualified Stock; and

(iii) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed \$10 million in the aggregate since May 4, 1999;

provided, however, that each Restricted Payment described in clauses (i) and (ii) of this sentence shall be taken into account for purposes of computing the aggregate amount of all Restricted Payments pursuant to clause (iii) of the immediately preceding paragraph.

(c) For purposes of determining the aggregate and permitted amounts of Restricted Payments made, the amount of any guarantee of any Investment in any Person that was initially treated as a Restricted Payment and which was subsequently terminated or expired, net of any amounts paid by the Company or any Restricted Subsidiary in respect of such guarantee, shall be deducted.

(d) In determining the "Fair Market Value of Property" for purposes of clause (iii) of paragraph (a), Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the "equity value" of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market

on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq National Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than \$10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

Section 4.08. Limitations on Liens. The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its Property, or on any shares of Capital Stock or Indebtedness of any Restricted Subsidiary, unless contemporaneously therewith or prior thereto all payments due under the Indenture and the Notes are secured on an equal and ratable basis with the obligation or liability so secured until such time as such indebtedness is no longer secured by a Lien.

Section 4.09. Limitations on Restrictions Affecting Restricted Subsidiaries. The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, assume or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction (other than encumbrances or restrictions imposed by law or by judicial or regulatory action or by provisions of agreements that restrict the assignability thereof) on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,

(b) make loans or advances to the Company or any other Restricted Subsidiary, or

(c) transfer any of its property or assets to the Company or any other Restricted Subsidiary,

except for:

(i) encumbrances or restrictions existing under or by reason of applicable law,

(ii) contractual encumbrances or restrictions in effect on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof; *provided*, that such amendments, modifications, restatements, renewals, supplements,

refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect on the Issue Date,

(iii) any restrictions or encumbrances arising under Acquired Indebtedness; *provided*, that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,

(iv) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided, however*, that any restrictions and encumbrances of the type described in this clause (iv) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,

(v) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,

(vi) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the Indenture,

(vii) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

(viii) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition,

(ix) encumbrances or restrictions existing under or by reason of the Indenture or the Notes,

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(x) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (c) of the preceding paragraph,

(xi) Liens permitted under the Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,

(xii) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,

(xiii) customary provisions of any franchise, distribution or similar agreements,

(xiv) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and

(xv) any encumbrance or restrictions of the type referred to in clauses (a), (b) or (c) of the first paragraph of this section imposed by any amendments, modifications, restatements, renewals, supplements, refinancings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (i) through (xiv) of this paragraph; *provided*, that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company's Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

Section 4.10. Limitations on Dispositions of Assets. (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any Asset Disposition unless (x) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and (y) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities.

The amount of (i) any Indebtedness (other than any Indebtedness subordinated to the Notes) of the Company or any Restricted Subsidiary that is actually assumed by the transferee in such Asset Disposition and (ii) the fair market value (as determined in good faith by the Board of Directors of the Company) of any property or assets received that are used or useful in a Real

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Estate Business, shall be deemed to be consideration required by clause (y) above for purposes of determining the percentage of such consideration received by the Company or the Restricted Subsidiaries.

(b) The Net Cash Proceeds of an Asset Disposition shall, within one year, at the Company's election, (1) be used by the Company or a Restricted Subsidiary in the business of the construction and sale of homes conducted by the Company and the Restricted Subsidiaries or any other business of the Company or a Restricted Subsidiary existing at the time of such Asset Disposition or (2) to the extent not so used, be applied to make an Offer to Purchase Notes and, if the Company or a Restricted Subsidiary elects or is required to do so repay, purchase or redeem any other unsubordinated Indebtedness (on a *pro rata* basis if the amount available for such repayment, purchase or redemption is less than the aggregate amount of (i) the principal amount of the Notes tendered in such Offer to Purchase and (ii) the lesser of the principal amount, or accreted value, of such other unsubordinated Indebtedness, plus, in each case accrued interest to the date of repayment, purchase or redemption) at 100% of the principal amount or accreted value thereof, as the case may be, plus accrued and unpaid interest, if any, to the date of repurchase or repayment.

(c) Notwithstanding the foregoing, (A) the Company will not be required to apply such Net Cash Proceeds to the repurchase of Notes in accordance with clause (2) of the preceding paragraph except to the extent that such Net Cash Proceeds, together with the aggregate Net Cash Proceeds of prior Asset Dispositions (other than those so used) which have not been applied in accordance with this provision and as to which no prior Offer to Purchase shall have been made, exceed 5% of Consolidated Tangible Assets and (B) in connection with an Asset Disposition, the Company and the Restricted Subsidiaries will not be required to comply with the requirements of clause (y) of the first sentence of the first paragraph of this covenant to the extent that the non-cash consideration received in connection with such Asset Disposition, together with the sum of all non-cash consideration received in connection with all prior Asset Dispositions that has not yet been converted into cash, does not exceed 5% of Consolidated Tangible Assets; *provided, however*, that when any non-cash consideration is converted into cash, such cash shall constitute Net Cash Proceeds and be subject to the preceding sentence.

Section 4.11. Guarantees By Restricted Subsidiaries. Each existing Restricted Subsidiary (other than the Issuer (for so long as it remains the Issuer), KHL, Inc. and K. Hovnanian Poland, sp.zo.o.) will be a Guarantor. The Company is permitted to cause any Unrestricted Subsidiary to be a Guarantor. If the Issuer, the Company or any of its Restricted Subsidiaries acquires or creates a Restricted Subsidiary after the Issue Date, such Restricted Subsidiary shall (subject to Section 6.03(b)) execute a guarantee substantially in the form included in Exhibit A,

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execute a supplemental indenture in the form of Exhibit B, and deliver an Opinion of Counsel to the Senior Trustee to the effect that the supplemental indenture has been duly authorized, executed and delivered by the new Restricted Subsidiary and constitutes a valid and binding obligation of the new Restricted Subsidiary, enforceable against the new Restricted Subsidiary in accordance with its terms (subject to customary exceptions).

Section 4.12. Repurchase of Notes upon a Change of Control. (a) In the event that there shall occur a Change of Control, each Holder of Notes shall have the right, at such Holder's option, to require the Issuer to purchase all or any part of such Holder's Notes on a date (the "**Repurchase Date**") that is no later than 90 days after notice of the Change of Control, at 101% of the principal amount thereof plus accrued and unpaid interest and Additional Interest, if any, to the Repurchase Date.

(b) On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail, or cause to be mailed, to all Holders of record of Notes and the Senior Trustee a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, The City of New York. To exercise such right, the Holder of such Note must deliver at least ten days prior to the Repurchase Date written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder's exercise of such right, together with the Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Issuer.

(c) The Issuer will comply with applicable law, including Section 14(e) of Exchange Act and Rule 14e-1 thereunder, if applicable, if the Issuer is required to give a notice of a right of repurchase as a result of a Change of Control.

Section 4.13. Limitations on Transactions with Affiliates. (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the benefit of, or sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company's Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or

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series of related transactions (each, an "**Affiliate Transaction**"), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company's Subsidiaries.

(b) In addition, the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, enter into an Affiliate Transaction unless:

(i) with respect to any such Affiliate Transaction involving or having a value of more than \$1 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) either obtained the approval of a majority of the Company's disinterested directors or obtained an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view, and

(ii) with respect to any such Affiliate Transaction involving or having a value of more than \$10 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) delivered to the Senior Trustee an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view.

(c) Notwithstanding the foregoing, an Affiliate Transaction will not include:

(i) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,

(ii) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,

(iii) any Restricted Payment otherwise permitted under Section 4.07 hereof,

(iv) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (*provided, however, no such transaction shall involve any other Affiliate*)

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of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by this Indenture)),

(v) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously divided, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,

(vi) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and

(vii) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

Section 4.14. Limitations on Mergers, Consolidations and Sales of Assets. Neither the Issuer nor any Guarantor will consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including, without limitation, by way of liquidation or dissolution), or assign any of its obligations under the Notes, the Guarantees or the Indenture (as an entirety or substantially as an entirety in one transaction or in a series of related transactions), to any Person (in each case other than in a transaction in which the Company, the Issuer or a Restricted Subsidiary is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

(i) the Person formed by or surviving such consolidation or merger (if other than the Company, the Issuer or the Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition or assignment will be made (collectively, the “**Successor**”), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the Senior Trustee all of the obligations of the Company, the Issuer or the Guarantor, as the case may be, under the Notes or a Guarantee, as the case may be, and the Indenture,

(ii) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing, and

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(iii) immediately after giving effect to such transaction, the Company (or its Successor) could incur at least \$1.00 of Indebtedness pursuant to Section 4.06(a) hereof.

The foregoing provisions shall not apply to (i) a transaction involving the sale or disposition of Capital Stock of a Guarantor, or the consolidation or merger of a Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor, that in any such case results in such Guarantor being released from its Guarantee pursuant to Section 6.03, or (ii) a transaction the purpose of which is to change the state of incorporation of the Company, the Issuer or any Guarantor.

Section 4.15. Reports to Holders of Notes. (a) The Company shall file with the Commission the annual reports and the information, documents and other reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. The Company shall file with the Senior Trustee and mail to each Holder of record of Notes such reports, information and documents within 15 days after it files them with the Commission. In the event that the Company is no longer subject to these periodic reporting requirements of the Exchange Act, it will nonetheless continue to file reports with the Commission and the Senior Trustee and mail such reports to each Holder of Notes as if it were subject to such reporting requirements. Regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the Exchange Act, the Company will cause its consolidated financial statements and a “Management’s Discussion and Analysis of Results of Operations and Financial Condition” written report, similar to those that would have been required to appear in annual or quarterly reports, to be delivered to Holders of Notes.

(b) For so long as any of the Notes remain outstanding and constitute “restricted securities” under Rule 144, the Company will furnish to the Holders of Notes and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) All “obligors,” as that term is defined under the Trust Indenture Act, on the Notes, including the Issuer and the Guarantors, will comply with Section 314(a) of the Trust Indenture Act.

(d) Delivery of these reports and information to the Senior Trustee is for informational purposes only and the Senior Trustee’s receipt of them will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer’s and/or the Company’s compliance with any of its covenants hereunder (as to which the Senior Trustee is entitled to rely exclusively on Officers’ Certificates).

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Section 4.16. Reports to Senior Trustee. (a) The Company will deliver to the Senior Trustee within 120 days after the end of each fiscal year a written statement by the Company’s independent public accountants stating (i) that their audit examination has included a review of the terms of this Indenture and the Notes as they relate to accounting matters, and (ii) whether, in connection with their audit examination, any Default has come to their attention and, if a Default has come to their attention, specifying the nature and period of the existence thereof.

(b) The Company shall deliver to the Senior Trustee, on or prior to each Interest Payment Date, an Officer’s Certificate setting forth the amount of Additional Interest, if any, the Issuer is required to pay on that Interest Payment Date. If no Additional Interest are required to be paid on a given Interest

Payment Date, no such Officer's Certificate is required to be delivered to the Senior Trustee for that Interest Payment Date.

(c) All "obligors," as that term is defined under the Trust Indenture Act, on the Notes, including the Issuer and the Guarantors, will comply with Section 314(a) of the Trust Indenture Act. The Company will notify the Senior Trustee when any Notes are listed on any national securities exchange and of any delisting.

Section 4.17. Notice of Other Defaults. In the event that any Indebtedness of the Issuer or any Guarantor is declared due and payable before its maturity because of the occurrence of any default under such Indebtedness, the Issuer or the relevant Guarantor, as the case may be, shall promptly deliver to the Senior Trustee and Officers' Certificate stating such declaration; *provided*, that the term "Indebtedness" as used in this Section 4.17 shall not include Non-Recourse Indebtedness.

Section 4.18. Limitation of Applicability of Certain Covenants if Notes Rated Investment Grade. (a) The Issuer, the Company and its Restricted Subsidiaries' obligations to comply with the provisions of the Indenture under this Article 4 (except for Sections 4.01, 4.02, 4.03, 4.04, 4.05, 4.08, 4.11 (subject to Section 6.03(b)), 4.12, 4.14 (other than clause (iii) of the first paragraph thereof), 4.15, 4.16, 4.17 and this Section 4.18, will terminate (such terminated covenants, the "Extinguished Covenants") and cease to have any further effect from and after the first date when the Notes issued under the Indenture are rated Investment Grade; *provided*, that if the Notes subsequently cease to be rated Investment Grade, then, from and after the time the Notes cease to be rated Investment Grade, the Issuer's, the Company's and its Restricted Subsidiaries' obligation to comply with the Extinguished Covenants shall be reinstated.

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(b) In the event of any such reinstatement of the obligation to comply with the Extinguished Covenants, no action taken or omitted to be taken by the Issuer, the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the Indenture upon reinstatement; *provided*, that with respect to Restricted Payments made after any such reinstatement, the amount of Restricted Payments made after May 4, 1999 will be calculated as though Section 4.07 hereof had been in effect during the entire period after such date.

ARTICLE 5 REMEDIES

Section 5.01. Events of Default. "Event of Default" means any one or more of the following events:

- (i) the failure by the Company, the Issuer and the Guarantors to pay interest on, or Additional Interest, if any, with respect to, any Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days;
- (ii) the failure by the Company, the Issuer and the Guarantors to pay the principal or premium of any Note when the same becomes due and payable at maturity, upon acceleration or otherwise;
- (iii) the failure by the Company, the Issuer or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the Notes, the Guarantees or the Indenture and such failure continues for the period and after the notice specified below (except in the case of a default under Section 4.12 and 4.14, which will constitute Events of Default with notice but without passage of time);
- (iv) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company, the Issuer or any Restricted Subsidiary that has an outstanding principal amount of \$10 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;
- (v) the failure by the Company, the Issuer or any Restricted Subsidiary to make any principal or interest payment in an amount of \$10 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Restricted Subsidiary within 30 days of such principal or interest

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becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(vi) a final judgment or judgments that exceed \$10 million or more, individually or in the aggregate, for the payment of money having been entered by a court or courts of competent jurisdiction against the Company, the Issuer or any of its Restricted Subsidiaries and such judgment or judgments is not satisfied, stayed, annulled or rescinded within 60 days of being entered;

(vii) the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

- (A) commences a voluntary case,
- (B) consents to the entry of an order for relief against it in an involuntary case,
- (C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or
- (D) makes a general assignment for the benefit of its creditors;

(viii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (A) is for relief against the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,

(B) appoints a Custodian of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary or a Custodian for all or substantially all of the property of the Company or any Restricted Subsidiary that is a Significant Subsidiary, or

(C) orders the liquidation of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days, or

(ix) any Guarantee of a Guarantor which is a Significant Subsidiary ceases to be in full force and effect (other than in accordance

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with the terms of such Guarantee and this Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Guarantee (other than by reason of release of a Guarantor from its Guarantee in accordance with the terms of the Indenture and the Guarantee).

A Default as described in subclause (iii) above will not be deemed an Event of Default until the Senior Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding Notes notify the Company and the Senior Trustee, of the Default and (except in the case of a default with respect to Section 4.12 and 4.14 hereof) the Company does not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default." If such a Default is cured within such time period, it ceases.

If an Event of Default (other than an Event of Default with respect to the Company or the Issuer resulting from subclauses (vii) or (viii) above), shall have occurred and be continuing under the Indenture, the Senior Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the Notes then outstanding by notice to the Company and the Senior Trustee, may declare all Notes to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on the Notes will be due and payable immediately. If an Event of Default with respect to the Company or the Issuer specified in subclauses (vii) or (viii) above occurs, such an amount will *ipso facto* become and be immediately due and payable without any declaration, notice or other act on the part of the Senior Trustee and the Company or any Holder. This provision, however, is subject to the condition that, if at any time after the unpaid principal amount (or such specified amount) of the Notes shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Issuer shall pay or shall deposit with the Senior Trustee a sum sufficient to pay all matured installments of interest and Additional Interest, if any, upon all of the Notes and the principal of all the Notes which shall have become due otherwise than by acceleration (with interest on overdue installments of interest and Additional Interest, if any, to the extent that payment of such interest is enforceable under applicable law and on such principal at the rate borne by the Notes to the date of such payment or deposit) and the reasonable compensation, disbursements, expenses and advances of the Senior Trustee and all other amounts due the Senior Trustee under Section 7.07, and any and all defaults under this Indenture, other than the nonpayment of such portion of the principal amount of and accrued interest and Additional Interest, if any, on Notes which shall have become due by acceleration, shall have been cured or shall have been waived in accordance with Section 5.03 or provision deemed by the Senior Trustee to be adequate shall have been made therefor, then and in every such case the Holders

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of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Issuer and to the Senior Trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. Notwithstanding the previous sentence, no waiver shall be effective against any Holder for any Event of Default or event which with notice or lapse of time or both would be an Event of Default with respect to any covenant or provision which cannot be modified or amended without the consent of the Holder of each outstanding Note affected thereby, unless all such affected Holders agree, in writing, to waive such Event of Default or other event.

If the Senior Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any reason or shall have been determined to be adverse to the Senior Trustee, then and in every such case the Issuer, the Senior Trustee and the Holders of Notes shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Issuer, the Senior Trustee and the Holders of Notes shall continue as though no such proceeding had been taken.

Except with respect to an Event of Default pursuant to clauses (i) or (ii) of this Section 5.01, the Senior Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to the Senior Trustee by the Issuer, a Paying Agent or any Holder.

Section 5.02. Other Remedies. If an Event of Default occurs and is continuing, the Senior Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of, premium, if any, and interest or Additional Interest, if any, on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Senior Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

Section 5.03. Waiver of Defaults by Majority of Holders. By written notice to the Senior Trustee and the Company, the Holders of a majority in aggregate principal amount of the Notes then outstanding may on behalf of the Holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences, except a Default in the payment of interest and Additional Interest, if any, on, or the principal of, the Notes. Upon any such waiver, the Issuer, the Senior Trustee and the Holders of Notes shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 5.03, said Default or Event of

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Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing.

Section 5.04. Direction of Proceedings. The Holders of a majority in aggregate principal amount of the outstanding Notes shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Senior Trustee, or exercising any trust or power conferred on the Senior Trustee with respect to the Notes; *provided, however,* that (subject to the provisions of Section 7.01) the Senior Trustee shall have the right to decline to follow any such direction if the Senior Trustee shall determine upon advice of counsel that the action or proceeding so directed may not lawfully be taken or if the Senior Trustee in good faith by its board of directors, its executive committee, or a trust committee of directors or Responsible Officers or both shall determine that the action or proceeding so directed would involve the Senior Trustee in personal liability.

Section 5.05. Application of Moneys Collected by Senior Trustee. Any moneys collected by the Senior Trustee pursuant to this Article respect to outstanding Notes shall be applied in the order following, at the date or dates fixed by the Senior Trustee for the distribution of such moneys, upon presentation of the Notes and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

FIRST: To the payment of costs and expenses of collection and reasonable compensation to the Senior Trustee, its agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Senior Trustee pursuant to Section 7.07 except as a result of its negligence or bad faith;

SECOND: If the principal of the Notes shall not have become due and be unpaid, to the payment of interest or Additional Interest, if any, on the Notes, in the order of the maturity of the installments of such interest or Additional Interest, if any, with interest (to the extent that such interest has been collected by the Senior Trustee) upon the overdue installments of interest and Additional Interest, if any, at the rate borne by the Notes, such payment to be made ratably to the Persons entitled thereto;

THIRD: If the principal of the Notes shall have become due, by declaration or otherwise, to the payment of the whole amount then owing and unpaid upon the Notes for principal, interest and Additional Interest, if any, with interest on the overdue principal and (to the extent that such interest has been collected by the Senior Trustee) upon overdue installments of interest and Additional Interest, if any, at the rate borne by the Notes, and in case such moneys shall be insufficient to pay in full the

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whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest and Additional Interest, if any, without preference or priority of principal over interest or Additional Interest, if any, or of interest or Additional Interest, if any, over principal, or of interest over Additional Interest, if any, or of any installment of interest, if any, or Additional Interest, if any, over any other installment of interest or Additional Interest, if any, ratably to the aggregate of such principal and accrued and unpaid interest and Additional Interest, if any; and

FOURTH: To the payment of any surplus then remaining to the Issuer, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same.

No claim for interest which in any manner at or after maturity shall have been transferred or pledged separate or apart from the Notes to which it relates, or which in any manner shall have been kept alive after maturity by an extension (otherwise than pursuant to an extension made pursuant to a plan proposed by the Issuer to the Holders of all Notes), purchase, funding or otherwise by or on behalf or with the consent or approval of the Issuer shall be entitled, in case of a default hereunder, to any benefit of this Indenture, except after prior payment in full of the principal of all Notes and of all claims for interest not so transferred, pledged, kept alive, extended, purchased or funded.

Section 5.06. Proceedings by Holders. No holder of any Notes shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture for the appointment of a receiver or trustee or similar official, or for any other remedy hereunder, unless such Holder previously shall have given to the Senior Trustee written notice of default and of the continuance thereof, as hereinbefore provided, and unless the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding shall have made written request to the Senior Trustee to institute such action, suit or proceeding in its own name as Senior Trustee hereunder and shall have offered to the Senior Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Senior Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have neglected or refused to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the Holder of every Note with every other Holder and the Senior Trustee, that no one or more Holders of Notes shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture or of the Notes to affect, disturb or prejudice the rights of any other Holder of Notes, or to obtain or seek to obtain priority over or preference as to any other such Holder, or to enforce any right under this

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Indenture or the Notes, except in the manner herein provided and for the equal, ratable and common benefit of all Holders of Notes.

Notwithstanding any other provisions in this Indenture, however, the right of any Holder of any Note to receive payment of the principal of, premium, if any, and interest and Additional Interest, if any, on such Note, on or after the maturity thereof, or to institute suit for the enforcement of any such payment on or after such respective dates shall not be impaired or affected without the consent of such Holder.

Section 5.07. Proceedings by Senior Trustee. In case of an Event of Default hereunder, the Senior Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Senior Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceedings in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Senior Trustee by this Indenture or by law.

Section 5.08. Remedies Cumulative and Continuing. All powers and remedies given by this Article 5 to the Senior Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Senior Trustee or the Holders, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Senior Trustee or of any Holder to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall

impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.06, every power and remedy given by this Article 5 or by law to the Senior Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Senior Trustee or by the Holders.

Section 5.09. Undertaking to Pay Costs. All parties to this Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, or in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Senior Trustee for any action taken or omitted by it as Senior Trustee, the filing by any party litigant in such suit of an undertaking to pay the cost of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.09 shall not apply to any

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suit instituted by the Senior Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the then outstanding Notes, or to any suit instituted by any Holders for the enforcement of the payment of the principal of, premium, if any, or interest or Additional Interest, if any, on any Note against the Issuer on or after the due date of such Note.

Section 5.10. Notice of Defaults. (a) The Company is required to deliver to the Senior Trustee an annual statement regarding compliance with the Indenture, and include in such statement, if any officer of the Company is aware of any Default or Event of Default, a statement specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto. In addition, the Company is required to deliver to the Senior Trustee prompt written notice of the occurrence of any Default or Event of Default.

(b) The Senior Trustee shall, within 90 days after the occurrence of a default known to the Senior Trustee, with respect to the Notes, mail to all Holders of Notes, as the names and the addresses of such Holders appear upon the Register, notice of all defaults, unless such defaults shall have been cured before the giving of such notice (the term "**default**" for the purpose of this Section 5.10(b) being hereby defined to be the events specified in clauses (i), (ii), (iii), (iv), (v), (vi), (vii), (viii) and (ix) of Section 5.01, not including periods of grace, if any, provided for therein and irrespective of the giving of the written notice specified in said clause (iii) but in the case of any default of the character specified in said clause (iii) no such notice to Holders shall be given until at least 60 days after the giving of written notice thereof to the Company pursuant to said clause (iii)); *provided, however*, that, except in the case of default in the payment of the principal of, premium, if any, or interest and Additional Interest, if any, on any of the Notes, or in the payment or satisfaction of a purchase obligation, the Senior Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, a trust committee of directors or a Responsible Officer of the Senior Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders. Notice to Holders under this Section shall be given in the manner and to the extent provided in Trust Indenture Act Section 313(c).

Section 5.11. Waiver of Stay, Extension or Usury Laws. The Company, the Issuer and each Guarantor covenants, to the extent permitted by applicable law, that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company, the Issuer or the Guarantor from paying all or any portion of the principal of, premium, if any, or interest or Additional Interest, if any, on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the

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covenants or the performance of the Indenture. The Company, the Issuer and each Guarantor hereby expressly waives, to the extent that it may lawfully do so, all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Senior Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.12. Senior Trustee May File Proof of Claim. The Senior Trustee may file proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Senior Trustee (including any claim for the compensation, expenses, disbursements and advances of the Senior Trustee, its agents and counsel, and any other amounts due the Senior Trustee hereunder) and the Holders allowed in any judicial proceedings relating to the Company, the Issuer or any Guarantor or their respective creditors or property, and is entitled and empowered to collect, receive and distribute any money, securities or other property payable or deliverable upon conversion or exchange of the Notes or upon any such claims. Any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Senior Trustee and, if the Senior Trustee consents to the making of such payments directly to the Holders, to pay to the Senior Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Senior Trustee, its agent and counsel, and any other amounts due the Senior Trustee hereunder. Nothing in the Indenture will be deemed to empower the Senior Trustee to authorize or consent to, or accept or adopt on behalf of any Holder, any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Senior Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 5.13. Payment of Notes on Default; Suit Therefor. The Issuer covenants that (a) if default shall be made in the payment of any installment of interest and Additional Interest, if any, upon the Notes as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) if default shall be made in the payment of the principal of, and premium, if any, on the Notes as and when the same shall have become due and payable, whether at maturity of the Notes or upon redemption or by declaration or otherwise, then, upon demand of the Senior Trustee, the Issuer will pay to the Senior Trustee, for the benefit of the Holders, the whole amount that then shall have become due and payable on all such Notes for principal, and premium, if any, or interest and Additional Interest, if any, or both, as the case may be, with interest upon the overdue principal and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest and Additional Interest, if any, at the rate borne by the Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of

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collection, including a reasonable compensation to the Senior Trustee, its agent, attorneys and counsel, and any expenses or liabilities incurred by the Senior Trustee hereunder other than through its negligence or bad faith.

If the Issuer shall fail forthwith to pay such amounts upon such demand, the Senior Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Issuer or any other obligor on the Notes and collect in the manner provided by law out of the property of the Issuer or any other obligor on the Notes, wherever situated, the moneys adjudged or decreed to be payable.

If there shall be pending proceedings for the bankruptcy or for the reorganization of the Issuer or any other obligor on the Notes under any bankruptcy, insolvency or other similar law now or hereafter in effect, or if a receiver or trustee or similar official shall have been appointed for the property of the Issuer or such other obligor, or in the case of any other similar judicial proceedings relative to the Issuer or other obligor on the Notes, or to the creditors or property of the Issuer or such other obligor, the Senior Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Senior Trustee shall have made any demand pursuant to the provisions of this Section 5.13, shall be entitled and empowered by intervention in such proceedings or otherwise to file and prove a claim or claims for the whole amount of principal, premium, if any, interest and Additional Interest, if any, owing and unpaid in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Senior Trustee and of the Holders allowed in such judicial proceedings relative to the Issuer or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses, and any receiver, assignee or trustee or similar official in bankruptcy or reorganization is hereby authorized by each of the Holders to make such payments to the Senior Trustee, and, if the Senior Trustee shall consent to the making of such payments directly to the Holders, to pay to the Senior Trustee any amount due it for compensation and expenses or otherwise pursuant to Section 7.07, including counsel fees and expenses incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses and counsel fees and expenses out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and other property which the Holders

of Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Senior Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Senior Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the Holders of Notes in respect of which such judgment has been recovered.

ARTICLE 6 GUARANTEES; RELEASE OF GUARANTOR

Section 6.01. Guarantee. Each of the Guarantors hereby unconditionally guarantees, jointly and severally with each other Guarantor, to each Holder and to the Senior Trustee and its successors and assigns, irrespective of the validity and enforceability of this Indenture, the Notes or the obligations of the Issuer hereunder or thereunder, that: (i) the due and punctual payment of the principal of, premium, if any, and interest or Additional Interest, if any, on the Notes, whether at maturity or on an interest payment date, by acceleration, pursuant to an Offer to Purchase or otherwise, to the extent lawful, and all other obligations of the Issuer to the Holders or the Senior Trustee hereunder or thereunder shall be promptly paid in full when due, all in accordance with the terms hereof and thereof, including all amounts payable to the Senior Trustee under Section 7.07 hereof, and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, the same shall be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

If the Issuer fails to make any payment when due of any amount so guaranteed for whatever reason, each Guarantor shall be obligated, jointly and severally with each other Guarantor, to pay the same immediately. Each Guarantor hereby agrees that its obligations hereunder shall be continuing, absolute and unconditional, irrespective of, and shall be unaffected by, the validity, regularity or enforceability of the Notes, this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder or the Senior Trustee with respect to any provisions hereof or thereof, the recovery of any judgment against the Issuer, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of such Guarantor. If any Holder or the Senior Trustee is required by any court or otherwise to return to the Issuer or any Guarantor, or any custodian, trustee, liquidator or other similar official acting in relation to the Issuer or such

Guarantor, any amount paid by the Issuer or any Guarantor to the Senior Trustee or such Holder, this Article 6, to the extent theretofore discharged with respect to any Guarantee, shall be reinstated in full force and effect. Each Guarantor agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any obligations guaranteed hereby by such Guarantor until payment in full of all such obligations. Each Guarantor further agrees that, as between such Guarantor, on the one hand, and the Holders of Notes and the Senior Trustee on the other hand, (i) the maturity of the obligations guaranteed hereby may be accelerated as provided in Article 5 hereof for the purposes of such Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby and (ii) in the event of any acceleration of such obligations as provided in Article 5 hereof such obligations (whether or not due and payable) shall forthwith become due and payable by such Guarantor, jointly and severally with each other Guarantor, for the purpose of this Article 6. In addition, without limiting the foregoing, upon the effectiveness of an acceleration under Article 5, the Senior Trustee may make a demand for payment on the Notes under any Guarantee provided hereunder and not discharged.

The Guarantee set forth in this Section 6.01 shall not be valid or become obligatory for any purpose with respect to a Note until the certificate of authentication on such Note shall have been signed by the Senior Trustee or any duly appointed agent.

Section 6.02. Obligations of each Guarantor Unconditional. Nothing contained in this Article 6 or elsewhere in this Indenture or in any Note is intended to or shall impair, as between each Guarantor and the Holders, the obligations of such Guarantor which are absolute and unconditional, to pay to the Holders the principal of, premium, if any, and interest and Additional Interest, if any, on the Notes as and when the same shall become due and payable in accordance with the provisions of their Guarantee or is intended to or shall affect the relative rights of the Holders and creditors of such Guarantor, nor shall

anything herein or therein prevent the Senior Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon any Default under this Indenture in respect of cash, property or securities of such Guarantor received upon the exercise of any such remedy.

Upon any distribution of assets of a Guarantor referred to in this Article 6 the Senior Trustee, subject to the provisions of Article 7, the Holders shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other person making any distribution to the Senior Trustee or to such Holders for the purpose of ascertaining the persons entitled to participate in such distribution, the

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holders of other indebtedness of such Guarantor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 6.

Section 6.03. Release of a Guarantor. (a) If all or substantially all of the assets of any Guarantor other than the Company or all of the Capital Stock of any Guarantor other than the Company is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any Guarantor other than the Company is designated an Unrestricted Subsidiary in accordance with the terms of the Indenture, then such Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the Indenture without any further action on the part of the Senior Trustee or any Holder of Notes.

(b) Upon the release of the guarantee by a Guarantor (including, for the avoidance of doubt, the Issuer after it ceases to be the Issuer pursuant to Article 10) other than the Company under all then outstanding Applicable Debt, at any time after the suspension of the Extinguished Covenants pursuant to Section 4.18 hereof, the Guarantee of such Guarantor under the Indenture will be released and discharged in respect of the Notes at such time and no Restricted Subsidiary thereafter acquired or created will be required to be a Guarantor in respect of the Notes; *provided*, that the foregoing shall not apply to any release of any Guarantor done in contemplation of, or in connection with, any cessation of the Notes being rated Investment Grade. In the event that (i) any such released Guarantor thereafter guarantees any Applicable Debt (or if any released guarantee under any Applicable Debt is reinstated or renewed) or (ii) the Extinguished Covenants cease to be suspended pursuant to Section 4.18 hereof then any such released Guarantor and any other Restricted Subsidiary of Hovnanian then existing (other than KHL, Inc., the Issuer (for so long as it remains the Issuer) and K. Hovnanian Poland, sp.zo.o.) will Guarantee the Notes on the terms and conditions set forth in this Indenture. For purposes of this clause (b), Applicable Debt secured by a Lien on such Restricted Subsidiary's Property or issued by such Restricted Subsidiary shall be deemed guaranteed by such Restricted Subsidiary.

(c) An Unrestricted Subsidiary that is a Guarantor shall be deemed automatically and unconditionally released and discharged from all obligations under its Guarantee upon notice from the Company to the Senior Trustee to such effect, without any further action required on the part of the Senior Trustee or any Holder.

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Section 6.04. Execution and Delivery of Guarantee. The execution by each Guarantor of the Indenture (or a supplemental indenture in the form of Exhibit B) together with an executed guarantee substantially in the form included in Exhibit A evidences the Guarantee of such Guarantor, whether or not the person signing as an officer of the Guarantor still holds that office at the time of authentication of any Note. The delivery of any Note by the Senior Trustee after authentication constitutes due delivery of the Guarantee on behalf of each Guarantor.

Section 6.05. Limitation on Guarantor Liability. Notwithstanding anything to the contrary in this Article 6, each Guarantor, and by its acceptance of a Note, each Holder, hereby confirms that it is the intention of all such parties that the Guarantee of such Guarantor not constitute a fraudulent conveyance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law. To effectuate that intention, the Senior Trustee, the Holders and the Guarantors hereby irrevocably agree that the obligations of each Guarantor under its Guarantee are limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law.

Section 6.06. Article 6 Not to Prevent Events of Default. The failure to make a payment on account of principal, premium, if any, or interest or Additional Interest, if any, on the Notes by reason of any provision in this Article 6 shall not be construed as preventing the occurrence of any Event of Default under Section 5.01.

Section 6.07. Waiver by the Guarantors. To the extent permitted by applicable law, each Guarantor hereby irrevocably waives diligence, presentment, demand of payment, demand of performance, filing of claims with a court in the event of insolvency of bankruptcy of the Issuer, any right to require a proceeding first against the Issuer, the benefit of discussion, protest, notice and all demand whatsoever and covenants that this Guarantee shall not be discharged except by complete performance of the obligations contained in the Notes, in this Indenture and in this Article 6.

Section 6.08. Subrogation and Contribution. Upon making any payment with respect to any obligation of the Issuer under this Article, the Guarantor making such payment will be subrogated to the rights of the payee against the Issuer with respect to such obligation; *provided*, that the Guarantor may not enforce either any right of subrogation, or any right to receive payment in the nature of contribution, or otherwise, from any other Guarantor, with respect to such payment so long as any amount payable by the Issuer hereunder or under the Notes remains unpaid.

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Section 6.09. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Issuer under the Indenture or the Notes is stayed upon the insolvency, bankruptcy or reorganization of the Issuer, all such amounts otherwise subject to acceleration under the terms of the Indenture are nonetheless payable by the Guarantors hereunder forthwith on demand by the Senior Trustee or the Holders.

Section 6.10. *Guarantors as “obligors” for Provisions Included in the Indenture Pursuant to the Trust Indenture Act.* Each provision included in the Indenture which is required to be included by any of Sections 310 to 317 of the Trust Indenture Act, inclusive, or is deemed applicable to the Indenture by virtue of the provisions of the Trust Indenture Act, and which applies to an “obligor,” as that term is defined under the Trust Indenture Act, shall apply to each of the Guarantors.

ARTICLE 7
THE SENIOR TRUSTEE

Section 7.01. *General.* (a) The duties and responsibilities of the Senior Trustee are as provided by the Trust Indenture Act and as set forth herein. Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of, or affording protection to, the Senior Trustee is subject to this Article.

(b) Except during the continuance of an Event of Default, the Senior Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into this Indenture against the Senior Trustee. In case an Event of Default has occurred and is continuing, the Senior Trustee shall exercise those rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Section 7.02. *Certain Rights of the Senior Trustee.* Subject to Trust Indenture Act Sections 315(a) through (d):

(a) The Senior Trustee may rely, and will be protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper Person. The Senior Trustee need not investigate any fact or matter stated in the document, but the Senior Trustee, in its

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discretion, may make further inquiry or investigation into such facts or matters as it sees fit.

(b) Before the Senior Trustee acts or refrains from acting, it may require an Officers’ Certificate or an Opinion of Counsel conforming to Section 11.05 and the Senior Trustee will not be liable for any action it takes or omits to take in good faith in reliance on such a certificate or opinion. Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Issuer or the Company, as applicable, shall be sufficient if signed by an Officer of the Issuer or the Company, as applicable.

(c) The Senior Trustee may act through its attorneys and agents and will not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Senior Trustee will be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders, unless such Holders have offered to the Senior Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

(e) The Senior Trustee will not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers or for any action it takes or omits to take in accordance with the direction of the Holders in accordance with Section 5.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Senior Trustee, or exercising any trust or power conferred upon the Senior Trustee, under the Indenture.

(f) The Senior Trustee may consult with counsel, and the written advice of such counsel or any Opinion of Counsel will be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(g) No provision of the Indenture will require the Senior Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

Section 7.03. *Individual Rights of the Senior Trustee.* The Senior Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it

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would have if it were not the Senior Trustee. Any Agent may do the same with like rights. However, the Senior Trustee is subject to Trust Indenture Act Sections 310(b) and 311. For purposes of Trust Indenture Act Section 311(b)(4) and (6):

(a) “**cash transaction**” means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) “**self-liquidating paper**” means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Senior Trustee simultaneously with the creation of the creditor relationship arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 7.04. *Senior Trustee’s Disclaimer.* The Senior Trustee (a) makes no representation as to the validity or adequacy of this Indenture or the Notes, (b) is not accountable for the Company’s use or application of the proceeds from the Notes and (c) is not responsible for any statement in the Notes

other than its certificate of authentication.

Section 7.05. Reserved.

Section 7.06. Reports by Senior Trustee to Holders. Within 60 days after each May 1, beginning with May 1, 2005, the Senior Trustee will mail to each Holder, as provided in Trust Indenture Act Section 313(c) a brief report dated as of such May 1, if required by Trust Indenture Act Section 313(a).

Section 7.07. Compensation and Indemnity. (a) The Company will pay the Senior Trustee compensation as agreed upon in writing for its services. The compensation of the Senior Trustee is not limited by any law on compensation of a trustee of an express trust. The Company will reimburse the Senior Trustee upon request for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by the Senior Trustee, including the reasonable compensation and expenses of the Senior Trustee's agents and counsel.

(b) In addition to any other indemnity provided to the Senior Trustee hereunder, the Company will indemnify the Senior Trustee for, and hold it

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harmless against, any loss or liability or expense incurred by it without negligence or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture and its duties under the Indenture and the Notes, including the costs and expenses of defending itself against any claim or liability and of complying with any process served upon it or any of its officers in connection with the exercise or performance of any of its powers or duties under the Indenture and the Notes.

(c) To secure the Company's payment obligations in this Section or as otherwise provided in the Indenture, the Senior Trustee will have a lien prior to the Notes on all money or property held or collected by the Senior Trustee, in its capacity as Senior Trustee, except money or property held in trust to pay principal of, premium, if any, and interest or Additional Interest, if any, on particular Notes.

Section 7.08. Replacement of Senior Trustee. (a) (i) The Senior Trustee may resign at any time by written notice to the Issuer.

(ii) The Holders of a majority in principal amount of the outstanding Notes may remove the Senior Trustee by written notice to the Senior Trustee.

(iii) If the Senior Trustee is no longer eligible under Section 7.10 or in the circumstances described in Trust Indenture Act Section 310(b), any Holder that satisfies the requirements of Trust Indenture Act Section 310(b) may petition any court of competent jurisdiction for the removal of the Senior Trustee and the appointment of a successor Senior Trustee.

(iv) The Issuer may remove the Senior Trustee if: (A) the Senior Trustee is no longer eligible under Section 7.10; (B) the Senior Trustee is adjudged bankrupt or an insolvent; (C) a receiver or other public officer takes charge of the Senior Trustee or its property; or (D) the Senior Trustee becomes incapable of acting.

A resignation or removal of the Senior Trustee and appointment of a successor Senior Trustee will become effective only upon the successor Senior Trustee's acceptance of appointment as provided in this Section.

(b) If the Senior Trustee has been removed by the Holders, Holders of a majority in principal amount of the Notes may appoint a successor Senior Trustee with the consent of the Issuer. Otherwise, if the Senior Trustee resigns or is removed, or if a vacancy exists in the office of Senior Trustee for any reason, the Issuer will promptly appoint a successor Senior Trustee. If the successor Senior Trustee does not deliver its written acceptance within 30 days after the retiring Senior Trustee resigns or is removed, the retiring Senior Trustee, the Issuer or the

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Holders of a majority in principal amount of the outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Senior Trustee.

(c) Upon delivery by the successor Senior Trustee of a written acceptance of its appointment to the retiring Senior Trustee and to the Issuer, (i) the retiring Senior Trustee will transfer all property held by it as Senior Trustee to the successor Senior Trustee, subject to the lien provided for in Section 7.07, (ii) the resignation or removal of the retiring Senior Trustee will become effective, and (iii) the successor Senior Trustee will have all the rights, powers and duties of the Senior Trustee under the Indenture. Upon request of any successor Senior Trustee, the Issuer will execute any and all instruments for fully and vesting in and confirming to the successor Senior Trustee all such rights, powers and trusts. The Issuer will give notice of any resignation and any removal of the Senior Trustee and each appointment of a successor Senior Trustee to all Holders, and include in the notice the name of the successor Senior Trustee and the address of its Corporate Trust Office.

(d) Notwithstanding replacement of the Senior Trustee pursuant to this Section, Issuer's obligations under Section 7.07 will continue for the benefit of the retiring Senior Trustee.

(e) The Senior Trustee agrees to give the notices provided for in, and otherwise comply with, Trust Indenture Act Section 310(b).

Section 7.09. Successor Senior Trustee by Merger. If the Senior Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or national banking association, the resulting, surviving or transferee corporation or national banking association without any further act will be the successor Senior Trustee with the same effect as if the successor Senior Trustee had been named as the Senior Trustee in the Indenture.

Section 7.10. Eligibility. The Indenture must always have a Senior Trustee that satisfies the requirements of Trust Indenture Act Section 310(a) and has a combined capital and surplus of at least \$25,000,000 as set forth in its most recent published annual report of condition.

Section 7.11. *Money Held in Trust.* The Senior Trustee will not be liable for interest on any money received by it except as it may agree with the Issuer. Money held in trust by the Senior Trustee need not be segregated from other funds except to the extent required by law and except for money held in trust under Article 8.

ARTICLE 8
DEFEASANCE AND DISCHARGE

Section 8.01. Legal Defeasance And Discharge. The Issuer, the Company and the Guarantors shall, subject to the satisfaction of the conditions set forth in Section 8.03 hereof, be deemed to have been discharged from their respective obligations with respect to the Notes and the Guarantees on the date the conditions set forth below are satisfied (hereinafter, “**Legal Defeasance**”). For this purpose, Legal Defeasance means that the Issuer shall be deemed to have paid and discharged the entire Indebtedness represented by the Notes, which shall thereafter be deemed to be outstanding only for the purposes of Section 8.04 hereof and the other Sections of this Indenture referred to in clauses (a) through (f) below, and the Issuer, the Company and the Guarantors shall be deemed to have satisfied all of their respective obligations under the Notes, the Guarantees and this Indenture (and the Senior Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments delivered to it by the Issuer acknowledging the same), except of the following provisions which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of Notes to receive payments in respect of the principal, premium, if any, and interest and Additional Interest, if any, on the Notes when such payments are due from the trust referred to below; (b) the Issuer’s obligations with respect to the Notes concerning mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust; (c) the rights, powers, trusts, duties and immunities of the Senior Trustee, and the Issuer’s and the Guarantors’ obligations in connection therewith; (d) the Legal Defeasance provisions of this Indenture; (e) the rights of registration of transfer and exchange of the Notes; and (f) the rights of Holders that are beneficiaries with respect to property so deposited with the Senior Trustee payable to all or any of them.

Section 8.02. Covenant Defeasance. The Issuer, the Company and the Guarantors shall, subject to the satisfaction of the conditions set forth in Section 8.03 hereof, be released from their obligations with respect to the Notes and the Guarantees under the covenants contained in Sections 4.06, 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, clause (iii) of Section 4.14 and Article 6 (except for Sections 6.03 and 6.10) and each Guarantor’s obligation under its Guarantee, on and after the date that the conditions set forth in Section 8.03 are satisfied (hereinafter, “**Covenant Defeasance**”), and the Notes shall thereafter be deemed not outstanding for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed outstanding for all other purposes hereunder (it being understood that the Notes shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the Notes and the Guarantees, the Issuer, the Company and the

Guarantors may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.01 hereof, but, except as specified above, the remainder of this Indenture and the Notes shall be unaffected thereby. Subject to the satisfaction of the conditions set forth in Section 8.03 hereof, Sections 5.01(iii) (with respect to the covenants so defeased), 5.01(iv), 5.01(v), 5.01(vi) and 5.01(ix) shall not constitute Events of Default or Defaults hereunder.

Section 8.03. Conditions To Legal Or Covenant Defeasance. The following shall be the conditions to the application of either Section 8.01 or Section 8.02 hereof to the Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit, or cause to be deposited, with the Senior Trustee, in trust, for the benefit of the Holders of Notes, cash in U.S. dollars, U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay, without reinvestment, the principal of, premium, if any, and interest and Additional Interest, if any, on the Notes on the stated maturity thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to maturity or to a particular redemption date;

(b) in the case of Legal Defeasance, the Issuer must deliver to the Senior Trustee an Opinion of Counsel reasonably acceptable to the Senior Trustee confirming that the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling, or there has been a change in the applicable United States federal income tax law after the date of this Indenture, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such Legal Defeasance, and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of Covenant Defeasance, the Issuer must deliver to the Senior Trustee an Opinion of Counsel reasonably acceptable to the Senior Trustee confirming that the Holders of Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such Covenant Defeasance, and such Holders will be subject to United States federal income tax

on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(e) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which the Issuer or any of its Restricted Subsidiaries is a party or by which the Issuer or any of its Restricted Subsidiaries is bound;

(f) the Issuer must deliver to the Senior Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders of Notes over other creditors of the Issuer, or with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and

(g) the Issuer must deliver to the Senior Trustee an Officers' Certificate and an Opinion of Counsel in the United States reasonably acceptable to the Senior Trustee, each stating that the conditions precedent provided for or relating to Legal Defeasance or Covenant Defeasance, as applicable, in the case of the Officer's Certificate, in clauses (a) through (f) and, in the case of the opinion of Counsel, in clauses (b) and (c) of this paragraph, have been complied with.

Section 8.04. Deposited Money And Government Securities To Be Held In Trust; Other Miscellaneous Provisions. Subject to Section 8.05 hereof, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Senior Trustee (or other qualifying trustee, collectively, and solely for purposes of this Section 8.04, the "Senior Trustee") pursuant to Section 8.03 or Section 8.08 hereof in respect of the Notes shall be held in trust and applied by the Senior Trustee, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or indirectly or through any paying agent (including the Issuer acting as paying agent) as the Senior Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, interest and Additional Interest, if any, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Senior Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable U.S. Government Obligations deposited pursuant to Section 8.03 or Section 8.08 hereof or the principal, premium, if any, interest and Additional Interest, if any,

received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Notes.

Subject to the preceding paragraph and Section 7.07 herein, anything in this Article 8 to the contrary notwithstanding, the Senior Trustee shall deliver or pay, solely to the extent available in such trust, to the Issuer from time to time upon the request of the Issuer any money or non-callable U.S. Government Obligations held by it as provided in Section 8.03 or Section 8.08 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Senior Trustee (which may be the opinion delivered under Section 8.03(a) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Section 8.05. Repayment To Issuer. Any money deposited with the Senior Trustee or any paying agent, or then held by the Issuer, in trust for the payment of the principal, premium, if any, interest and Additional Interest, if any, on the Notes and remaining unclaimed for two years after such principal, premium, if any, interest and Additional Interest, if any, has become due and payable shall be paid to the Issuer on its request or (if then held by the Issuer) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured creditor, look only to the Issuer for payment thereof, and all liability of the Senior Trustee or such paying agent with respect to such trust money, and all liability of the Issuer as trustee thereof, shall thereupon cease; *provided, however,* that the Senior Trustee or such paying agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in The New York Times and The Wall Street Journal (national editions), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Issuer.

Section 8.06. Reinstatement. If the Senior Trustee or paying agent is unable to apply any money or non-callable U.S. Government Obligations in accordance with Section 8.01, Section 8.02 or Section 8.08 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Issuer's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.01, Section 8.02 or Section 8.08 hereof until such time as the Senior Trustee or paying agent is permitted to apply all such money in accordance with Section 8.01, Section 8.02 or Section 8.08 hereof, as the case may be; *provided, however,* that, if the Issuer makes any payment of principal of, premium, if any, or interest or Additional Interest, if any, on any Note following the reinstatement of its

obligations, the Issuer shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Senior Trustee or paying agent.

Section 8.07. Survival. The Senior Trustee's rights under Article 7 and this Article 8 shall survive termination of this Indenture.

Section 8.08. Satisfaction and Discharge of Indenture. If at any time (a) (i) the Issuer shall have paid or caused to be paid the principal of, premium, if any, and interest and Additional Interest, if any, on all the outstanding Notes (other than Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.04) as and when the same shall have become due and payable, or (ii) the Issuer shall have delivered to the Senior Trustee for cancellation all Notes theretofore authenticated (other than Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.04), or (b) (i) the Notes mature within one year, or all of them are to be called for redemption within one year under arrangements satisfactory to the Senior Trustee for giving the notice of redemption, (ii) the Issuer irrevocably deposits in trust with the Senior Trustee, as trust funds solely for the benefit of the Holders, money or U.S. Government Obligations or a combination thereof sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certificate delivered to the Senior Trustee, without consideration of any reinvestment, to pay principal of and premium, interest and Additional Interest, if any, on the Notes to maturity or redemption, as the case may be, and to pay all other sums payable by it hereunder, (iii) no Default has occurred and is continuing on the date of the deposit, (iv) the deposit will not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which the Issuer is a party or by which it is bound, and (v) the Issuer delivers to the Senior Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that all conditions precedent provided for herein

relating to the satisfaction and discharge of the Indenture have been complied with; and if, in any such case, the Issuer shall also pay or cause to be paid all other sums payable hereunder by the Issuer (including all amounts, payable to the Senior Trustee pursuant to Section 7.07), then, (x) after satisfying the conditions in clause (a), only the Company's obligations under Sections 7.07 and 8.04 will survive or (y) after satisfying the conditions in clause (b), only the Issuer's or the Company's, as applicable, obligations in Article 2 and Sections 4.01, 4.02, 7.07, 7.08, 8.04, 8.05 and 8.06 will survive, and, in either case, the Senior Trustee, on demand of the Issuer accompanied by an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the satisfaction and discharge contemplated by this provision have been complied with, and at the cost and expense of the Issuer, shall execute proper instruments acknowledging such satisfaction and discharging of this Indenture. The Issuer agrees to reimburse the Senior Trustee for any costs or

expenses thereafter reasonably and properly incurred, and to compensate the Senior Trustee for any services thereafter reasonably and properly rendered, by the Senior Trustee in connection with this Indenture or the Notes.

ARTICLE 9 AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 9.01. Amendments Without Consent of Holders. The Company, the Issuer, the Guarantors and the Senior Trustee may amend, supplement or waive the Indenture or the Notes without notice to or the consent of any Holder:

- (a) to convey, transfer, assign, mortgage or pledge to the Senior Trustee as security for the Notes any property or assets;
- (b) to evidence the succession of another Person to the Issuer or the Company or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer or the Company herein and in the Notes or the Guarantees;
- (c) to add to the covenants of the Issuer or the Company such further covenants, restrictions, conditions or provisions for the protection of the Holders of Notes, or to surrender any right or power herein conferred upon the Issuer or the Company, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; *provided, however*, that in respect of any such additional covenants, restrictions, conditions or provisions such amendment, supplemented indenture or waiver may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the Senior Trustee upon such an Event of Default or may limit the right of the Holders of a majority in aggregate principal amount of the Notes to waive such an Event of Default;
- (d) to confirm and evidence the termination or discharge of any Guarantee of or Lien securing the Notes when such release, termination or discharge is permitted by the Indenture;
- (e) to cure any ambiguity, defect or inconsistency in the Indenture or the Notes;
- (f) to evidence compliance with Section 4.14;

- (g) to comply with any requirements of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act;
- (h) to evidence and provide for the acceptance of appointment hereunder by a successor Senior Trustee;
- (i) to provide for uncertificated Notes in addition to, or in place of, Certificated Notes;
- (j) to provide for any Guarantee of the Notes, to secure the Notes or to confirm and evidence the release, termination or discharge of any Guarantee of or Lien securing the Notes when such release, termination or discharge is permitted by the Indenture;
- (k) to provide for or confirm the issuance of Additional Notes; or
- (l) to make any other change that does not adversely affect the legal rights of any Holder.

Section 9.02. Amendments With Consent of Holders. (a) Except as otherwise provided in Sections 5.01, 5.03 and 5.06 or paragraph (b), the Company, the Issuer, the Guarantors and the Senior Trustee may amend or supplement the Indenture and the Notes with the written consent of the Holders of a majority in principal amount of the outstanding Notes (which may include consents obtained in connection with a tender offer or exchange offer), and the Holders of a majority in principal amount of the outstanding Notes by written notice to the Senior Trustee may waive future compliance by the Company, the Issuer and the Guarantors with any provision of the Indenture or the Notes (which may include waivers obtained in connection with a tender offer or exchange offer).

- (b) Notwithstanding the provisions of paragraph (a), without the consent of each Holder affected, an amendment or waiver may not:
 - (i) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver,
 - (ii) reduce the rate of, or change the time for payment of, any interest, including default interest, on any Note,
 - (iii) reduce principal of, or change the fixed maturity of, any Note or alter the provisions (including related definitions) with respect to redemptions described under Article 3 or with respect to mandatory offers to repurchase Notes described under Section 4.10 and Section 4.12,

- (iv) make any Note payable in money other than that stated in the Note,
- (v) modify the ranking or priority of the Notes or any Guarantee,
- (vi) make any change in Sections 5.03 or 5.06,
- (vii) release any Guarantor from any of its obligations under its Guarantee or the Indenture otherwise than in accordance with the Indenture, or
- (viii) waive a continuing Default or Event of Default in the payment of principal of, premium, if any, or interest or Additional Interest, if any, on the Notes.

(c) It is not necessary for Holders to approve the particular form of any proposed amendment, supplement or waiver, but is sufficient if their consent approves the substance thereof.

(d) An amendment, supplement or waiver under this Section will become effective on receipt by the Senior Trustee of written consents from the Holders of the requisite percentage in principal amount of the outstanding Notes. After an amendment, supplement or waiver under this Section becomes effective, the Issuer (or the Senior Trustee at the request and expense of the Issuer) will send to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. The Issuer will send supplemental indentures to Holders upon request. Any failure of the Issuer to send such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such supplemental indenture, amendment or waiver.

Section 9.03. Effect of Consent. (a) After an amendment, supplement or waiver becomes effective, it will bind every Holder unless it is of the type requiring the consent of each Holder affected. If the amendment, supplement or waiver is of the type requiring the consent of each Holder affected, the amendment, supplement or waiver will bind each Holder that has consented to it and every subsequent Holder of a Note that evidences the same debt as the Note of the consenting Holder.

(b) If an amendment, supplement or waiver changes the terms of a Note, the Senior Trustee may require the Holder to deliver it to the Senior Trustee so that the Senior Trustee may place an appropriate notation of the changed terms on the Note and return it to the Holder, or exchange it for a new Note that reflects the changed terms. The Senior Trustee may also place an appropriate notation on any Note thereafter authenticated. However, the effectiveness of the amendment,

supplement or waiver shall not be affected or impaired by any failure to annotate or exchange Notes in this fashion.

Section 9.04. Senior Trustee's Rights and Obligations. The Senior Trustee is entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating (i) that the execution of any amendment, supplement or waiver authorized pursuant to this Article is authorized or permitted by the Indenture and (ii) in the case of an amendment, supplement or waiver in connection with Section 9.01(l) that such amendment, supplement or waiver does not adversely affect the legal rights of any Holder of Notes affected by such change. If the Senior Trustee has received such an Opinion of Counsel, it shall sign the amendment, supplement or waiver so long as the same does not adversely affect the rights of the Senior Trustee. The Senior Trustee may, but is not obligated to, execute any amendment, supplement or waiver that affects the Senior Trustee's own rights, duties or immunities under the Indenture.

Section 9.05. Conformity with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

Section 9.06. Payments for Consents. Neither the Issuer, the Company nor any of its Subsidiaries or Affiliates may, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders of Notes that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to the consent, waiver or amendment.

ARTICLE 10 RELEASE OF ISSUER AND GUARANTORS

Section 10.01. Release of Issuer. (a) The Issuer shall be released from its obligations under this Indenture and the Notes, without the consent of the Holders, if: (1) the Company or any successor to the Company has assumed the obligations of the Issuer under this Indenture and the Notes, by supplemental indenture executed and delivered to the Senior Trustee and satisfactory in form to the Senior Trustee, (2) the Company delivers an Opinion of Counsel to the Senior Trustee to the effect that Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such release and such Holders will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such release had not occurred and (3) the Issuer shall (w) become a Guarantor subject

to the provisions of Article 6 and Section 4.11 hereof, (x) execute a Guarantee, (y) execute a supplemental indenture evidencing its Guarantee and (z) deliver an Opinion of Counsel to the Senior Trustee to the effect that the supplemental indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms (subject to customary exceptions).

(b) A Guarantor may be released from its obligations under the Indenture, the Notes and its Guarantee in accordance with the provisions contained in Section 6.03 herein.

ARTICLE 11
MISCELLANEOUS

Section 11.01. Trust Indenture Act of 1939. The Indenture shall incorporate and be governed by the provisions of the Trust Indenture Act that are required to be part of and to govern indentures qualified under the Trust Indenture Act. To the extent permitted by applicable law, in the event of any inconsistency between the terms of the Notes and the terms of the Indenture, the terms of the Indenture will control.

Section 11.02. Holder Communications; Holder Actions. (a) The rights of Holders to communicate with other Holders with respect to the Indenture or the Notes are as provided by the Trust Indenture Act, and the Company and the Issuer shall comply with the requirements of Trust Indenture Act Section 312(a). Neither the Company, the Issuer nor the Senior Trustee will be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

(b) (i) any request, demand, authorization, direction, notice, consent to amendment, supplement or waiver or other action provided by this Indenture to be given or taken by a Holder (an “act”) may be evidenced by an instrument signed by the Holder delivered to the Senior Trustee. The fact and date of the execution of the instrument, or the authority of the person executing it, may be proved in any manner that the Senior Trustee deems sufficient.

(ii) The Senior Trustee may make reasonable rules for action by or at a meeting of Holders, which will be binding on all the Holders.

(c) Any act by the Holder of any Note binds that Holder and every subsequent Holder of a Note that evidences the same debt as the Note of the acting Holder, even if no notation thereof appears on the Note. Subject to paragraph (d), a Holder may revoke an act as to its Notes, but only if the Senior

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Trustee receives the notice of revocation before the date the amendment or waiver or other consequence of the act becomes effective.

(d) The Issuer may, but is not obligated to, fix a record date (which need not be within the time limits otherwise prescribed by Trust Indenture Act Section 316(c)) for the purpose of determining the Holders entitled to act with respect to any amendment or waiver or in any other regard, except that during the continuance of an Event of Default, only the Senior Trustee may set a record date as to notices of Default, any declaration or acceleration or any other remedies or other consequences of the Event of Default. If a record date is fixed, those Persons that were Holders at such record date and only those Persons will be entitled to act, or to revoke any previous act, whether or not those Persons continue to be Holders after the record date. No act will be valid or effective for more than 90 days after the record date.

Section 11.03. Notices. (a) Any notice or communication to the Issuer or the Company will be deemed given if in writing (i) when delivered in person or (ii) five days after mailing when mailed by first class mail or (iii) when sent by facsimile transmission, with transmission confirmed. Notices or communications to a Guarantor will be deemed given if given to the Company. Any notice to the Senior Trustee will be effective only upon receipt. In each case the notice or communication should be addressed as follows:

if to the Issuer or the Company:

K. Hovnanian Enterprises, Inc.
10 Highway 35
P.O. Box 500
Red Bank, NJ 07701
Facsimile: (732) 747-7159
Attention: General Counsel

if to the Senior Trustee:

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
ATTN: Corporate Trust Administration
(K. Hovnanian Enterprises, Inc. Senior
Notes due 2015)
Facsimile: (973) 682-4531

The Issuer or the Senior Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

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(b) Except as otherwise expressly provided with respect to published notices, any notice or communication to a Holder will be deemed given when mailed to the Holder at its address as it appears on the Register by first class mail or, as to any Global Note registered in the name of DTC or its nominee, as agreed by the Issuer, the Senior Trustee and DTC. Copies of any notice or communication to a Holder, if given by the Issuer or the Company, will be mailed to the Senior Trustee at the same time. Defect in mailing a notice or communication to any particular Holder will not affect its sufficiency with respect to other Holders.

(c) Where the Indenture provides for notice, the notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and the waiver will be the equivalent of the notice. Waivers of notice by Holders must be filed with the Senior Trustee, but such filing is not a condition precedent to the validity of any action taken in reliance upon such waivers.

Section 11.04. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Issuer or the Company to the Senior Trustee to take any action under the Indenture, the Issuer or the Company will furnish to the Senior Trustee:

- (a) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with; and
- (b) an Opinion of Counsel stating that all such conditions precedent relating to the proposed action have been complied with.

Section 11.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a condition or covenant provided for in the Indenture must include:

- (a) a statement that each person signing the certificate or opinion has read the covenant or condition and the related definitions;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in the certificate or opinion is based;
- (c) a statement that, in the opinion of each such person, that person has made such examination or investigation as is necessary to enable the person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

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- (d) a statement as to whether or not, in the opinion of each such person, such condition or covenant has been complied with, *provided*, that an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials with respect to matters of fact.

Any certificate, statement or opinion of an Officer of the Issuer or the Company, as applicable, may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such Officer knows that the certificate or opinion or representations with respect to the matters upon which such certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement or Opinion of Counsel may be based, insofar as it relates to factual matters on information with respect to which is in the possession of the Issuer, or the Company, as applicable, upon the certificate, statement or opinion of or representations by an officer or officers of the Issuer, or the Company, as applicable, unless such counsel knows that the certificate, statement or opinion or representations with respect to the matters upon which such certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate, statement or opinion of an Officer of the Issuer or the Company, as applicable, or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of the Issuer or the Company, as applicable, unless such Officer or counsel, as the case may be, knows that the certificate or opinion or representations with respect to the accounting matters upon which such certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate or opinion of any independent firm of public accountants filed with and directed to the Senior Trustee shall contain a statement that such firm is independent.

Section 11.06. Payment Date Other Than a Business Day. If any payment with respect to a payment of any principal of, premium, if any, or interest or Additional Interest, if any, on any Note (including any payment to be made on any date fixed for redemption or purchase of any Note) is due on a day which is not a Business Day, then the payment need not be made on such date, but may be made on the next Business Day with the same force and effect as if made on such date, and no interest will accrue for the intervening period.

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Section 11.07. Governing Law. The Indenture, the Guarantees and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 11.08. No Adverse Interpretation of Other Agreements. The Indenture may not be used to interpret another indenture or loan or debt agreement of the Issuer, the Company or any Subsidiary of the Company, and no such indenture or loan or debt agreement may be used to interpret the Indenture.

Section 11.09. Successors. All agreements of the Issuer, the Company or any Guarantor in the Indenture and the Notes will bind its successors. All agreements of the Senior Trustee in the Indenture will bind its successor.

Section 11.10. Duplicate Originals. The parties may sign any number of copies of the Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 11.11. Separability. To the extent permitted by applicable law, in case any provision in the Indenture or in the Notes is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

Section 11.12. Table of Contents and Headings. The Table of Contents, Cross-Reference Table and headings of the Articles and Sections of the Indenture have been inserted for convenience of reference only, are not to be considered a part of the Indenture and in no way modify or restrict any of the terms and provisions of the Indenture.

Section 11.13. No Liability of Directors, Officers, Employees, Partners, Incorporators and Stockholders. No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in the Notes, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such or against any past, present or future stockholder, officer, director or employee, as such, of the Issuer, the Company or the Guarantors or any partner

of the Issuer, the Company or the Guarantors or of any successor, either directly or through the Issuer, the Company or the Guarantors or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Notes by the Holders thereof and as part of the consideration for the issue of the Notes.

Section 11.14. *Provisions of Indenture for the Sole Benefit of Parties and Holders of Notes.* Nothing in this Indenture or in the Notes, expressed or implied, shall give or be construed to give to any Person, other than the parties hereto and their successors and the Holders of Notes, any legal or equitable right, remedy or

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claim under this Indenture or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors and of the Holders of Notes.

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SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused the Indenture to be duly executed as of the date first written above.

K. HOVNIANIAN ENTERPRISES, INC.,
as Issuer

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Executive Vice-President and
Chief Financial Officer

HOVNIANIAN ENTERPRISES, INC.,
as the Company and a Guarantor

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Executive Vice-President and
Chief Financial Officer

On behalf of each entity named in
Schedule A hereto, as a Guarantor

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Authorized Officer

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Senior Trustee

By: /s/ Stephanie Roche
Name: Stephanie Roche
Title: Vice President

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[signature page to the Indenture]

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SCHEDULE A

Guarantors

ALL SEASONS, INC.
ARROW PROPERTIES, INC.
CONDOMINIUM COMMUNITY (BOWIE NEW TOWN), INC.
CONDOMINIUM COMMUNITY (LARGO TOWN), INC.
CONDOMINIUM COMMUNITY (PARK PLACE), INC.

CONDOMINIUM COMMUNITY (QUAIL RUN), INC.
CONDOMINIUM COMMUNITY (TRUMAN DRIVE), INC.
CONSULTANTS CORPORATION
DESIGNED CONTRACTS, INC.
EDISON CONTRACT SERVICES, L.L.C.
EXC, INC.
FORTIS HOMES, INC.
HOUSING-HOME SALES, INC.
HOVNANIAN DEVELOPMENTS OF FLORIDA, INC.
K. HOV INTERNATIONAL, INC.
K. HOV IP, II, INC.
K. HOV IP, INC.
K. HOVNANIAN ACQUISITIONS, INC.
K. HOVNANIAN AT ALISO, L.L.C.
K. HOVNANIAN AT ASHBURN VILLAGE, INC.
K. HOVNANIAN AT BALLANTRAE ESTATES, INC.
K. HOVNANIAN AT BARRINGTON, INC.
K. HOVNANIAN AT BELLA LAGO, L.L.C.
K. HOVNANIAN AT BELMONT, INC.
K. HOVNANIAN AT BERNARDS IV, INC.
K. HOVNANIAN AT BRANCBURG III, INC.
K. HOVNANIAN AT BRIDGEPORT, INC.
K. HOVNANIAN AT BRIDGEWATER VI, INC.
K. HOVNANIAN AT BRIDLEWOOD, L.L.C.
K. HOVNANIAN AT BULL RUN, INC.
K. HOVNANIAN AT BURLINGTON III, INC.
K. HOVNANIAN AT BURLINGTON, INC.
K. HOVNANIAN AT CALABRIA, INC.
K. HOVNANIAN AT CAPISTRANO, L.L.C.
K. HOVNANIAN AT CAMERON CHASE, INC.
K. HOVNANIAN AT CARMEL DEL MAR, INC.
K. HOVNANIAN AT CASTILE, INC.
K. HOVNANIAN AT CEDAR GROVE I, INC.
K. HOVNANIAN AT CEDAR GROVE II, INC.
K. HOVNANIAN AT CEDAR GROVE IV, L.L.C.
K. HOVNANIAN AT CHAPARRAL, INC.
K. HOVNANIAN AT CHESTERFIELD, L.L.C.

K. HOVNANIAN AT CITY IN THE HILLS, L.L.C.
K. HOVNANIAN AT CLARKSTOWN, INC.
K. HOVNANIAN AT CRESTLINE, INC.
K. HOVNANIAN AT DEPTFORD TOWNSHIP, L.L.C.
K. HOVNANIAN AT DOMINGUEZ HILLS, INC.
K. HOVNANIAN AT DOMINION RIDGE, INC.
K. HOVNANIAN AT EAST BRUNSWICK VI, INC.
K. HOVNANIAN AT EAST WHITELAND I, INC.
K. HOVNANIAN AT EXETER HILLS, INC.
K. HOVNANIAN AT FAIR LAKES GLEN, INC.
K. HOVNANIAN AT FAIR LAKES, INC.
K. HOVNANIAN AT FLORENCE I, L.L.C.
K. HOVNANIAN AT FLORENCE II, L.L.C.
K. HOVNANIAN AT FRANKLIN, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT GASLAMP SQUARE, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN, INC.
K. HOVNANIAN AT HAMPTON OAKS, INC.
K. HOVNANIAN AT HAWTHORNE, L.L.C.
K. HOVNANIAN AT HERSHEY'S MILL, INC.
K. HOVNANIAN AT HIGHLAND VINEYARDS, INC.
K. HOVNANIAN AT HIGHWATER, L.L.C.
K. HOVNANIAN AT HOLLY CREST, INC.
K. HOVNANIAN AT HOPEWELL IV, INC.
K. HOVNANIAN AT HOPEWELL VI, INC.
K. HOVNANIAN AT HOWELL TOWNSHIP, INC.
K. HOVNANIAN AT HUDSON POINT, L.L.C.
K. HOVNANIAN AT HUNTER ESTATES, INC.
K. HOVNANIAN AT KINGS GRANT I, INC.
K. HOVNANIAN AT KLOCKNER FARMS, INC.
K. HOVNANIAN AT LA TERRAZA, INC.
K. HOVNANIAN AT LA TROVATA, INC.
K. HOVNANIAN AT LAKEWOOD, INC.
K. HOVNANIAN AT LOWER SAUCON II, INC.

K. HOVNANIAN AT LOWER SAUCON, INC.
K. HOVNANIAN AT MAHWAH II, INC.
K. HOVNANIAN AT MAHWAH V, INC.
K. HOVNANIAN AT MAHWAH VI, INC.
K. HOVNANIAN AT MAHWAH VII, INC.
K. HOVNANIAN AT MANALAPAN, INC.
K. HOVNANIAN AT MARLBORO II, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IV, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP III, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IX, L.L.C.

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K. HOVNANIAN AT MENIFEE VALLY, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.
K. HOVNANIAN OF METRO DC SOUTH, INC.
K. HOVNANIAN AT MILLVILLE I, L.L.C.
K. HOVNANIAN AT MONROE II, INC.
K. HOVNANIAN AT MONTCLAIR NJ, INC.
K. HOVNANIAN AT MONTCLAIR, INC.
K. HOVNANIAN AT MONTGOMERY I, INC.
K. HOVNANIAN AT MONTVALE, L.L.C.
K. HOVNANIAN AT NORTH BERGEN II, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL II, L.L.C.
K. HOVNANIAN AT NORTHERN WESTCHESTER, INC.
K. HOVNANIAN AT NORTHLAKE, INC.
K. HOVNANIAN AT OCEAN TOWNSHIP, INC.
K. HOVNANIAN AT OCEAN WALK, INC.
K. HOVNANIAN AT P.C. PROPERTIES, INC.
K. HOVNANIAN AT PARK RIDGE, INC.
K. HOVNANIAN AT PERKIOMEN I, INC.
K. HOVNANIAN AT PERKIOMEN II, INC.
K. HOVNANIAN AT PITTSBORO, L.L.C.
K. HOVNANIAN AT PLAINSBORO III, INC.
K. HOVNANIAN AT PRINCETON, INC.
K. HOVNANIAN AT RANCHO CHRISTIANITOS, INC.
K. HOVNANIAN AT RESERVOIR RIDGE, INC.
K. HOVNANIAN AT RIVER OAKS, INC.
K. HOVNANIAN AT SAN SEVAINE, INC.
K. HOVNANIAN AT SARATOGA, INC.
K. HOVNANIAN AT SCOTCH PLAINS II, INC.
K. HOVNANIAN AT SCOTCH PLAINS, INC.
K. HOVNANIAN AT SCOTCH PLAINS, L.L.C.
K. HOVNANIAN AT SMITHVILLE, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK III, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK V, INC.
K. HOVNANIAN AT STONE CANYON, INC.
K. HOVNANIAN AT STONY POINT, INC.
K. HOVNANIAN AT STUART ROAD, INC.
K. HOVNANIAN AT SULLY STATION, INC.
K. HOVNANIAN AT SUMMERWOOD, INC.
K. HOVNANIAN AT SYCAMORE, INC.
K. HOVNANIAN AT TANNERY HILL, INC.
K. HOVNANIAN AT TEANECK, L.L.C.
K. HOVNANIAN AT THE BLUFF, INC.
K. HOVNANIAN AT THE CEDARS, INC.
K. HOVNANIAN AT THE CROSBY, L.L.C.

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K. HOVNANIAN AT THE GLEN, INC.
K. HOVNANIAN AT THE PRESERVE, L.L.C.
K. HOVNANIAN AT THORNBURY, INC.
K. HOVNANIAN AT TIERRASANTA, INC.
K. HOVNANIAN AT TUXEDO, INC.
K. HOVNANIAN AT UNION TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER MAKEFIELD I, INC.
K. HOVNANIAN AT VAIL RANCH, INC.
K. HOVNANIAN AT WALL TOWNSHIP VI, INC.
K. HOVNANIAN AT WALL TOWNSHIP VIII, INC.
K. HOVNANIAN AT WASHINGTONVILLE, INC.
K. HOVNANIAN AT WAYNE III, INC.

K. HOVNIANIAN AT WAYNE V, INC.
K. HOVNIANIAN AT WILDROSE, INC.
K. HOVNIANIAN AT WOODMONT, INC.
K. HOVNIANIAN AT WOOLWICH I, L.L.C.
K. HOVNIANIAN AT YONKERS I, L.L.C.
K. HOVNIANIAN AT YONKERS II, L.L.C.
K. HOVNIANIAN COMPANIES NORTHEAST, INC.
K. HOVNIANIAN COMPANIES OF CALIFORNIA, INC.
K. HOVNIANIAN COMPANIES OF MARYLAND, INC.
K. HOVNIANIAN COMPANIES OF METRO WASHINGTON, INC.
K. HOVNIANIAN COMPANIES OF NEW YORK, INC.
K. HOVNIANIAN COMPANIES OF NORTH CAROLINA, INC.
K. HOVNIANIAN COMPANIES OF PENNSYLVANIA, INC.
K. HOVNIANIAN COMPANIES OF SOUTHERN CALIFORNIA, INC.
K. HOVNIANIAN CONSTRUCTION MANAGEMENT, INC.
K. HOVNIANIAN DEVELOPMENTS OF ARIZONA, INC.
K. HOVNIANIAN DEVELOPMENTS OF CALIFORNIA, INC.
K. HOVNIANIAN DEVELOPMENTS OF MARYLAND, INC.
K. HOVNIANIAN DEVELOPMENTS OF METRO WASHINGTON, INC.
K. HOVNIANIAN DEVELOPMENTS OF MICHIGAN, INC.
K. HOVNIANIAN DEVELOPMENTS OF NEW JERSEY II, INC.
K. HOVNIANIAN DEVELOPMENTS OF NEW JERSEY, INC.
K. HOVNIANIAN DEVELOPMENTS OF NEW YORK, INC.
K. HOVNIANIAN DEVELOPMENTS OF OHIO, INC.
K. HOVNIANIAN DEVELOPMENTS OF PENNSYLVANIA, INC.
K. HOVNIANIAN DEVELOPMENTS OF SOUTH CAROLINA, INC.
K. HOVNIANIAN DEVELOPMENTS OF TEXAS, INC.
K. HOVNIANIAN DEVELOPMENTS OF WEST VIRGINIA, INC.
K. HOVNIANIAN EQUITIES, INC.
K. HOVNIANIAN FORECAST HOMES, INC.
K. HOVNIANIAN'S FOUR SEASONS AT ASHBURN VILAGE, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.

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K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY CONDOMINIUM, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND CONDOMINIUMS, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT MENIFEE VALLEY, L.L.C.
K. HOVNIANIAN HOMES AT FAIRWOOD, L.L.C.
K. HOVNIANIAN HOMES OF D.C., L.L.C.
K. HOVNIANIAN HOMES OF DELAWARE, L.L.C.
K. HOVNIANIAN HOMES OF MINNESOTA, L.L.C.
K. HOVNIANIAN HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNIANIAN INVESTMENT PROPERTIES OF NEW JERSEY, INC.
K. HOVNIANIAN MARINE, INC.
K. HOVNIANIAN PA REAL ESTATE, INC.
K. HOVNIANIAN PORT IMPERIAL URBAN RENEWAL, INC.
K. HOVNIANIAN PROPERTIES OF NEWARK URBAN RENEWAL CORPORATION, INC.
K. HOVNIANIAN PROPERTIES OF NORTH BRUNSWICK V, INC.
K. HOVNIANIAN PROPERTIES OF PISCATAWAY, INC.
K. HOVNIANIAN PROPERTIES OF RED BANK, INC.
K. HOVNIANIAN PROPERTIES OF WALL, INC.
KHC ACQUISITION, INC.
LANDARAMA, INC.
M&M AT LONG BRANCH, INC.
MATZEL & MUMFORD OF DELAWARE, INC.
MATZEL & MUMFORD AT EGG HARBOR, L.L.C.
MCNJ, INC.
PINE BROOK COMPANY, INC.
QUE CORPORATION
REFLECTIONS OF YOU INTERIORS, INC.
SEABROOK ACCUMULATION CORPORATION
STONEBROOK HOMES, INC.
THE MATZEL & MUMFORD ORGANIZATION, INC.
THE NEW FORTIS CORPORATION
THE SOUTHAMPTON CORPORATION
WASHINGTON HOMES AT CAMERON STATION, L.L.C.
WASHINGTON HOMES AT RUSSETT, L.L.C.
WASHINGTON HOMES OF WEST VIRGINIA, INC.
WASHINGTON HOMES, INC.
WASHINGTON HOMES, INC. OF VIRGINIA
WESTMINSTER HOMES (CHARLOTTE), INC.

WH LAND I, INC
WH LAND II, INC.
WH PROPERTIES, INC.
ARBOR WEST, L.L.C.
DULLES COPPERMINE, L.L.C.
K. HOVNANIAN AT 4S, L.L.C.
K. HOVNANIAN AT ACQUA VISTA, L.L.C.
K. HOVNANIAN AT ARBOR HEIGHTS, LLC
K. HOVNANIAN AT ASHBURN VILLAGE, L.L.C.
K. HOVNANIAN AT BARNEGAT I, L.L.C.
K. HOVNANIAN AT BERKELEY, L.L.C.
K. HOVNANIAN AT BERNARDS V, L.L.C.
K. HOVNANIAN AT BLOOMS CROSSING, L.L.C.
K. HOVNANIAN AT BLUE HERON PINES, L.L.C.
K. HOVNANIAN AT BRENBROOKE, L.L.C.
K. HOVNANIAN AT BRIDGEWATER I, L.L.C.
K. HOVNANIAN AT CAMDEN I, L.L.C.
K. HOVNANIAN AT CARMEL VILLAGE, L.L.C.
K. HOVNANIAN AT CEDAR GROVE III, L.L.C.
K. HOVNANIAN AT CHESTER I, L.L.C.
K. HOVNANIAN AT CLIFTON, L.L.C.
K. HOVNANIAN AT CLIFTON II, L.L.C.
K. HOVNANIAN AT CORTEZ HILL, L.L.C.
K. HOVNANIAN AT CRANBURY, L.L.C.
K. HOVNANIAN AT CURRIES WOODS, L.L.C.
K. HOVNANIAN AT DENVILLE, L.L.C.
K. HOVNANIAN AT EASTLAKE, L.L.C.
K. HOVNANIAN AT EDGEWATER, L.L.C.
K. HOVNANIAN AT EDGEWATER II, L.L.C.
K. HOVNANIAN AT EGG HARBOR TOWNSHIP, L.L.C.
K. HOVNANIAN AT ENCINITAS RANCH, L.L.C.
K. HOVNANIAN AT FOREST MEADOWS, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP, L.L.C.
K. HOVNANIAN AT GREAT NOTCH, L.L.C.
K. HOVNANIAN AT GUTTENBERG, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN II, L.L.C.
K. HOVNANIAN AT HAMBURG, L.L.C.
K. HOVNANIAN AT HAMBURG CONTRACTORS, L.L.C.
K. HOVNANIAN AT JACKSON I, L.L.C.
K. HOVNANIAN AT JACKSON, L.L.C.
K. HOVNANIAN AT JERSEY CITY IV, L.L.C.
K. HOVNANIAN AT JERSEY CITY V URBAN RENEWAL CO., L.L.C.
K. HOVNANIAN AT KINCAID, L.L.C.
K. HOVNANIAN AT KING FARM, L.L.C.

K. HOVNANIAN AT LA COSTA, L.L.C.
K. HOVNANIAN AT LA HABRA KNOLLS, L.L.C.
K. HOVNANIAN AT LAFAYETTE ESTATES, L.L.C.
K. HOVNANIAN AT LAKE RIDGE CROSSING, L.L.C.
K. HOVNANIAN AT LAKE TERRAPIN, L.L.C.
K. HOVNANIAN AT LAWRENCE V, L.L.C.
K. HOVNANIAN AT LINWOOD, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR CONTRACTORS, L.L.C.
K. HOVNANIAN AT LONG BRANCH I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP II, L.L.C.
K. HOVNANIAN AT LOWER MAKEFIELD TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND II, L.L.C.
K. HOVNANIAN AT MANALAPAN II, L.L.C.
K. HOVNANIAN AT MANSFIELD I, LLC
K. HOVNANIAN AT MANSFIELD II, LLC
K. HOVNANIAN AT MANSFIELD III, L.L.C.
K. HOVNANIAN AT MARLBORO TOWNSHIP V, L.L.C.

K. HOVNIANIAN AT MARLBORO VI, L.L.C.
K. HOVNIANIAN AT MARLBORO VII, L.L.C.
K. HOVNIANIAN AT MIDDLE TOWNSHIP, L.L.C.
K. HOVNIANIAN AT MIDDLETOWN II, L.L.C.
K. HOVNIANIAN AT MIDDLETOWN, L.L.C.
K. HOVNIANIAN AT MONROE III, L.L.C.
K. HOVNIANIAN AT MOSAIC, L.L.C.
K. HOVNIANIAN AT MT. OLIVE TOWNSHIP, L.L.C.
K. HOVNIANIAN AT NORTH BERGEN, L.L.C.
K. HOVNIANIAN AT NORTH BRUNSWICK VI, L.L.C.
K. HOVNIANIAN AT NORTH CALDWELL, L.L.C.
K. HOVNIANIAN AT NORTH HALEDON, L.L.C.
K. HOVNIANIAN AT NORTH WILDWOOD, L.L.C.
K. HOVNIANIAN AT NORTHAMPTON, L.L.C.
K. HOVNIANIAN AT NORTHFIELD, L.L.C.
K. HOVNIANIAN AT OLD BRIDGE, L.L.C.
K. HOVNIANIAN AT OLDE ORCHARD, L.L.C.
K. HOVNIANIAN AT PACIFIC BLUFFS, L.L.C.
K. HOVNIANIAN AT PARAMUS, L.L.C.
K. HOVNIANIAN AT PARK LANE, L.L.C.
K. HOVNIANIAN AT RANCHO SANTA MARGARITA, L.L.C.
K. HOVNIANIAN AT RANDOLPH I, L.L.C.
K. HOVNIANIAN AT READINGTON II, L.L.C.
K. HOVNIANIAN AT RIVERBEND II, L.L.C.

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K. HOVNIANIAN AT RIVERBEND, L.L.C.
K. HOVNIANIAN AT RODERUCK. L.L.C.
K. HOVNIANIAN AT ROWLAND HEIGHTS, L.L.C.
K. HOVNIANIAN AT SAYREVILLE, L.L.C.
K. HOVNIANIAN AT SMITHVILLE III, L.L.C.
K. HOVNIANIAN AT SOMERS POINT, L.L.C.
K. HOVNIANIAN AT SOUTH AMBOY, L.L.C.
K. HOVNIANIAN AT SOUTH BANK, L.L.C.
K. HOVNIANIAN AT SOUTH BRUNSWICK, L.L.C.
K. HOVNIANIAN AT SPRING HILL ROAD, L.L.C.
K. HOVNIANIAN AT SUNSETS, L.L.C.
K. HOVNIANIAN AT THE GABLES, L.L.C.
K. HOVNIANIAN AT TRAIL RIDGE, L.L.C.
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP I, INC.
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP II, L.L.C.
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP III, L.L.C.
K. HOVNIANIAN AT UPPER UWCHLAN, L.L.C.
K. HOVNIANIAN AT UPPER UWCHLAN II, L.L.C.
K. HOVNIANIAN AT WANAQUE, L.L.C.
K. HOVNIANIAN AT WASHINGTON, L.L.C.
K. HOVNIANIAN AT WAYNE VIII, L.L.C.
K. HOVNIANIAN AT WAYNE IX, L.L.C.
K. HOVNIANIAN AT WEST MILFORD, L.L.C.
K. HOVNIANIAN AT WEST WINDSOR, L.L.C.
K. HOVNIANIAN AT WILLOW BROOK, L.L.C.
K. HOVNIANIAN AT WINCHESTER, L.L.C.
K. HOVNIANIAN AT WOODHILL ESTATES, L.L.C.
K. HOVNIANIAN CENTRAL ACQUISITIONS, L.L.C.
K. HOVNIANIAN COMPANIES OF METRO D.C. NORTH, L.L.C.
K. HOVNIANIAN COMPANIES, LLC
K. HOVNIANIAN CONSTRUCTION II, INC.
K. HOVNIANIAN CONSTRUCTION III, INC.
K. HOVNIANIAN DEVELOPMENTS OF D.C., INC.
K. HOVNIANIAN DEVELOPMENTS OF DELAWARE, INC.
K. HOVNIANIAN DEVELOPMENTS OF MINNESOTA, INC.
K. HOVNIANIAN EASTERN PENNSYLVANIA, L.L.C.
K. HOVNIANIAN ENTERPRISES, INC.
K. HOVNIANIAN FOUR SEASONS AT GOLD HILL, L.L.C.
K. HOVNIANIAN FOUR SEASONS AT HISTORIC VIRGINIA, L.L.C.
K. HOVNIANIAN GREAT WESTERN BUILDING COMPANY, L.L.C.
K. HOVNIANIAN GREAT WESTERN HOMES, L.L.C.
K. HOVNIANIAN HOLDINGS NJ, L.L.C.
K. HOVNIANIAN INVESTMENTS, L.L.C.
K. HOVNIANIAN NORTH CENTRAL ACQUISITIONS, L.L.C.

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K. HOVNANIAN NORTH JERSEY ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTHEAST SERVICES, L.L.C.
K. HOVNANIAN OHIO REALTY, L.L.C.
K. HOVNANIAN PENNSYLVANIA ACQUISITIONS, L.L.C.
K. HOVNANIAN SHORE ACQUISITIONS, L.L.C.
K. HOVNANIAN SOUTH JERSEY ACQUISITION, L.L.C.
K. HOVNANIAN SOUTHERN NEW JERSEY, L.L.C.
K. HOVNANIAN SUMMIT HOLDINGS, L.L.C.
K. HOVNANIAN SUMMIT HOMES, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF MICHIGAN, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF WEST VIRGINIA, L.L.C.
K. HOVNANIAN WINDWARD HOMES, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT HEMET, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT PALM SPRINGS, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT VINT HILL, L.L.C.
K. HOVNANIAN'S FOUR SEASONS, L.L.C.
K. HOVNANIAN'S PRIVATE HOME PORTFOLIO, L.L.C.
KHIP, LLC
KINGS COURT AT MONTGOMERY, L.L.C.
M&M AT APPLE RIDGE, L.L.C.
M&M AT BROOKHILL, L.L.C.
M&M AT CHESTERFIELD, L.L.C.
M&M AT EAST MILL, L.L.C.
M&M AT HERITAGE WOODS, L.L.C.
M&M AT KENSINGTON WOODS, L.L.C.
M&M AT MORRISTOWN, L.L.C.
M & M AT ROBERT MORRIS, L.L.C.
M&M AT SHERIDAN, L.L.C.
M & M AT SOUTH BOUND BROOK, L.L.C.
M&M AT SPARTA, L.L.C.
M&M AT SPINNAKER POINTE, L.L.C.
M&M AT SPRUCE HOLLOW, L.L.C.
M&M AT SPRUCE MEADOWS, L.L.C.
M&M AT SPRUCE RUN, L.L.C.
M&M AT THE HIGHLANDS, L.L.C.
M&M AT WEST ORANGE, L.L.C.
M&M AT WHEATENA URBAN RENEWAL, L.L.C.
MATZEL & MUMFORD AT CRANBURY KNOLL, L.L.C.
MATZEL & MUMFORD AT FREEHOLD, L.L.C.
MATZEL & MUMFORD AT HERITAGE LANDING, L.L.C.
MATZEL & MUMFORD AT MONTGOMERY, L.L.C.
MATZEL & MUMFORD AT PHILLIPSBURG, L.L.C.
MATZEL & MUMFORD AT SOUTH BRUNSWICK, L.L.C.

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MATZEL & MUMFORD AT WOODLAND CREST, L.L.C.
MMIP, L.L.C.
PADDOCKS, L.L.C.
RIDGEMORE UTILITY, L.L.C.
THE LANDINGS AT SPINNAKER POINTE, L.L.C.
WASHINGTON HOMES AT COLUMBIA TOWN CENTER, L.L.C.
WASHINGTON HOMES AT CAMP SPRINGS, L.L.C.
WASHINGTON HOMES AT FOREST RUN, L.L.C.
WASHINGTON HOMES AT LAUREL HIGHLANDS, L.L.C.
WASHINGTON HOMES AT RENAISSANCE PLAZA, L.L.C.
WASHINGTON HOMES OF MARYLAND I, L.L.C.
WESTMINSTER HOMES OF ALABAMA, L.L.C.
WESTMINSTER HOMES OF MISSISSIPPI, L.L.C.
WESTMINSTER HOMES OF SOUTH CAROLINA, L.L.C.
WOODLAND LAKES CONDOS AT BOWIE NEWTOWN, LLC
GOODMAN FAMILY OF BUILDERS, L.P.
K. HOVNANIAN OF HOUSTON II, L.P.
K. HOVNANIAN OF HOUSTON, L.P.
M & M INVESTMENTS, L.P.
WASHABAMA, L.P.

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[FACE OF NOTE]

K. HOVNIANIAN ENTERPRISES, INC.

6¹/₄ % Senior Notes Due 2015

No.

CUSIP No.: _____
\$ _____

K. Hovnianian Enterprises, Inc., a California corporation (the “**Issuer**,” which term includes any successor under the Indenture hereinafter referred to), for value received, promises to pay to _____, or its registered assigns, the principal sum of _____ DOLLARS (\$ _____), [or such other amount as is provided in a schedule attached hereto](1), on January 15, 2015.

Interest Rate: 6¹/₄ % per annum.

Interest Payment Dates: January 15 and July 15, commencing January 15, 2005.

Record Dates: January 1 and July 1.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which will for all purposes have the same effect as if set forth at this place.

(1) For Global Notes

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IN WITNESS WHEREOF, the Issuer has caused this Note to be signed manually or by facsimile by its duly authorized officer.

Dated:

K. HOVNIANIAN ENTERPRISES, INC.

By: _____
Name:
Title:

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[Form of] Senior Trustee’s Certificate of Authentication

This is one of the 6¹/₄% Senior Notes Due 2015 described in the Indenture referred to in this Note.

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Senior TrusteeBy: _____
Authorized Signatory

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[REVERSE SIDE OF NOTE]

K. HOVNIANIAN ENTERPRISES, INC.

6¹/₄% Senior Notes Due 2015

Capitalized terms used herein are used as defined in the Indenture referred to below unless otherwise indicated.

1. *Principal and Interest.*

K. Hovnianian Enterprises, Inc. (the “**Issuer**,” which term includes any successor under the Indenture hereinafter referred to), a California corporation, promises to pay the principal of this Note on January 15, 2015.

The Issuer promises to pay interest on the principal amount of this Note on each interest payment date, as set forth on the face of this Note, at the rate of 6¹/₄% per annum.

Interest will be payable semiannually (to the holders of record of the Notes at the close of business on the January 1 or July 1 immediately preceding the interest payment date) on each interest payment date, commencing January 15, 2005.

[The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated November 30, 2004, among the Issuer, the Guarantors party thereto and the Initial Purchasers named therein (the “**Registration Rights Agreement**”). In the event of a Registration Default (as defined in the Registration Rights Agreement), the Holder shall be entitled to Additional Interest as specified in the Registration Rights Agreement until the Registration Default is cured.](2)

Interest on this Note will accrue from the most recent date to which interest has been paid on this Note or the Note surrendered in exchange for this Note (or, if there is no existing default in the payment of interest and if this Note is authenticated between a regular record date and the next interest payment date, from such interest payment date) or, if no interest has been paid, from November 30, 2004. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

(2) For Initial Notes and Initial Additional Notes only.

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2. *Paying Agent and Registrar.*

Initially, Wachovia Bank, National Association (the “**Senior Trustee**”) will act as Paying Agent and Registrar. The Issuer may change or appoint any Paying Agent, Registrar or co-Registrar without notice to any Holder. The Issuer or any of its Subsidiaries may act as Paying Agent, Registrar or co-Registrar.

3. *Indenture; Guarantees.*

This is one of the Notes issued under an Indenture dated as of November 30, 2004 (as amended from time to time, the “**Indenture**”), among the Issuer, the Guarantors party thereto and the Senior Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The Notes are subject to all such terms, and Holders are referred to the Indenture and the Trust Indenture Act for a statement of all such terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture will control.

The Notes are general unsecured obligations of the Issuer. The Indenture limits the original aggregate principal amount of the Notes issued thereunder to \$200,000,000, but Additional Notes may be issued pursuant to the Indenture, and the originally issued Notes and all such Additional Notes vote together for all purposes as a single class. This Note is guaranteed by the Guarantors as set forth in the Indenture and the Guarantee endorsed hereon.

Reference is hereby made to the Indenture for a statement of the respective rights, duties and obligations thereunder of the Guarantors, the Senior Trustee and the Holders.

4. *Optional Redemption.*

The Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (a) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date; *plus*
- (b) the Make-Whole Amount.

The Senior Trustee shall have no responsibility in connection with the calculation of such redemption price.

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“**Make-Whole Amount**” means, in connection with any optional redemption of any Note, the excess, if any, of: (a) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the Business Day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over (b) the principal amount of the Note being redeemed.

“**Treasury Rate**” means, in connection with the calculation of any Make-Whole Amount with respect to any Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

If less than all of the Notes are to be redeemed at any time, the Senior Trustee will select Notes for redemption on a *pro rata* basis, by lot or by such other method as the Senior Trustee in its sole discretion shall deem appropriate and fair.

No Notes of \$1,000 in original principal amount or less shall be redeemed in part. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption.

5. *Mandatory Redemption.*

There is no sinking fund for, or mandatory redemption of, the Notes.

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6. *Discharge and Defeasance.*

If the Issuer deposits with the Senior Trustee money and/or U.S. Government Obligations sufficient to pay the then outstanding principal of, premium, interest and Additional Interest, if any, and accrued interest on the Notes to redemption or maturity, as the case may be, the Issuer, the Company and the Guarantors may in certain circumstances be discharged from the Indenture, the Notes and the Guarantees or may be discharged from certain of their obligations under certain provisions of the Indenture.

7. *Registered Form; Denominations; Transfer; Exchange.*

The Notes are in registered form only without coupons in denominations of \$1,000 principal amount and any multiple of \$1,000 in excess thereof. A Holder may register the transfer or exchange of Notes in accordance with the Indenture. The Senior Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Pursuant to the Indenture, there are certain periods during which the Senior Trustee will not be required to issue, register the transfer of, or exchange any Note or certain portions of a Note.

8. *Persons Deemed Owners.*

The registered Holder of this Note shall be treated as the owner of it for all purposes.

9. *Defaults and Remedies.*

If an Event of Default occurs and is continuing, the Senior Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable immediately. If a bankruptcy or insolvency default with respect to the Issuer or the Company occurs and is continuing, the Notes automatically become immediately due and payable. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Senior Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Senior Trustee in its exercise of remedies.

10. *Amendment, Supplement and Waiver.*

Subject to certain exceptions, the Indenture, the Notes and the Guarantees may be amended or supplemented, or future compliance therewith may be waived, with the consent of the Holders of a majority in principal amount of the outstanding Notes. Without notice to or the consent of any Holder, the Issuer, the

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Company, the Guarantors and the Senior Trustee may amend or supplement the Indenture, the Notes or the Guarantees to, among other things, cure any ambiguity, defect or inconsistency or if such amendment or supplement does not adversely affect the legal rights of any Holder.

11. *Senior Trustee Dealings With Issuer.*

The Senior Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Issuer or its affiliates, with the same rights as if it were not Senior Trustee; *however*, if it acquires any conflicting interest (as defined in the Trust Indenture Act), it must eliminate such conflict, apply to the Commission for permission to continue or resign.

12. *No Recourse Against Others.*

An incorporator, and any past, present or future director, officer, partner, employee or stockholder, as such, of the Issuer, the Company or the Guarantors shall not have any liability for any obligations of the Issuer, the Company or the Guarantors under the Notes, the Indenture or the Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

13. *Governing Law.*

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

14. *CUSIP Numbers.*

Pursuant to a recommendation promulgated by the Committee on Uniform Note Identification Procedures, the Issuer has caused CUSIP numbers to be printed on the Notes, and the Senior Trustee may use CUSIP numbers in notices as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice and reliance may be placed only on the other identification numbers placed thereon.

15. *Authentication.*

This Note is not valid until the Senior Trustee (or Authenticating Agent) manually signs the certificate of authentication on the other side of this Note.

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16. *Abbreviations.*

Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A/ (= Uniform Gifts to Minors Act).

The Issuer will furnish a copy of the Indenture to any Holder upon written request and without charge.

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[FORM OF TRANSFER NOTICE]

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto

Insert Social Security or Taxpayer Identification No.

Please print or typewrite name and address, including zip code, of assignee

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

agent to transfer this Note on the books of the Issuer with full power of substitution in the premises.

Dated: _____

Signed: _____
(sign exactly as name appears on the other side of this Note)

Signature Guarantee(3): _____

(3) Signatures must be guaranteed by an “**eligible guarantor institution**” meeting the requirements of the Registrar, which requirements include membership or participation in the Note Transfer Agent Medallion Program (“**STAMP**”) or such other “**signature guarantee program**” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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[THE FOLLOWING PROVISION TO BE INCLUDED ON ALL
CERTIFICATES BEARING A RESTRICTED LEGEND]

In connection with any transfer of this Note occurring prior to the date which is the date following the second anniversary of the original issuance of this Note, the undersigned confirms that such transfer is made without utilizing any general solicitation or general advertising in connection with the transfer and further as follows:

Check One

o (1) This Note is being transferred to a “qualified institutional buyer” in compliance with Rule 144A under the Securities Act of 1933, as amended, and certification in the form of Exhibit F to the Indenture is being furnished herewith.

o (2) This Note is being transferred to a non-“U.S. Person,” as defined in Rule 902 of Regulation S under the Securities Act in compliance with the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder, and certification in the form of Exhibit E to the Indenture is being furnished herewith.

or

o (3) This Note is being transferred other than in accordance with (1) or (2) above and documents are being furnished herewith which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked, the Senior Trustee is not obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in the Indenture have been satisfied.

Dated: _____

Transferor

Signed: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned

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instrument in every particular, without alteration or any change whatsoever.

Signature Guarantee:(4) _____

By: _____
(To be executed by an executive officer)

(4) Signatures must be guaranteed by an “**eligible guarantor institution**” meeting the requirements of the Registrar, which requirements include membership or participation in the Note Transfer Agent Medallion Program (“**STAMP**”) or such other “**signature guarantee program**” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have all of this Note purchased by the Issuer pursuant to Section 4.10 or Section 4.12 of the Indenture, check the box: o

If you wish to have a portion of this Note purchased by the Issuer pursuant to Section 4.10 or Section 4.12 of the Indenture, state the amount (in original principal amount) below:

\$.

Date: _____

Your Signature: _____

(Sign exactly as your name appears on the other side of this Note)

Signature Guarantee:(5) _____

(5) Signatures must be guaranteed by an “**eligible guarantor institution**” meeting the requirements of the Senior Trustee, which requirements include membership or participation in the Note Transfer Agent Medallion Program (“**STAMP**”) or such other “**signature guarantee program**” as may be determined by the Senior Trustee in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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SCHEDULE OF EXCHANGES OF INTERESTS IN GLOBAL NOTES(6)

The following exchanges of a part of this Global Note for Certificated Notes or an interest in another Global Note, or exchanges of a part of another Global Note or Certificated Note for an interest in this Global Note, have been made:

Date of Exchange	Amount of decrease in principal amount of this Global Note	Amount of increase in principal amount of this Global Note	Principal amount of this Global Note following such	Signature of authorized officer of Senior Trustee
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(6) For Global Notes

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[FORM OF NOTATION ON NOTE RELATING TO GUARANTEE]

GUARANTEE

The undersigned (the “**Guarantors**”) have unconditionally guaranteed, jointly and severally (such guarantee by each Guarantor being referred to herein as the “**Guarantee**”) (i) the due and punctual payment of the principal of and interest and Additional Interest, if any, on the Issuer’s 6¹/₄% Senior Notes due 2015 (the “**Notes**”), whether at maturity or on an interest payment date, by acceleration or otherwise, on the Notes, to the extent lawful, and of all other obligations of the Issuer to the Holders or the Senior Trustee all in accordance with the terms set forth in Article 6 of the Indenture and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

No past, present or future stockholder, officer, director, employee, partner or incorporator, as such, of any of the Guarantors shall have any liability under the Guarantee evidenced hereby by reason of such person’s status as stockholder, officer, director, employee, partner or incorporator. Each Holder of a Note by accepting a Note waives and releases all such liability. This waiver and release are part of the consideration for the issuance of the Guarantee.

Each Holder of a Note by accepting a Note agrees that any Guarantor named below shall have no further liability with respect to its Guarantee if such Guarantor otherwise ceases to be liable in respect of its Guarantee in accordance with the terms of the Indenture.

The Guarantee evidenced hereby shall not be valid or obligatory for any purpose until the certificate of authentication on the Notes upon which the Guarantee is noted shall have been executed by the Senior Trustee under the Indenture by the manual signature of one of its authorized officers.

This Guarantee shall be governed by, and construed in accordance with, the laws of the State of New York.

HOVNIANIAN ENTERPRISES, INC.
ALL SEASONS, INC.
ARROW PROPERTIES, INC.
CONDOMINIUM COMMUNITY (BOWIE NEW TOWN), INC.
CONDOMINIUM COMMUNITY (LARGO TOWN), INC.
CONDOMINIUM COMMUNITY (PARK PLACE), INC.

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CONDOMINIUM COMMUNITY (QUAIL RUN), INC.
CONDOMINIUM COMMUNITY (TRUMAN DRIVE), INC.
CONSULTANTS CORPORATION
DESIGNED CONTRACTS, INC.
EDISON CONTRACT SERVICES, L.L.C.
EXC, INC.
FORTIS HOMES, INC.
HOUSING-HOME SALES, INC.
HOVNIANIAN DEVELOPMENTS OF FLORIDA, INC.
K. HOV INTERNATIONAL, INC.
K. HOV IP, II, INC.
K. HOV IP, INC.
K. HOVNIANIAN ACQUISITIONS, INC.
K. HOVNIANIAN AT ALISO, L.L.C.
K. HOVNIANIAN AT ASHBURN VILLAGE, INC.
K. HOVNIANIAN AT BALLANTRAE ESTATES, INC.
K. HOVNIANIAN AT BARRINGTON, INC.
K. HOVNIANIAN AT BELLA LAGO, L.L.C.
K. HOVNIANIAN AT BELMONT, INC.
K. HOVNIANIAN AT BERNARDS IV, INC.
K. HOVNIANIAN AT BRANCHBURG III, INC.
K. HOVNIANIAN AT BRIDGEPORT, INC.
K. HOVNIANIAN AT BRIDGEWATER VI, INC.
K. HOVNIANIAN AT BRIDLEWOOD, L.L.C.
K. HOVNIANIAN AT BULL RUN, INC.
K. HOVNIANIAN AT BURLINGTON III, INC.
K. HOVNIANIAN AT BURLINGTON, INC.
K. HOVNIANIAN AT CALABRIA, INC.

K. HOVNANIAN AT CAPISTRANO, L.L.C.
K. HOVNANIAN AT CAMERON CHASE, INC.
K. HOVNANIAN AT CARMEL DEL MAR, INC.
K. HOVNANIAN AT CASTILE, INC.
K. HOVNANIAN AT CEDAR GROVE I, INC.
K. HOVNANIAN AT CEDAR GROVE II, INC.
K. HOVNANIAN AT CEDAR GROVE IV, L.L.C.
K. HOVNANIAN AT CHAPARRAL, INC.
K. HOVNANIAN AT CHESTERFIELD, L.L.C.
K. HOVNANIAN AT CITY IN THE HILLS, L.L.C.
K. HOVNANIAN AT CLARKSTOWN, INC.
K. HOVNANIAN AT CRESTLINE, INC.
K. HOVNANIAN AT DEPTFORD TOWNSHIP, L.L.C.
K. HOVNANIAN AT DOMINGUEZ HILLS, INC.
K. HOVNANIAN AT DOMINION RIDGE, INC.
K. HOVNANIAN AT EAST BRUNSWICK VI, INC.

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K. HOVNANIAN AT EAST WHITELAND I, INC.
K. HOVNANIAN AT EXETER HILLS, INC.
K. HOVNANIAN AT FAIR LAKES GLEN, INC.
K. HOVNANIAN AT FAIR LAKES, INC.
K. HOVNANIAN AT FLORENCE I, L.L.C.
K. HOVNANIAN AT FLORENCE II, L.L.C.
K. HOVNANIAN AT FRANKLIN, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT GASLAMP SQUARE, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN, INC.
K. HOVNANIAN AT HAMPTON OAKS, INC.
K. HOVNANIAN AT HAWTHORNE, L.L.C.
K. HOVNANIAN AT HERSHEY'S MILL, INC.
K. HOVNANIAN AT HIGHLAND VINEYARDS, INC.
K. HOVNANIAN AT HIGHWATER, L.L.C.
K. HOVNANIAN AT HOLLY CREST, INC.
K. HOVNANIAN AT HOPEWELL IV, INC.
K. HOVNANIAN AT HOPEWELL VI, INC.
K. HOVNANIAN AT HOWELL TOWNSHIP, INC.
K. HOVNANIAN AT HUDSON POINT, L.L.C.
K. HOVNANIAN AT HUNTER ESTATES, INC.
K. HOVNANIAN AT KINGS GRANT I, INC.
K. HOVNANIAN AT KLOCKNER FARMS, INC.
K. HOVNANIAN AT LA TERRAZA, INC.
K. HOVNANIAN AT LA TROVATA, INC.
K. HOVNANIAN AT LAKEWOOD, INC.
K. HOVNANIAN AT LOWER SAUCON II, INC.
K. HOVNANIAN AT LOWER SAUCON, INC.
K. HOVNANIAN AT MAHWAH II, INC.
K. HOVNANIAN AT MAHWAH V, INC.
K. HOVNANIAN AT MAHWAH VI, INC.
K. HOVNANIAN AT MAHWAH VII, INC.
K. HOVNANIAN AT MANALAPAN, INC.
K. HOVNANIAN AT MARLBORO II, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IV, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP III, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IX, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.
K. HOVNANIAN OF METRO DC SOUTH, INC.
K. HOVNANIAN AT MILLVILLE I, L.L.C.
K. HOVNANIAN AT MONROE II, INC.
K. HOVNANIAN AT MONTCLAIR NJ, INC.

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K. HOVNANIAN AT MONTCLAIR, INC.
K. HOVNANIAN AT MONTGOMERY I, INC.
K. HOVNANIAN AT MONTVALE, L.L.C.
K. HOVNANIAN AT NORTH BERGEN II, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL II, L.L.C.
K. HOVNANIAN AT NORTHERN WESTCHESTER, INC.
K. HOVNANIAN AT NORTHLAKE, INC.

K. HOVNANIAN AT OCEAN TOWNSHIP, INC.
K. HOVNANIAN AT OCEAN WALK, INC.
K. HOVNANIAN AT P.C. PROPERTIES, INC.
K. HOVNANIAN AT PARK RIDGE, INC.
K. HOVNANIAN AT PERKIOMEN I, INC.
K. HOVNANIAN AT PERKIOMEN II, INC.
K. HOVNANIAN AT PITTSBORO, L.L.C.
K. HOVNANIAN AT PLAINSBORO III, INC.
K. HOVNANIAN AT PRINCETON, INC.
K. HOVNANIAN AT RANCHO CHRISTIANITOS, INC.
K. HOVNANIAN AT RESERVOIR RIDGE, INC.
K. HOVNANIAN AT RIVER OAKS, INC.
K. HOVNANIAN AT SAN SEVAINE, INC.
K. HOVNANIAN AT SARATOGA, INC.
K. HOVNANIAN AT SCOTCH PLAINS II, INC.
K. HOVNANIAN AT SCOTCH PLAINS, INC.
K. HOVNANIAN AT SCOTCH PLAINS, L.L.C.
K. HOVNANIAN AT SMITHVILLE, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK III, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK V, INC.
K. HOVNANIAN AT STONE CANYON, INC.
K. HOVNANIAN AT STONY POINT, INC.
K. HOVNANIAN AT STUART ROAD, INC.
K. HOVNANIAN AT SULLY STATION, INC.
K. HOVNANIAN AT SUMMERWOOD, INC.
K. HOVNANIAN AT SYCAMORE, INC.
K. HOVNANIAN AT TANNERY HILL, INC.
K. HOVNANIAN AT TEANECK, L.L.C.
K. HOVNANIAN AT THE BLUFF, INC.
K. HOVNANIAN AT THE CEDARS, INC.
K. HOVNANIAN AT THE CROSBY, L.L.C.
K. HOVNANIAN AT THE GLEN, INC.
K. HOVNANIAN AT THE PRESERVE, L.L.C.
K. HOVNANIAN AT THORNBURY, INC.
K. HOVNANIAN AT TIERRASANTA, INC.
K. HOVNANIAN AT TUXEDO, INC.
K. HOVNANIAN AT UNION TOWNSHIP I, INC.

K. HOVNANIAN AT UPPER MAKEFIELD I, INC.
K. HOVNANIAN AT VAIL RANCH, INC.
K. HOVNANIAN AT WALL TOWNSHIP VI, INC.
K. HOVNANIAN AT WALL TOWNSHIP VIII, INC.
K. HOVNANIAN AT WASHINGTONVILLE, INC.
K. HOVNANIAN AT WAYNE III, INC.
K. HOVNANIAN AT WAYNE V, INC.
K. HOVNANIAN AT WILDROSE, INC.
K. HOVNANIAN AT WOODMONT, INC.
K. HOVNANIAN AT WOOLWICH I, L.L.C.
K. HOVNANIAN AT YONKERS I, L.L.C.
K. HOVNANIAN AT YONKERS II, L.L.C.
K. HOVNANIAN COMPANIES NORTHEAST, INC.
K. HOVNANIAN COMPANIES OF CALIFORNIA, INC.
K. HOVNANIAN COMPANIES OF MARYLAND, INC.
K. HOVNANIAN COMPANIES OF METRO WASHINGTON, INC.
K. HOVNANIAN COMPANIES OF NEW YORK, INC.
K. HOVNANIAN COMPANIES OF NORTH CAROLINA, INC.
K. HOVNANIAN COMPANIES OF PENNSYLVANIA, INC.
K. HOVNANIAN COMPANIES OF SOUTHERN CALIFORNIA, INC.
K. HOVNANIAN CONSTRUCTION MANAGEMENT, INC.
K. HOVNANIAN DEVELOPMENTS OF ARIZONA, INC.
K. HOVNANIAN DEVELOPMENTS OF CALIFORNIA, INC.
K. HOVNANIAN DEVELOPMENTS OF MARYLAND, INC.
K. HOVNANIAN DEVELOPMENTS OF METRO WASHINGTON, INC.
K. HOVNANIAN DEVELOPMENTS OF MICHIGAN, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY II, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW YORK, INC.
K. HOVNANIAN DEVELOPMENTS OF OHIO, INC.
K. HOVNANIAN DEVELOPMENTS OF PENNSYLVANIA, INC.
K. HOVNANIAN DEVELOPMENTS OF SOUTH CAROLINA, INC.
K. HOVNANIAN DEVELOPMENTS OF TEXAS, INC.
K. HOVNANIAN DEVELOPMENTS OF WEST VIRGINIA, INC.

K. HOVNIANIAN EQUITIES, INC.
K. HOVNIANIAN FORECAST HOMES, INC.
K. HOVNIANIAN'S FOUR SEASONS AT ASHBURN VILAGE, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY CONDOMINIUM, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND CONDOMINIUMS, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND, L.L.C.

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K. HOVNIANIAN'S FOUR SEASONS AT MENIFEE VALLEY, L.L.C.
K. HOVNIANIAN HOMES AT FAIRWOOD, L.L.C.
K. HOVNIANIAN HOMES OF D.C., L.L.C.
K. HOVNIANIAN HOMES OF DELAWARE, L.L.C.
K. HOVNIANIAN HOMES OF MINNESOTA, L.L.C.
K. HOVNIANIAN HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNIANIAN INVESTMENT PROPERTIES OF NEW JERSEY, INC.
K. HOVNIANIAN MARINE, INC.
K. HOVNIANIAN PA REAL ESTATE, INC.
K. HOVNIANIAN PORT IMPERIAL URBAN RENEWAL, INC.
K. HOVNIANIAN PROPERTIES OF NEWARK URBAN RENEWAL CORPORATION, INC.
K. HOVNIANIAN PROPERTIES OF NORTH BRUNSWICK V, INC.
K. HOVNIANIAN PROPERTIES OF PISCATAWAY, INC.
K. HOVNIANIAN PROPERTIES OF RED BANK, INC.
K. HOVNIANIAN PROPERTIES OF WALL, INC.
KHC ACQUISITION, INC.
LANDARAMA, INC.
M&M AT LONG BRANCH, INC.
MATZEL & MUMFORD OF DELAWARE, INC.
MATZEL & MUMFORD AT EGG HARBOR, L.L.C.
MCNJ, INC.
PINE BROOK COMPANY, INC.
QUE CORPORATION
REFLECTIONS OF YOU INTERIORS, INC.
SEABROOK ACCUMULATION CORPORATION
STONEBROOK HOMES, INC.
THE MATZEL & MUMFORD ORGANIZATION, INC.
THE NEW FORTIS CORPORATION
THE SOUTHAMPTON CORPORATION
WASHINGTON HOMES AT CAMERON STATION, L.L.C.
WASHINGTON HOMES AT RUSSETT, L.L.C.
WASHINGTON HOMES OF WEST VIRGINIA, INC.
WASHINGTON HOMES, INC.
WASHINGTON HOMES, INC. OF VIRGINIA
WESTMINSTER HOMES (CHARLOTTE), INC.
WESTMINSTER HOMES OF TENNESSEE, INC.
WESTMINSTER HOMES, INC.
WH LAND I, INC
WH LAND II, INC.
WH PROPERTIES, INC.
ARBOR WEST, L.L.C.
DULLES COPPERMINE, L.L.C.
K. HOVNIANIAN AT 4S, L.L.C.

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K. HOVNIANIAN AT ACQUA VISTA, L.L.C.
K. HOVNIANIAN AT ARBOR HEIGHTS, LLC
K. HOVNIANIAN AT ASHBURN VILLAGE, L.L.C.
K. HOVNIANIAN AT BARNEGAT I, L.L.C.
K. HOVNIANIAN AT BERKELEY, L.L.C.
K. HOVNIANIAN AT BERNARDS V, L.L.C.
K. HOVNIANIAN AT BLOOMS CROSSING, L.L.C.
K. HOVNIANIAN AT BLUE HERON PINES, L.L.C.
K. HOVNIANIAN AT BRENBROOKE, L.L.C.
K. HOVNIANIAN AT BRIDGEWATER I, L.L.C.
K. HOVNIANIAN AT CAMDEN I, L.L.C.
K. HOVNIANIAN AT CARMEL VILLAGE, L.L.C.
K. HOVNIANIAN AT CEDAR GROVE III, L.L.C.
K. HOVNIANIAN AT CHESTER I, L.L.C.

K. HOVNANIAN AT CLIFTON, L.L.C.
K. HOVNANIAN AT CLIFTON II, L.L.C.
K. HOVNANIAN AT CORTEZ HILL, L.L.C.
K. HOVNANIAN AT CRANBURY, L.L.C.
K. HOVNANIAN AT CURRIES WOODS, L.L.C.
K. HOVNANIAN AT DENVILLE, L.L.C.
K. HOVNANIAN AT EASTLAKE, L.L.C.
K. HOVNANIAN AT EDGEWATER, L.L.C.
K. HOVNANIAN AT EDGEWATER II, L.L.C.
K. HOVNANIAN AT EGG HARBOR TOWNSHIP, L.L.C.
K. HOVNANIAN AT ENCINITAS RANCH, L.L.C.
K. HOVNANIAN AT FOREST MEADOWS, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP, L.L.C.
K. HOVNANIAN AT GREAT NOTCH, L.L.C.
K. HOVNANIAN AT GUTTENBERG, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN II, L.L.C.
K. HOVNANIAN AT HAMBURG, L.L.C.
K. HOVNANIAN AT HAMBURG CONTRACTORS, L.L.C.
K. HOVNANIAN AT JACKSON I, L.L.C.
K. HOVNANIAN AT JACKSON, L.L.C.
K. HOVNANIAN AT JERSEY CITY IV, L.L.C.
K. HOVNANIAN AT JERSEY CITY V URBAN RENEWAL CO., L.L.C.
K. HOVNANIAN AT KINCAID, L.L.C.
K. HOVNANIAN AT KING FARM, L.L.C.
K. HOVNANIAN AT LA COSTA, L.L.C.
K. HOVNANIAN AT LA HABRA KNOLLS, L.L.C.
K. HOVNANIAN AT LAFAYETTE ESTATES, L.L.C.
K. HOVNANIAN AT LAKE RIDGE CROSSING, L.L.C.
K. HOVNANIAN AT LAKE TERRAPIN, L.L.C.
K. HOVNANIAN AT LAWRENCE V, L.L.C.

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K. HOVNANIAN AT LINWOOD, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR CONTRACTORS, L.L.C.
K. HOVNANIAN AT LONG BRANCH I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP II, L.L.C.
K. HOVNANIAN AT LOWER MAKEFIELD TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND II, L.L.C.
K. HOVNANIAN AT MANALAPAN II, L.L.C.
K. HOVNANIAN AT MANSFIELD I, LLC
K. HOVNANIAN AT MANSFIELD II, LLC
K. HOVNANIAN AT MANSFIELD III, L.L.C.
K. HOVNANIAN AT MARLBORO TOWNSHIP V, L.L.C.
K. HOVNANIAN AT MARLBORO VI, L.L.C.
K. HOVNANIAN AT MARLBORO VII, L.L.C.
K. HOVNANIAN AT MIDDLE TOWNSHIP, L.L.C.
K. HOVNANIAN AT MIDDLETOWN II, L.L.C.
K. HOVNANIAN AT MIDDLETOWN, L.L.C.
K. HOVNANIAN AT MONROE III, L.L.C.
K. HOVNANIAN AT MOSAIC, L.L.C.
K. HOVNANIAN AT MT. OLIVE TOWNSHIP, L.L.C.
K. HOVNANIAN AT NORTH BERGEN, L.L.C.
K. HOVNANIAN AT NORTH BRUNSWICK VI, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL, L.L.C.
K. HOVNANIAN AT NORTH HALEDON, L.L.C.
K. HOVNANIAN AT NORTH WILDWOOD, L.L.C.
K. HOVNANIAN AT NORTHAMPTON, L.L.C.
K. HOVNANIAN AT NORTHFIELD, L.L.C.
K. HOVNANIAN AT OLD BRIDGE, L.L.C.
K. HOVNANIAN AT OLDE ORCHARD, L.L.C.
K. HOVNANIAN AT PACIFIC BLUFFS, L.L.C.
K. HOVNANIAN AT PARAMUS, L.L.C.
K. HOVNANIAN AT PARK LANE, L.L.C.
K. HOVNANIAN AT RANCHO SANTA MARGARITA, L.L.C.
K. HOVNANIAN AT RANDOLPH I, L.L.C.
K. HOVNANIAN AT READINGTON II, L.L.C.
K. HOVNANIAN AT RIVERBEND II, L.L.C.
K. HOVNANIAN AT RIVERBEND, L.L.C.
K. HOVNANIAN AT RODERUCK, L.L.C.
K. HOVNANIAN AT ROWLAND HEIGHTS, L.L.C.

K. HOVNANIAN AT SAYREVILLE, L.L.C.
K. HOVNANIAN AT SMITHVILLE III, L.L.C.
K. HOVNANIAN AT SOMERS POINT, L.L.C.

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K. HOVNANIAN AT SOUTH AMBOY, L.L.C.
K. HOVNANIAN AT SOUTH BANK, L.L.C.
K. HOVNANIAN AT SOUTH BRUNSWICK, L.L.C.
K. HOVNANIAN AT SPRING HILL ROAD, L.L.C.
K. HOVNANIAN AT SUNSETS, L.L.C.
K. HOVNANIAN AT THE GABLES, L.L.C.
K. HOVNANIAN AT TRAIL RIDGE, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP II, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP III, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN II, L.L.C.
K. HOVNANIAN AT WANAQUE, L.L.C.
K. HOVNANIAN AT WASHINGTON, L.L.C.
K. HOVNANIAN AT WAYNE VIII, L.L.C.
K. HOVNANIAN AT WAYNE IX, L.L.C.
K. HOVNANIAN AT WEST MILFORD, L.L.C.
K. HOVNANIAN AT WEST WINDSOR, L.L.C.
K. HOVNANIAN AT WILLOW BROOK, L.L.C.
K. HOVNANIAN AT WINCHESTER, L.L.C.
K. HOVNANIAN AT WOODHILL ESTATES, L.L.C.
K. HOVNANIAN CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN COMPANIES OF METRO D.C. NORTH, L.L.C.
K. HOVNANIAN COMPANIES, LLC
K. HOVNANIAN CONSTRUCTION II, INC.
K. HOVNANIAN CONSTRUCTION III, INC.
K. HOVNANIAN DEVELOPMENTS OF D.C., INC.
K. HOVNANIAN DEVELOPMENTS OF DELAWARE, INC.
K. HOVNANIAN DEVELOPMENTS OF MINNESOTA, INC.
K. HOVNANIAN EASTERN PENNSYLVANIA, L.L.C.
K. HOVNANIAN ENTERPRISES, INC.
K. HOVNANIAN FOUR SEASONS AT GOLD HILL, L.L.C.
K. HOVNANIAN FOUR SEASONS AT HISTORIC VIRGINIA, L.L.C.
K. HOVNANIAN GREAT WESTERN BUILDING COMPANY, L.L.C.
K. HOVNANIAN GREAT WESTERN HOMES, L.L.C.
K. HOVNANIAN HOLDINGS NJ, L.L.C.
K. HOVNANIAN INVESTMENTS, L.L.C.
K. HOVNANIAN NORTH CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTH JERSEY ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTHEAST SERVICES, L.L.C.
K. HOVNANIAN OHIO REALTY, L.L.C.
K. HOVNANIAN PENNSYLVANIA ACQUISITIONS, L.L.C.
K. HOVNANIAN SHORE ACQUISITIONS, L.L.C.
K. HOVNANIAN SOUTH JERSEY ACQUISITION, L.L.C.

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K. HOVNANIAN SOUTHERN NEW JERSEY, L.L.C.
K. HOVNANIAN SUMMIT HOLDINGS, L.L.C.
K. HOVNANIAN SUMMIT HOMES, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF MICHIGAN, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF WEST VIRGINIA, L.L.C.
K. HOVNANIAN WINDWARD HOMES, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT HEMET, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT PALM SPRINGS, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT VINT HILL, L.L.C.
K. HOVNANIAN'S FOUR SEASONS, L.L.C.
K. HOVNANIAN'S PRIVATE HOME PORTFOLIO, L.L.C.
KHIP, LLC
KINGS COURT AT MONTGOMERY, L.L.C.
M&M AT APPLE RIDGE, L.L.C.
M&M AT BROOKHILL, L.L.C.
M&M AT CHESTERFIELD, L.L.C.
M&M AT EAST MILL, L.L.C.
M&M AT HERITAGE WOODS, L.L.C.

M&M AT KENSINGTON WOODS, L.L.C.
M&M AT MORRISTOWN, L.L.C.
M & M AT ROBERT MORRIS, L.L.C.
M&M AT SHERIDAN, L.L.C.
M & M AT SOUTH BOUND BROOK, L.L.C.
M&M AT SPARTA, L.L.C.
M&M AT SPINNAKER POINTE, L.L.C.
M&M AT SPRUCE HOLLOW, L.L.C.
M&M AT SPRUCE MEADOWS, L.L.C.
M&M AT SPRUCE RUN, L.L.C.
M&M AT THE HIGHLANDS, L.L.C.
M&M AT WEST ORANGE, L.L.C.
M&M AT WHEATENA URBAN RENEWAL, L.L.C.
MATZEL & MUMFORD AT CRANBURY KNOLL, L.L.C.
MATZEL & MUMFORD AT FREEHOLD, L.L.C.
MATZEL & MUMFORD AT HERITAGE LANDING, L.L.C.
MATZEL & MUMFORD AT MONTGOMERY, L.L.C.
MATZEL & MUMFORD AT PHILLIPSBURG, L.L.C.
MATZEL & MUMFORD AT SOUTH BRUNSWICK, L.L.C.
MATZEL & MUMFORD AT WOODLAND CREST, L.L.C.
MMIP, L.L.C.
PADDOCKS, L.L.C.
RIDGEMORE UTILITY, L.L.C.
THE LANDINGS AT SPINNAKER POINTE, L.L.C.
WASHINGTON HOMES AT COLUMBIA TOWN CENTER, L.L.C.

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WASHINGTON HOMES AT CAMP SPRINGS, L.L.C.
WASHINGTON HOMES AT FOREST RUN, L.L.C.
WASHINGTON HOMES AT LAUREL HIGHLANDS, L.L.C.
WASHINGTON HOMES AT RENAISSANCE PLAZA, L.L.C.
WASHINGTON HOMES OF MARYLAND I, L.L.C.
WESTMINSTER HOMES OF ALABAMA, L.L.C.
WESTMINSTER HOMES OF MISSISSIPPI, L.L.C.
WESTMINSTER HOMES OF SOUTH CAROLINA, L.L.C.
WOODLAND LAKES CONDOS AT BOWIE NEWTOWN, LLC
GOODMAN FAMILY OF BUILDERS, L.P.
K. HOVNIANIAN OF HOUSTON II, L.P.
K. HOVNIANIAN OF HOUSTON, L.P.
M & M INVESTMENTS, L.P.
WASHABAMA, L.P.

By: _____

Name:

Title: Authorized Officer

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EXHIBIT B

SUPPLEMENTAL INDENTURE

dated as of _____,

among

K. HOVNIANIAN ENTERPRISES, INC.

HOVNIANIAN ENTERPRISES, INC.

The Other Guarantors Party Hereto

and

WACHOVIA BANK, NATIONAL ASSOCIATION

as Senior Trustee

THIS [] SUPPLEMENTAL INDENTURE (this “[] **Supplemental Indenture**”), entered into as of , , among K. Hovnanian Enterprises, Inc., a California corporation (the “**Issuer**”), Hovnanian Enterprises, Inc. (the “**Company**”), [list each new guarantor and its jurisdiction of incorporation] (each an “**Undersigned**”) and Wachovia Bank, National Association, as Senior Trustee (the “**Senior Trustee**”).

RECITALS

WHEREAS, the Issuer, Company, the other Guarantors party thereto and the Senior Trustee entered into an indenture, dated as of November 30, 2004 (the “**Indenture**”), relating to the Company’s 6¹/₄% Senior Notes due 2015 (the “**Notes**”);

WHEREAS, as a condition to the purchase of the Notes by the Holders, the Company agreed pursuant to the Indenture to cause any newly acquired or created Restricted Subsidiaries to provide Guarantees.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and intending to be legally bound, the parties hereto hereby agree as follows:

SECTION 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

SECTION 2. Each Undersigned, by its execution of this [] Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 6 thereof.

SECTION 3. This [] Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 4. This [] Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

SECTION 5. This [] Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this [] Supplemental Indenture will henceforth be read together.

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IN WITNESS WHEREOF, the parties hereto have caused this [] Supplemental Indenture to be duly executed as of the date first above written.

K. HOVNANIAN ENTERPRISES, INC.,
as Issuer

By: _____
Name:
Title:

HOVNANIAN ENTERPRISES, INC.

By: _____
Name:
Title:

[GUARANTOR]

By: _____
Name:
Title:

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Senior Trustee

By: _____
Name:
Title:

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RESTRICTED LEGEND

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

(1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A “QIB”), (B) IT HAS ACQUIRED THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (C) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(a) (1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT) (AN “IAI”),

(2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) TO THE ISSUER, HOVNANIAN OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S OF THE SECURITIES ACT, (D) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (E) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE TRANSFER OF THIS NOTE (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) AND, IF SUCH TRANSFER IS IN RESPECT OF AN AGGREGATE PRINCIPAL AMOUNT OF NOTES LESS THAN \$250,000, AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER) OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY

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STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND

(3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTIONS” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING.

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DTC LEGEND

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE ISSUER OR ANY OF ITS SUBSIDIARIES OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS A BENEFICIAL INTEREST HEREIN.

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED. TRANSFERS OF THIS GLOBAL NOTE ARE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, BY DTC TO A NOMINEE OF DTC OR BY A NOMINEE OF DTC TO DTC OR ANOTHER NOMINEE OF DTC OR BY DTC OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE ARE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE TRANSFER PROVISIONS OF THE INDENTURE.

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Regulation S Certificate

Re: K. Hovnanian Enterprises, Inc.
6¹/₄% Senior Notes due 2015 (the “Notes”)
Issued under the Indenture (the “Indenture”) dated as
as of November 30, 2004 relating to the Notes

Dear Sirs:

Terms are used in this Certificate as used in Regulation S (“**Regulation S**”) under the Securities Act of 1933, as amended (the “**Securities Act**”), except as otherwise stated herein.

[CHECK A OR B AS APPLICABLE.]

- o A. This Certificate relates to our proposed transfer of \$ _____ principal amount of Notes issued under the Indenture. We hereby certify as follows:
1. The offer and sale of the Notes was not and will not be made to a person in the United States (unless such person is excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(vi) or the account held by it for which it is acting is excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(g)(3)) and such offer and sale was not and will not be specifically targeted at an identifiable group of U.S. citizens abroad.
 2. Unless the circumstances described in the parenthetical in paragraph 1 above are applicable, either (a) at the time the buy order was originated, the buyer was outside the United States or we and any person acting on our behalf reasonably believed that the buyer was outside the United States or (b) the transaction was

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executed in, on or through the facilities of a designated offshore securities market, and neither we nor any person acting on our behalf knows that the transaction was pre-arranged with a buyer in the United States.

3. Neither we, any of our affiliates, nor any person acting on our or their behalf has made any directed selling efforts in the United States with respect to the Notes.
 4. The proposed transfer of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.
 5. If we are a dealer or a person receiving a selling concession, fee or other remuneration in respect of the Notes, and the proposed transfer takes place during the Restricted Period (as defined in the Indenture), or we are an officer or director of the Company or an Initial Purchaser (as defined in the Indenture), we certify that the proposed transfer is being made in accordance with the provisions of Rule 904(b) of Regulation S.
- o B. This Certificate relates to our proposed exchange of \$ _____ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us. We hereby certify as follows:
1. At the time the offer and sale of the Notes was made to us, either (i) we were not in the United States or (ii) we were excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(vi) or the account held by us for which we were acting was excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(g)(3); and we were not a member of an identifiable group of U.S. citizens abroad.
 2. Unless the circumstances described in paragraph 1(ii) above are applicable, either (a) at the time our buy order was originated, we were outside the United States or (b) the transaction was executed in, on or through the facilities of a designated offshore securities market and we did not pre-arrange the transaction in the United States.

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3. The proposed exchange of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.

You and the Issuer are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF SELLER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____

Name: _____

Title:
Address:

Date: _____

Upon transfer of certificated Notes, the Notes would be registered in the name of the new beneficial owner as follows:

By: _____

Date: _____

Taxpayer ID number: _____

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EXHIBIT F

Rule 144A Certificate

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
6¹/₄% Senior Notes due 2015 (the “Notes”)
Issued under the Indenture (the “**Indenture**”) dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

This Certificate relates to:

[CHECK A OR B AS APPLICABLE.]

- o A. Our proposed purchase of \$ principal amount of Notes issued under the Indenture.
- o B. Our proposed transfer or exchange of \$ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We and, if applicable, each account for which we are acting, are a qualified institutional buyer within the meaning of Rule 144A (“**Rule 144A**”) under the Securities Act of 1933, as amended (the “**Securities Act**”). If we are acting on behalf of an account, we exercise sole investment discretion with respect to such account. We are aware that the transfer of Notes to us, or such exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Prior to the date of this Certificate we have received such information regarding the Company as we have requested pursuant to Rule 144A(d)(4) or have determined not to request such information.

You and the Issuer are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any

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interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF PURCHASER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____
Name:
Title:
Address:

Date: _____

Upon transfer of certificated Notes, the Notes would be registered in the name of the new beneficial owner as follows:

By: _____

Date: _____

Taxpayer ID number: _____

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EXHIBIT G

Institutional Accredited Investor Certificate

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
6¹/₄% Senior Notes due 2015 (the “**Notes**”)
Issued under the Indenture (the “**Indenture**”) dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

This Certificate relates to:

[CHECK A, B OR C AS APPLICABLE.]

- o A. Our proposed purchase of \$ principal amount of Notes issued under the Indenture.
- o B. Our proposed purchase of \$ principal amount of a beneficial interest in a Global Note
- o C. Our proposed transfer or exchange of \$ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We hereby confirm that:

1. We are an institutional “accredited investor” as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act of 1933, as amended (the “**Securities Act**”) (an “**Institutional Accredited Investor**”).
2. Any acquisition of Notes by us will be for our own account or for the account of one or more other Institutional Accredited Investors as to which we exercise sole investment discretion.

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3. We have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of an investment in the Notes and we and any accounts for which we are acting are able to bear the economic risks of and an entire loss of our or their investment in the Notes.
4. We are not acquiring the Notes or beneficial interest therein with a view to any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any State of the United States or any other applicable jurisdiction; *provided*, that the disposition of our property and the property of any accounts for which we are acting as fiduciary will remain at all times within our and their control.
5. We acknowledge that the Notes have not been registered under the Securities Act and that the Notes may not be offered or sold within the United States or to or for the benefit of U.S. persons except as set forth below.
6. The principal amount of Notes to which this Certificate relates is at least equal to \$250,000.

We agree for the benefit of the Issuer and the Guarantors, on our own behalf and on behalf of each account for which we are acting, that we will not resell or otherwise transfer this note or any beneficial interest herein except (A) to the Issuer, the Company or any of its subsidiaries, (B) to a person whom we reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (C) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S of the Securities Act, (D) in a transaction meeting the requirements of Rule 144 under the Securities Act, (E) to an Institutional Accredited Investor that, prior to such transfer, furnishes the Senior Trustee a signed letter containing certain representations and agreements relating to the transfer of the Notes (the form of which can be obtained from the Senior Trustee) and, if such transfer is in respect of an aggregate principal amount of Notes less than \$250,000, an opinion of counsel acceptable to the Issuer that such transfer is in compliance with the Securities Act, (F) in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel acceptable to the Issuer) or (G) pursuant to an effective Registration Statement and, in each case, in accordance with the applicable securities laws of any state of the United States or any other applicable jurisdiction.

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Prior to the registration of any transfer or exchange, we acknowledge that the Issuer reserves the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer or exchange is being made in compliance with the Securities Act and applicable state securities laws. We acknowledge that no representation is made as to the availability of any Rule 144 exemption from the registration requirements of the Securities Act.

We understand that the Senior Trustee will not be required to accept for registration of transfer or exchange any Notes acquired by us, except upon presentation of evidence satisfactory to the Issuer and the Senior Trustee that the foregoing restrictions on transfer have been complied with. We further agree to deliver to each person acquiring any of the Notes or any beneficial interest therein from us a notice advising such person that resales of the Notes are restricted as stated herein.

We agree to notify you promptly in writing if any of our acknowledgments, representations or agreements herein ceases to be accurate and complete.

We represent to you that we have full power to make the foregoing acknowledgments, representations and agreements on our own behalf and on behalf of any account for which we are acting.

You and the Issuer are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF PURCHASER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____

Name:

Title:

Address:

Date: _____

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Upon transfer of certificated Notes, the Notes would be registered in the name of the new beneficial owner as follows:

By: _____

Date: _____

Taxpayer ID number: _____

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EXHIBIT H

[COMPLETE FORM I OR FORM II AS APPLICABLE.]

[FORM I]

Certificate of Beneficial Ownership

To: Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration OR

[Euroclear Bank S.A./N.V., as operator of the Euroclear System] OR

[Clearstream Banking, *société anonyme*]

Re: K. Hovnanian Enterprises, Inc.
6¹/₄% Senior Notes due 2015 (the "Notes")
Issued under the Indenture (the "Indenture") dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

We are the beneficial owner of \$ _____ principal amount of Notes issued under the Indenture and represented by a Regulation S Temporary Global Note (as defined in the Indenture).

[CHECK A OR B AS APPLICABLE.]

- o A. We are a non-U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended).
- o B. We are a U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended) that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.

You and the Issuer are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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Very truly yours,

[NAME OF BENEFICIAL OWNER]

By: _____

Name:

Title:

Address:

Date: _____

[FORM II]

Certificate of Beneficial Ownership

To: Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration OR

Re: K. Hovnanian Enterprises, Inc.
6¹/₄% Senior Notes due 2015 (the “Notes”)
Issued under the Indenture (the “Indenture”) dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

This is to certify that based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organizations (“**Member Organizations**”) appearing in our records as persons being entitled to a portion of the principal amount of Notes represented by a Regulation S Temporary Global Note issued under the above-referenced Indenture, that as of the date hereof, \$ _____ principal amount of Notes represented by the Regulation S Temporary Global Note being submitted herewith for exchange is beneficially owned by persons that are either (i) non-U.S. persons (within the meaning of Regulation S under the Securities Act of 1933, as amended) or (ii) U.S. persons that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.

We further certify that (i) we are not submitting herewith for exchange any portion of such Regulation S Temporary Global Note excepted in such Member

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Organization certifications and (ii) as of the date hereof we have not received any notification from any Member Organization to the effect that the statements made by such Member Organization with respect to any portion of such Regulation S Temporary Global Note submitted herewith for exchange are no longer true and cannot be relied upon as of the date hereof.

You and the Issuer are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Yours faithfully,

[EUROCLEAR BANK S.A./N.V., as
operator of the Euroclear System]

OR

By: _____

Name:

Title:

Address:

Date: _____

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EXHIBIT I

THIS NOTE IS A TEMPORARY GLOBAL NOTE. PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD APPLICABLE HERETO, BENEFICIAL INTERESTS HEREIN MAY NOT BE HELD BY ANY PERSON OTHER THAN (1) A NON-U.S. PERSON OR (2) A U.S. PERSON THAT PURCHASED SUCH INTEREST IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). BENEFICIAL INTERESTS HEREIN ARE NOT EXCHANGEABLE FOR CERTIFICATED NOTES OTHER THAN A PERMANENT GLOBAL NOTE IN ACCORDANCE WITH THE TERMS OF THE INDENTURE. TERMS IN THIS LEGEND ARE USED AS USED IN REGULATION S UNDER THE SECURITIES ACT.

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K. HOVNIANIAN ENTERPRISES, INC.,
as Issuer

HOVNIANIAN ENTERPRISES, INC.
and
the other Guarantors party hereto

and

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Trustee

Indenture

Dated as of November 30, 2004

6% Senior Subordinated Notes Due 2010

CROSS-REFERENCE TABLE

<u>TIA Sections</u>	<u>Indenture Sections</u>
§ 310 (a)	7.10
(b)	7.08
§ 312	13.02
§ 313	7.06
§ 314 (a)	4.15, 4.16
(c)	13.04
(e)	13.05
§ 315 (a)	7.01, 7.02
(b)	7.02, 7.05
(c)	7.01
(d)	7.02
(e)	5.09
§ 316 (a)	2.06, 5.01, 5.03, 5.04
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§ 317 (a) (1)	5.07
(a) (2)	5.07
(b)	2.04
§ 318	13.01

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[Section 1.02. Rules of Construction](#)

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[Section 2.02. Execution and Authentication; Exchange Notes; Additional Notes](#)

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INDENTURE, dated as of November 30, 2004, between K. HOVNIANIAN ENTERPRISES, INC., a California corporation (the “**Issuer**”), HOVNIANIAN ENTERPRISES, INC., a Delaware corporation (the “**Company**”), each of the other Guarantors (as defined hereafter) and WACHOVIA BANK, NATIONAL ASSOCIATION, as Trustee (the “**Trustee**”).

RECITALS

The Issuer has duly authorized the execution and delivery of the Indenture to provide for the issuance of up to \$100,000,000 aggregate principal amount of the Issuer’s 6% Senior Subordinated Notes Due 2010, and, if and when issued, any Additional Notes (subject to the limitations set forth in Section 2.02), together with any Exchange Notes issued therefor as provided herein (the “**Notes**”). All things necessary to make the Indenture a valid agreement of the Issuer, in accordance with its terms, have been done, and the Issuer has done all things necessary to make the Notes (in the case of the Additional Notes, when duly authorized), when executed by the Issuer and authenticated and delivered by the Trustee and duly issued by the Issuer, the valid obligations of the Issuer as hereinafter provided.

In addition, the Guarantors party hereto have duly authorized the execution and delivery of the Indenture as guarantors of the Notes. All things necessary to make the Indenture a valid agreement of each Guarantor, in accordance with its terms, have been done, and each Guarantor has done all things necessary to make the Note Guarantees, when executed by each Guarantor, and the Notes, when executed by the Issuer and authenticated and delivered by the Trustee and duly issued by the Issuer, the valid obligations of such Guarantor as hereinafter provided.

This Indenture is subject to, and will be governed by, the provisions of the Trust Indenture Act that are required to be a part of and govern indentures qualified under the Trust Indenture Act.

THIS INDENTURE WITNESSETH

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, the parties hereto covenant and agree, for the equal and proportionate benefit of all Holders, as follows:

Section 1.01. *Definitions.*

“**Acquired Indebtedness**” means (a) with respect to any Person that becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) after the Issue Date, Indebtedness of such Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary (or being merged into the Company, the Issuer or any Restricted Subsidiary) and (b) with respect to the Company, the Issuer or any Restricted Subsidiary, any Indebtedness expressly assumed by the Company, the Issuer or any Restricted Subsidiary in connection with the acquisition of any assets from another Person (other than the Company, the Issuer or any Restricted Subsidiary), which Indebtedness was not incurred by such other Person in connection with or in contemplation of such acquisition. Indebtedness incurred in connection with or in contemplation of any transaction described in clause (a) or (b) of the preceding sentence shall be deemed to have been incurred by the Company or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) in the case of clause (a) or at the time of the acquisition of such assets in the case of clause (b), but shall not be deemed Acquired Indebtedness.

“**Additional Interest**” means additional interest or liquidated damages owed to the Holders pursuant to a Registration Rights Agreement.

“**Additional Notes**” means any notes issued under the Indenture in addition to the Original Notes, including any Exchange Notes issued in exchange for such Additional Notes, having the same terms in all respects as the Original Notes except that interest will accrue on the Additional Notes from their date of issuance.

“**Affiliate**” means, when used with reference to a specified Person any Person direct or indirectly controlling, or controlled by or under direct or indirect common control with the Person specified.

“**Agent**” means any Registrar, Paying Agent or Authenticating Agent.

“**Agent Member**” means a member of, or a participant in, the Depository.

“**Applicable Debt**” means all Indebtedness of the Company or any of its Restricted Subsidiaries (a) under Credit Facilities or (b) that is publicly traded (including in the Rule 144A market), including, without limitation, the Issuer’s senior notes and senior subordinated notes outstanding on the Issue Date.

“**Asset Acquisition**” means (a) an Investment by the Company, the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment,

such Person shall become a Restricted Subsidiary or shall be consolidated or merged with or into the Company, the Issuer or any Restricted Subsidiary or (b) the acquisition by the Company, the Issuer or any Restricted Subsidiary of the assets of any Person, which constitute all or substantially all of the assets of or an operating unit or line of business of such Person or which is otherwise outside the ordinary course of business.

“**Asset Disposition**” means any sale, transfer, conveyance, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback or sale of shares of Capital Stock in any Subsidiary) (each, a “**transaction**”) by the Company, the Issuer or any Restricted Subsidiary to any Person of any Property having a Fair Market Value in any transaction or series of related transactions of at least \$5 million. The term “Asset Disposition” shall not include:

- (a) a transaction between the Company, the Issuer and any Restricted Subsidiary or a transaction between Restricted Subsidiaries,
- (b) a transaction in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to governmental authorities, leases and sales and leasebacks of (A) homes, improved land and unimproved land and (B) real estate (including related amenities and improvements),
- (c) a transaction involving the sale of Capital Stock of, or the disposition of assets in, an Unrestricted Subsidiary,
- (d) any exchange or swap of assets of the Company, the Issuer or any Restricted Subsidiary for assets that (x) are to be used by the Company, the Issuer or any Restricted Subsidiary in the ordinary course of its Real Estate Business and (y) have a Fair Market Value not less than the Fair Market Value of the assets exchanged or swapped,
- (e) any sale, transfer, conveyance, lease or other disposition of assets and properties that is governed by Section 4.14 hereof, or
- (f) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business.

“**Attributable Debt**” means, with respect to any Capitalized Lease Obligations, the capitalized amount thereof determined in accordance with GAAP.

“**Authenticating Agent**” refers to a Person engaged to authenticate the Notes in the stead of the Trustee.

“**Bankruptcy Law**” means title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

“**Board of Directors**” means the board of directors of the Issuer, or any committee thereof duly authorized to act on its behalf.

“**Board Resolution**” means a resolution duly adopted by the Board of Directors which, as of the date of any certification thereof, remains in full force and effect.

“**Business Day**” means any day except a Saturday, Sunday or other day on which commercial banks in New York City or in the city where the Corporate Trust Office of the Trustee is located are authorized by law to close.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person’s capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Disqualified Stock and Preferred Stock.

“**Capitalized Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

“**Cash Equivalents**” means

- (a) U.S. dollars;
- (b) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;
- (c) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any domestic commercial bank having capital and surplus in excess of \$500 million;
- (d) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (b) and (c)

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entered into with any financial institution meeting the qualifications specified in clause (c) above;

- (e) commercial paper rated P-1, A-1 or the equivalent thereof by Moody’s or S&P, respectively, and in each case maturing within six months after the date of acquisition; and
- (f) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (a) through (e).

“**Certificate of Beneficial Ownership**” means a certificate substantially in the form of Exhibit H.

“**Certificated Note**” means a Note in registered individual form without interest coupons.

“**Change of Control**” means

- (a) any sale, lease, or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); *provided, however*, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;
- (b) a “person” or “group” (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;
- (c) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;
- (d) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however*, that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (a) above shall not constitute a Change of Control; or

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- (e) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

“**Clearstream**” means Clearstream Banking, société anonyme, Luxembourg, formerly Cedelbank.

“**Commission**” means the Securities and Exchange Commission.

“**Common Equity**” of any Person means Capital Stock of such Person that is generally entitled to (a) vote in the election of directors of such Person or (b) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“**Company**” means Hovnanian Enterprises, Inc., or any successor obligor under the Indenture and the Note Guarantees pursuant to Section 4.14.

“**Consolidated Adjusted Tangible Assets**” of the Company as of any date means the Consolidated Tangible Assets of the Company, the Issuer and the Restricted Subsidiaries at the end of the fiscal quarter immediately preceding the date less any assets securing any Non-Recourse Indebtedness, as determined in accordance with GAAP.

“**Consolidated Cash Flow Available for Fixed Charges**” means, for any period, Consolidated Net Income for such period plus (each to the extent deducted in calculating such Consolidated Net Income and determined in accordance with GAAP) the sum for such period, without duplication, of:

- (a) income taxes,
- (b) Consolidated Interest Expense,
- (c) depreciation and amortization expenses and other non-cash charges to earnings, and
- (d) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

all other non-cash items (other than the receipt of notes receivable) increasing such Consolidated Net Income.

“**Consolidated Fixed Charge Coverage Ratio**” means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the “**Four Quarter Period**”)

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for which financial results have been reported immediately preceding the determination date (the “**Transaction Date**”), to (y) the aggregate Consolidated Interest Incurred for the Four Quarter Period. For purposes of this definition, “**Consolidated Cash Flow Available for Fixed Charges**” and “**Consolidated Interest Incurred**” shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

(a) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, “**repayment**”) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the Four Quarter Period (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

(b) any Asset Disposition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Company, the Issuer or any Restricted Subsidiary (including any Person that becomes a Restricted Subsidiary as a result of any such Asset Acquisition) incurring Acquired Indebtedness at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date), as if such Asset Disposition or Asset Acquisition (including the incurrence or repayment of any such Indebtedness) and the inclusion, notwithstanding clause (b) of the definition of “Consolidated Net Income,” of any Consolidated Cash Flow Available for Fixed Charges associated with such Asset Acquisition as if it occurred on the first day of the Four Quarter Period; *provided, however*, that the Consolidated Cash Flow Available for Fixed Charges associated with any Asset Acquisition shall not be included to the extent the net income so associated would be excluded pursuant to the definition of “Consolidated Net Income,” other than clause (b) thereof, as if it applied to the Person or assets involved before they were acquired; and

(c) the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Interest Incurred attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded.

Furthermore, in calculating “Consolidated Cash Flow Available for Fixed Charges” for purposes of determining the denominator (but not the numerator) of this “Consolidated Fixed Charge Coverage Ratio,”

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(a) interest on Indebtedness in respect of which a *pro forma* calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and

(b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

“**Consolidated Interest Expense**” of the Company for any period means the Interest Expense of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Interest Incurred**” for any period means the Interest Incurred of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Net Income**” for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; *provided* that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

(a) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company’s, the Issuer’s or such Restricted Subsidiary’s (as applicable) pro rata share of such Unrestricted Subsidiary’s or such other Person’s net income earned during such period,

(b) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (a), the net income (or loss) of any Person that accrued prior to the date that (i) such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such

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redesignation) or (ii) the assets of such Person are acquired by the Company or any Restricted Subsidiary,

(c) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,

(d) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (i) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (ii) any Asset Disposition by the Company or any Restricted Subsidiary,

(e) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary, and

(f) any non-recurring expense recorded by the Company, the Issuer or any Restricted Subsidiary in connection with a merger accounted for as a “pooling-of-interests” transaction;

provided further, that for purposes of calculating Consolidated Net Income solely as it relates to clause (iii) of Section 4.07(a) hereof, clause (d)(ii) above shall not be applicable.

“**Consolidated Net Worth**” of any Person as of any date means the stockholders’ equity (including any Preferred Stock that is classified as equity under GAAP, other than Disqualified Stock) of such Person and its Restricted Subsidiaries on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less any amount attributable to Unrestricted Subsidiaries.

“**Consolidated Tangible Assets**” of the Company as of any date means the total amount of assets of the Company, the Issuer and the Restricted Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less (a) Intangible Assets and (b) appropriate adjustments on account of minority interests of other Persons holding equity investments in Restricted Subsidiaries.

“**Continuing Director**” means a director who either was a member of the Board of Directors of the Company on the date of the Indenture or who became a director of the Company subsequent to such date and whose election or

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nomination for election by the Company’s stockholders, was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

“**control**” when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Corporate Trust Office**” means the office of the Trustee at which the corporate trust business of the Trustee is principally administered, which at the date of the Indenture is located at 21 South Street, Morristown, NJ 07960.

“**Credit Facilities**” means, collectively, each of the credit facilities and lines of credit of the Company or one or more Restricted Subsidiaries in existence on the Issue Date and one or more other facilities and lines of credit among or between the Company or one or more Restricted Subsidiaries and one or more lenders pursuant to which the Company or one or more Restricted Subsidiaries may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit.

“**Currency Agreement**” of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

“**Custodian**” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

“**Default**” means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

“**Depository**” means the depository of each Global Note, which will initially be DTC.

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“**Designation Amount**” has the meaning provided in the definition of Unrestricted Subsidiary.

“**Disqualified Stock**” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the Notes or (b) is convertible into or exchangeable or exercisable for (whether at the option of the issuer or the holder thereof) (i) debt securities or (ii) any Capital Stock referred to in (a) above, in each case, at any time prior to the final maturity date of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Capital Stock is convertible, exchangeable or exercisable) the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change in control occurring prior to the final maturity date of the Notes shall not constitute Disqualified Stock if the change in control provision applicable to such Capital Stock are no more favorable to such holders than Section 4.12 hereof and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company’s repurchase of the Notes as are required pursuant to Section 4.12 hereof.

“**DTC**” means The Depository Trust Company, a New York corporation.

“**DTC Legend**” means the legend set forth in Exhibit D.

“**Euroclear**” means Euroclear Bank S.A./N.V., and its successors or assigns, as operator of the Euroclear System.

“**Event of Default**” has the meaning assigned to such term in Section 5.01.

“**Exchange Act**” means the Securities Exchange Act of 1934.

“**Exchange Notes**” means the Notes of the Issuer issued pursuant to the Indenture in exchange for, and in an aggregate principal amount equal to, the Initial Notes or any Initial Additional Notes in compliance with the terms of a Registration Rights Agreement and containing terms substantially identical to the Initial Notes or any Initial Additional Notes (except that (i) such Exchange Notes will be registered under the Securities Act and will not be subject to transfer restrictions or bear the Restricted Legend, and (ii) the provisions relating to Additional Interest will be eliminated).

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“**Exchange Offer**” means an offer by the Issuer to the Holders of the Initial Notes or any Initial Additional Notes to exchange outstanding Notes for Exchange Notes, as provided for in a Registration Rights Agreement.

“**Exchange Offer Registration Statement**” means the Exchange Offer Registration Statement as defined in a Registration Rights Agreement.

“**Extinguished Covenants**” has the meaning ascribed to such term in Section 4.18 hereof.

“**Fair Market Value**” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm’s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Company or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

“**GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on May 4, 1999.

“**Global Note**” means a Note in registered global form without interest coupons.

“**Global Note Legend**” means the legend set forth in Exhibit I.

“**Guarantee**” or “**Note Guaranty**” means the guarantee of the Notes by each Guarantor under the Indenture.

“**Guarantee Initial Period**” has the meaning set forth in Section 12.02.

“**Guarantee Payment Blockage Period**” has the meaning set forth in Section 12.02.

“**Guarantors**” means (a) initially, the Company and each of the Company’s Restricted Subsidiaries in existence on the Issue Date, except the Issuer, KHL, Inc. and K. Hovnanian Poland, sp. zo.o. (the names of which are specified on Schedule A hereto) and (b) each of the Company’s Subsidiaries that executes a supplemental indenture in the form of Exhibit B to the Indenture providing for the guaranty of the payment of the Notes, or any successor obligor under its Note Guaranty pursuant to Section 4.14, in each case unless and until such Guarantor is released from its Note Guaranty pursuant to the Indenture.

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“**Holder**” means the Person in whose name a Note is registered in the books of the Registrar for the Notes.

“**Indebtedness**” of any Person means, without duplication,

(a) any liability of such Person (i) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than standby letters of credit or similar instrument issued for the benefit of or surety, performance, completion or payment bonds, earnest money notes or similar purpose undertakings or indemnifications issued by, such Person in the ordinary course of business), (ii) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with capital expenditures (other than any obligation to pay a contingent purchase price which, as of the date of incurrence thereof is not required to be recorded as a liability in accordance with GAAP), or (iii) in respect of Capitalized Lease Obligations (to the extent of the Attributable Debt in respect thereof),

(b) any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to Section 4.07 hereof,

(c) to the extent not otherwise included, the obligations of such Person under Currency Agreements or Interest Protection Agreements to the extent recorded as liabilities not constituting Interest Incurred, net of amounts recorded as assets in respect of such agreements, in accordance with GAAP, and

(d) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

provided, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be (i) the outstanding balance at such date of all unconditional obligations as described above, net of any unamortized discount to be accounted for as Interest Expense, in accordance with GAAP, (ii) the maximum liability of such Person for any contingent obligations under clause (a) above at such date, net of an unamortized discount to be accounted for as Interest Expense in accordance with GAAP, and (iii) in the case of clause (d) above, the lesser of (x) the fair market value of any

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asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (y) the amount of the Indebtedness secured.

“**Indenture**” means this indenture, as amended or supplemented from time to time.

“**Initial Additional Notes**” means Additional Notes issued in an offering not registered under the Securities Act and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange therefor.

“**Initial Notes**” means the Notes issued on the Issue Date and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange therefor.

“**Initial Period**” has the meaning set forth in Section 11.02.

“**Initial Purchasers**” means the initial purchasers party to a purchase agreement with the Issuer relating to the sale of the Initial Notes by the Issuer.

“**Institutional Accredited Investor Certificate**” means a certificate substantially in the form of Exhibit G hereto.

“**Intangible Assets**” of the Company means all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with GAAP) and all other items which would be treated as intangible on the consolidated balance sheet of the Company, the Issuer and the Restricted Subsidiaries prepared in accordance with GAAP.

“**Interest Expense**” of any Person for any period means, without duplication, the aggregate amount of (a) interest which, in conformity with GAAP, would be set opposite the caption “interest expense” or any like caption on an income statement for such Person (including, without limitation, imputed interest included in Capitalized Lease Obligations, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing, the net costs (but reduced by net gains) associated with Currency Agreements and Interest Protection Agreements, amortization of other financing fees and expenses, the interest portion of any deferred payment obligation, amortization of discount or premium, if any, and all other noncash interest expense (other than interest and other charges amortized to cost of sales), and (b) all interest actually paid by the Company or a Restricted Subsidiary under any guarantee of Indebtedness (including, without limitation, a guarantee of

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principal, interest or any combination thereof) of any Person other than the Company, the Issuer or any Restricted Subsidiary during such period; *provided* that Interest Expense shall exclude any expense associated with the complete writeoff of financing fees and expenses in connection with the repayment of any Indebtedness.

“**Interest Incurred**” of any Person for any period means, without duplication, the aggregate amount of (a) Interest Expense and (b) all capitalized interest and amortized debt issuance costs.

“**Interest Payment Date**” means each January 15 and July 15 of each year, commencing January 15, 2005.

“**Interest Protection Agreement**” of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Debt permitted to be incurred under the Indenture.

“**Investment Grade**” means, with respect to a debt rating of the Notes, a rating of Baa3 or higher by Moody’s together with a rating of BBB- or higher by S&P or, in the event S&P or Moody’s or both shall cease rating the Notes (for reasons outside the control of the Company or the Issuer) and the Company shall select any other Rating Agency, the equivalent of such ratings by such other Rating Agency.

“**Investments**” of any Person means (a) all investments by such Person in any other Person in the form of loans, advances or capital contributions, (b) all guarantees of Indebtedness or other obligations of any other Person by such Person, (c) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Capital Stock or other securities of any other Person and (d) all other items that would be classified as investments in any other Person (including, without limitation, purchases of assets outside the ordinary course of business) on a balance sheet of such Person prepared in accordance with GAAP.

“**Issue Date**” means November 30, 2004, the date on which the Initial Notes are originally issued under the Indenture.

“**Lien**” means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

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“**Make-Whole Amount**” means, in connection with any optional redemption of any Note pursuant to Section 3.01 hereof, the excess, if any, of: (a) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the Business Day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over (b) the principal amount of the Note being redeemed.

“**Marketable Securities**” means (a) equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or The Nasdaq National Market and (b) debt securities that are rated by a nationally recognized rating agency, listed on the New York Stock Exchange or the American Stock Exchange or covered by at least two reputable market makers.

“**Moody’s**” means Moody’s Investors Service, Inc. or any successor to its debt rating business.

“**Mortgage Subsidiary**” means any Subsidiary of the Company substantially all of whose operations consist of the mortgage lending business.

“**Net Cash Proceeds**” means with respect to an Asset Disposition, cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise (including any cash received upon sale or disposition of such note or receivable), but only as and when received), excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the Property disposed of in such Asset Disposition or received in any other noncash form unless and until such non-cash consideration is converted into cash therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, and in each case net of a reasonable reserve for the after-tax cost of any indemnification or other payments (fixed and contingent) attributable to the seller’s indemnities or other obligations to the purchaser undertaken by the Company, the Issuer or any of its Restricted Subsidiaries in connection with such Asset Disposition, and net of all payments made on any Indebtedness which is secured by or relates to such Property, in accordance with the terms of any Lien or agreement upon or with respect to such Property or which must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all contractually required distributions and payments made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition.

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“**Non-Payment Default**” means any event (other than a Payment Default), the occurrence of which entitles one or more Persons to accelerate the maturity of any Senior Debt of the Issuer or any Senior Debt of a Guarantor.

“**Non-Recourse Indebtedness**” with respect to any Person means Indebtedness of such Person for which (a) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 90 days after the acquisition of such property and (b) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (i) environmental warranties and indemnities, or (ii) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, including waste and mechanics’ liens.

“**Non-U.S. Person**” means a Person that is not a U.S. person, as defined in Regulation S.

“**Notes**” has the meaning assigned to such term in the Recitals.

“**Offer to Purchase**” has the meaning assigned to such term in Section 3.04.

“**Officer**” means the chairman of the Board of Directors, the president or chief executive officer, any vice president, the chief financial officer, the treasurer or any assistant treasurer, or the secretary or any assistant secretary, of the Company.

“**Officers’ Certificate**” means a certificate signed in the name of the Company (i) by the chairman of the Board of Directors, the president or chief executive officer or a vice president and (ii) by the chief financial officer, the treasurer or any assistant treasurer or the secretary or any assistant secretary.

“**Opinion of Counsel**” means a written opinion signed by legal counsel, who may be an employee of or counsel to the Issuer, satisfactory to the Trustee.

“**Original Notes**” means the Initial Notes and any Exchange Notes issued in exchange therefor.

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“**Paying Agent**” refers to a Person engaged to perform the obligations of the Trustee in respect of payments made or funds held hereunder in respect of the Notes.

“**Payment Blockage Period**” has the meaning set forth in Section 11.02.

“**Payment Default**” means any default in the payment of principal of or interest on any Senior Debt of the Issuer or any Senior Debt of a Guarantor beyond any applicable grace period with respect thereto.

“**Permanent Regulation S Global Note**” means a Regulation S Global Note that does not bear the Regulation S Temporary Global Note Legend.

“**Permitted Hovnanian Holders**” means, collectively, Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any *bona fide* trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof, or any entity of which any of the foregoing, individually or collectively, beneficially own more than 50% of the Common Equity.

“**Permitted Indebtedness**” means

(a) Indebtedness under Credit Facilities which does not exceed \$1.0 billion principal amount outstanding at any one time;

(b) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;

(c) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; *provided however*, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of Section 4.06(a) hereof at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;

(d) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;

(e) Purchase Money Indebtedness;

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(f) Capitalized Lease Obligations;

(g) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;

(h) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed \$10 million aggregate principal amount outstanding at any one time;

(i) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness, secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and

(j) Indebtedness of the Company or any Restricted Subsidiary which, together with all other Indebtedness under this clause (j), does not exceed \$50 million aggregate principal amount outstanding at any one time.

“**Permitted Investment**” means

(a) Cash Equivalents;

(b) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;

(c) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the Indenture;

(d) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the Indenture;

(e) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness;

(f) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; *provided, however*, that any such

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loan or advance exceeding \$1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;

(g) Investments in joint ventures in a Real Estate Business with unaffiliated third parties in an aggregate amount at any time outstanding not to exceed 10% of Consolidated Tangible Assets at such time;

(h) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;

(i) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and

(j) Investments in an aggregate amount outstanding not to exceed \$10 million.

“Permitted Liens” means

(a) Liens for taxes, assessments or governmental or quasi-government charges or claims that (i) are not yet delinquent, (ii) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required, or (iii) encumber solely property abandoned or in the process of being abandoned,

(b) statutory Liens of landlords and carriers’, warehousemen’s, mechanics’, suppliers’, materialmen’s, repairmen’s or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the extent applicable, either (i) are not yet delinquent or (ii) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

(c) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security,

(d) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contacts, utility services, developer’s or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (a)(i) of

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the definition of “Indebtedness”), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(e) attachment or judgment Liens not giving rise to a Default or an Event of Default,

(f) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(g) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(h) Liens securing Indebtedness incurred pursuant to clause (h) or (i) of the definition of Permitted Indebtedness,

(i) Liens securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary permitted to be incurred under the Indenture; *provided* that the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (i) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof),

(j) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; *provided*, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,

(k) Liens securing Purchase Money Indebtedness; *provided* that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,

(l) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries,

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(m) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,

(n) purchase money security interests (including, without limitation, Capitalized Lease Obligations); *provided* that such Liens apply only to the Property acquired and the related Indebtedness is incurred within 90 days after the acquisition of such Property,

(o) any right of first refusal, right of first offer, option, contract or other agreement to sell an asset; *provided* that such sale is not otherwise prohibited under the Indenture,

(p) any right of a lender or lenders to which the Company, the Issuer or a Restricted Subsidiary may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company, the Issuer or a Restricted Subsidiary with or held by such lender or lenders or its Affiliates,

(q) any pledge or deposit of cash or property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or similar purpose undertakings or indemnifications in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(r) Liens for homeowner and property owner association developments and assessments,

(s) Liens securing Refinancing Indebtedness; *provided*, that such Liens extend only to the assets securing the Indebtedness being refinanced,

(t) Liens incurred in the ordinary course of business as security for the obligations of the Company, the Issuer and the Restricted Subsidiaries with respect to indemnification in respect of title insurance providers,

(u) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or becomes a Subsidiary of the Company; *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with the Company or the Subsidiary or acquired by the Company or its Subsidiaries,

(v) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company, *provided* that such Liens were in existence prior to the contemplation of such acquisition,

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(w) Liens existing on the Issue Date and any extensions, renewals or replacements thereof, and

(x) Liens on specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

"Property" of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

"Purchase Money Indebtedness" means Indebtedness of the Company, the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company, the Issuer and the Restricted Subsidiaries; *provided, however*, that (a) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (b) such Indebtedness shall be incurred no later than 90 days after the acquisition of such property or completion of such construction or improvement.

"Qualified Stock" means Capital Stock of the Company other than Disqualified Stock.

"Rating Agency" means a statistical rating agency or agencies, as the case may be, nationally recognized in the United States and selected by the Company (as certified by a resolution of the Board of Directors of the Company) which shall be substituted for S&P or Moody's, or both, as the case may be.

"Real Estate Business" means homebuilding, housing construction, real estate development or construction and related real estate activities, including the provision of mortgage financing or title insurance.

"Refinancing Indebtedness" means Indebtedness (to the extent not Permitted Indebtedness) that refunds, refinances or extends any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (to the extent not Permitted

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Indebtedness) outstanding on the Issue Date or other Indebtedness (to the extent not Permitted Indebtedness) permitted to be incurred by the Company, the Issuer or any Restricted Subsidiary pursuant to the terms of the Indenture, but not to the extent that

(a) the Refinancing Indebtedness is subordinated, if at all, to the Notes or the Guarantee, as the case may be, to the same extent as the Indebtedness being refunded, refinanced or extended,

(b) the Refinancing Indebtedness is scheduled to mature either (i) no earlier than the Indebtedness being refunded, refinanced or extended or (ii) after the maturity date of the Notes,

(c) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Indebtedness being refunded, refinanced or extended that is scheduled to mature on or prior to the maturity date of the Notes, and

(d) such Refinancing Indebtedness is in an aggregate principal amount that is equal to or less than the aggregate principal amount then outstanding under the Indebtedness being refunded, refinanced or extended.

“**Register**” has the meaning assigned to such term in Section 2.09.

“**Registrar**” means a Person engaged to maintain the Register.

“**Registration Rights Agreement**” means (i) the Registration Rights Agreement dated the Issue Date between the Company and the Initial Purchasers party thereto with respect to the Initial Notes, and (ii) with respect to any Additional Notes, any registration rights agreements between the Company and the initial purchasers party thereto relating to rights given by the Company to the purchasers of Additional Notes to register such Additional Notes or exchange them for Notes registered under the Securities Act.

“**Regular Record Date**” for the interest payable on any Interest Payment Date means the January 1 or July 1 (whether or not a Business Day) next preceding such Interest Payment Date.

“**Regulation S**” means Regulation S under the Securities Act.

“**Regulation S Certificate**” means a certificate substantially in the form of Exhibit E hereto.

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“**Regulation S Global Note**” means a Global Note representing Notes issued and sold pursuant to Regulation S.

“**Regulation S Temporary Global Note**” means an Regulation S Global Note that bears the Regulation S Temporary Global Note Legend.

“**Regulation S Temporary Global Note Legend**” means the legend set forth in Exhibit I.

“**Restricted Legend**” means the legend set forth in Exhibit C.

“**Restricted Payment**” means any of the following:

(a) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company, the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than (i) dividends or distributions payable solely in Qualified Stock and (ii) in the case of the Issuer or Restricted Subsidiaries, dividends or distributions payable to the Company, the Issuer or a Restricted Subsidiary);

(b) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary); and

(c) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (b) of the definition of Indebtedness.

“**Restricted Period**” means the relevant 40-day distribution compliance period as defined in Regulation S, which, for each relevant Note, commences on the date such Note is Issued.

“**Restricted Subsidiary**” means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

“**Rule 144A**” means Rule 144A under the Securities Act.

“**Rule 144A Certificate**” means (i) a certificate substantially in the form of Exhibit F hereto or (ii) a written certification addressed to the Issuer and the Trustee to the effect that the Person making such certification (x) is acquiring such Note (or beneficial interest) for its own account or one or more accounts with respect to which it exercises sole investment discretion and that it and each such account is a qualified institutional buyer within the meaning of Rule 144A,

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(y) is aware that the transfer to it or exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A, and (z) acknowledges that it has received such information regarding the Issuer as it has requested pursuant to Rule 144A(d)(4) or has determined not to request such information.

“**Rule 144A Global Note**” means a Global Note that bears the Restricted Legend representing Notes issued and sold pursuant to Rule 144A.

“**S&P**” means Standard and Poor’s Ratings Services, a division of McGraw Hill, Inc., a New York corporation or any successor to its debt rating business.

“**Securities Act**” means the Securities Act of 1933.

“**Senior Debt of a Guarantor**” has the meaning set forth in Section 12.01.

“**Senior Debt of the Issuer**” has the meaning set forth in Section 11.01.

“**Shelf Registration Statement**” means the Shelf Registration Statement as defined in a Registration Rights Agreement.

“**Significant Subsidiary**” means any Subsidiary of the Company that would constitute a “significant subsidiary” as defined in Article 1, Rule 1-02 (w)(1) or (2) of Regulation S-X promulgated under the Securities Act, as such regulation is in effect on the date of the Indenture.

“**Subsidiary**” of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the Board of Directors or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

“**Treasury Rate**” means, in connection with the calculation of any Make-Whole Amount with respect to any Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

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“**Trustee**” means the party named as such in the first paragraph of the Indenture or any successor trustee under the Indenture pursuant to Article 7.

“**Trust Indenture Act**” means the Trust Indenture Act of 1939.

“**U.S. Government Obligations**” means obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, provided that the full faith and credit of the United States of America is pledged in support thereof.

“**Unrestricted Subsidiary**” means any Subsidiary of the Company so designated by a resolution adopted by the Board of Directors of the Company or a duly authorized committee thereof as provided below; *provided that* (a) the holders of Indebtedness thereof do not have direct or indirect recourse against the Company, the Issuer or any Restricted Subsidiary, and neither the Company, the Issuer nor any Restricted Subsidiary otherwise has liability for, any payment obligations in respect of such Indebtedness (including any undertaking, agreement or instrument evidencing such Indebtedness), except, in each case, to the extent that the amount thereof constitutes a Restricted Payment permitted by the Indenture, in the case of Non-Recourse Indebtedness, to the extent such recourse or liability is for the matters discussed in the last sentence of the definition of “Non-Recourse Indebtedness,” or to the extent such Indebtedness is a guarantee by such Subsidiary of Indebtedness of the Company, the Issuer or a Restricted Subsidiary and (b) no holder of any Indebtedness of such Subsidiary shall have a right to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity as a result of a default on any Indebtedness of the Company, the Issuer or any Restricted Subsidiary. As of the Issue Date, the Unrestricted Subsidiaries will be the following:

Alford, L.L.C., Brightbeach Development, Ltd., Brightchase, Ltd., Brighton Homes At Walden, Ltd., Brighton Homes At Walden Management, L.L.C., Eastern Title Agency, Inc., Founders Title Agency, Inc., Founders Title Agency of Maryland, L.L.C., Gosling Road Development Co., Inc., Governor’s Abstract Co., Inc., Heritage Pines, L.L.C., Hexter Fair Land Title Company I, Inc., Homebuyer’s Mortgage, Inc., Hovnanian Financial Services I, Inc., Hovnanian Financial Services II, Inc., Hovnanian Financial Services IV, Inc., Hovnanian Land Investment Group, L.L.C., Hovnanian Land Investment Group of California, L.L.C., Hovnanian Land Investment Group of Florida, L.L.C., Hovnanian Land Investment Group of Maryland, L.L.C., Hovnanian Land Investment Group of North Carolina, L.L.C., Hovnanian Land Investment Group of Texas, L.L.C., Hovnanian Land Investment Group of Virginia, L.L.C., K. Hovnanian American Mortgage, L.L.C., K. Hovnanian Chesterfield Investment, L.L.C., K. Hovnanian At Lake Rancho Viejo, L.L.C., Jaeger Road 530, L.L.C., K. Hovnanian At Manalapan III, L.L.C., K. Hovnanian At Philadelphia I, L.L.C., K. Hovnanian At Philadelphia Investment I, L.L.C., K. Hovnanian At Port Imperial

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Urban Renewal II, L.L.C., K. Hovnanian At Port Imperial Urban Renewal III, L.L.C., K. Hovnanian At Thompson Ranch, L.L.C., K. Hovnanian’s Four Seasons At Beaumont, L.L.C., K. Hovnanian Investment Properties, Inc., K. Hovnanian Mortgage, Inc., K. Hovnanian Skye Isle, L.L.C., K. Hovnanian Title Reinsurance, Inc., K. Hovnanian Venture I, L.L.C., Hunter Mill Village, L.L.C., Kings Crossing at Montgomery, L.L.C., Laurel Highlands, L.L.C., McKinley Court, L.L.C., M&M at Monroe Woods, L.L.C., MM-Beachfront North I, L.L.C., New Homebuyers Title Company, L.L.C., New Homebuyers Title Co. (Virginia) L.L.C., New Homebuyers Title Company (West Virginia), L.L.C., NRD, L.L.C., Park Title Company, L.L.C., Parkway Development, Sovereign Group, L.P., PI Investments, L.L.C., Pinnacle Mortgage Group, Inc., Preston Grande Homes, Inc., Preston Parker, L.L.C., RR Houston Developers, L.L.C., RR Houston Development, L.P., RR Houston Investment, L.P., RR Houston Investors, L.L.C., Title Group II, L.L.C., Thompson Ranch Joint Development, L.L.C., Town Homes at Montgomery, L.L.C., 12th Street Residential, Ltd., WHI-Republic, L.L.C., and Wright Farm, L.L.C.

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided however* that (a) the net amount (the “**Designation Amount**”) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under Section 4.07 hereof to the extent provided therein, (b) the Company must be permitted under Section 4.07 hereof to make the Restricted Payment deemed to have been made pursuant to clause (a), and (c) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person’s merger with the Company or any Restricted Subsidiary (but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary *provided, however*, that (a) the Indebtedness of such Unrestricted Subsidiary as of the date of such redesignation could then be incurred under Section 4.06 hereof and (b) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur \$1.00 of additional Indebtedness under Section 4.06 hereof. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the Trustee by the filing with the Trustee of a certified copy of the resolution of the Board of

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Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers’ Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers’ Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided, however*, that the ownership of the general partnership interest (or a similar member’s interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

“**Weighted Average Life to Maturity**” means, when applied to any Indebtedness or portion thereof at any date, the number of years obtained by dividing (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including, without limitation, payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (b) the sum of all such payments described in clause (a)(i) above.

Section 1.02. *Rules of Construction.* Unless the context otherwise requires or except as otherwise expressly provided,

- (a) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (b) “herein,” “hereof” and other words of similar import refer to the Indenture as a whole and not to any particular Section, Article or other subdivision;
- (c) all references to Sections or Articles or Exhibits refer to Sections or Articles or Exhibits of or to the Indenture unless otherwise indicated;
- (d) references to agreements or instruments, or to statutes or regulations, are to such agreements or instruments, or statutes or regulations, as amended from time to time (or to successor statutes and regulations); and
- (e) in the event that a transaction meets the criteria of more than one category of permitted transactions or listed exceptions the Issuer may classify such transaction as it, in its sole discretion, determines.

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ARTICLE 2 THE NOTES

Section 2.01. *Form, Dating and Denominations; Legends.* (a) The Notes and the Trustee’s certificate of authentication will be substantially in the form attached as Exhibit A. The terms and provisions contained in the form of the Notes annexed as Exhibit A constitute, and are hereby expressly made, a part of the Indenture. The Notes may have notations, legends or endorsements required by law, rules of or agreements with national securities exchanges to which the Issuer is subject, or usage. Each Note will be dated the date of its authentication. The Notes will be issuable in denominations of \$1,000 in principal amount and any multiple of \$1,000 in excess thereof.

- (b) (i) Except as otherwise provided in paragraph (c), Section 2.10(b)(iii), (b)(v) or (c) or Section 2.09(b)(iv), each Initial Note or Initial Additional Note (other than a Permanent Regulation S Note) will bear the Restricted Legend.
 - (ii) Each Global Note, whether or not an Initial Note or Additional Note, will bear the DTC Legend.
 - (iii) Each Regulation S Temporary Global Note will bear the Regulation S Temporary Global Note Legend.
 - (iv) Initial Notes and Initial Additional Notes offered and sold in reliance on Regulation S will be issued as provided in Section 2.11(a).
 - (v) Initial Notes and Initial Additional Notes offered and sold in reliance on any exception under the Securities Act other than Regulation S and Rule 144A will be issued, and upon the request of the Issuer to the Trustee, Initial Notes offered and sold in reliance on Rule 144A may be issued, in the form of Certificated Notes.

(vi) Exchange Notes will be issued, subject to Section 2.09(b), in the form of one or more Global Notes.

(c) (i) If the Issuer determines (upon the advice of counsel and such other certifications and evidence as the Issuer may reasonably require) that a Note is eligible for resale pursuant to Rule 144(k) under the Securities Act (or a successor provision) and that the Restricted Legend is no longer necessary or appropriate in order to ensure that subsequent transfers of the Note (or a beneficial interest therein) are effected in compliance with the Securities Act, or

(ii) after an Initial Note or any Initial Additional Note is

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(A) sold pursuant to an effective registration statement under the Securities Act, pursuant to the Registration Rights Agreement or otherwise, or

(iii) is validly tendered for exchange into an Exchange Note pursuant to an Exchange Offer

the Issuer may instruct the Trustee to cancel the Note and issue to the Holder thereof (or to its transferee) a new Note of like tenor and amount, registered in the name of the Holder thereof (or its transferee), that does not bear the Restricted Legend, and the Trustee will comply with such instruction.

(d) By its acceptance of any Note bearing the Restricted Legend (or any beneficial interest in such a Note), each Holder thereof and each owner of a beneficial interest therein acknowledges the restrictions on transfer of such Note (and any such beneficial interest) set forth in this Indenture and in the Restricted Legend and agrees that it will transfer such Note (and any such beneficial interest) only in accordance with the Indenture and such legend.

Section 2.02. *Execution and Authentication; Exchange Notes; Additional Notes.* (a) An Officer shall execute the Notes for the Issuer by facsimile or manual signature in the name and on behalf of the Issuer. If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note will still be valid.

(b) A Note will not be valid until the Trustee manually signs the certificate of authentication on the Note, with the signature conclusive evidence that the Note has been authenticated under the Indenture.

(c) At any time and from time to time after the execution and delivery of the Indenture, the Issuer may deliver Notes executed by the Issuer to the Trustee for authentication. The Trustee will authenticate and deliver

(i) Initial Notes for original issue in the aggregate principal amount not to exceed \$100,000,000,

(ii) Initial Additional Notes from time to time for original issue in aggregate principal amounts specified by the Issuer, and

(iii) Exchange Notes from time to time for issue in exchange for a like principal amount of Initial Notes or Initial Additional Notes

after the following conditions have been met:

(A) Receipt by the Trustee of a certificate, executed by an Officer specifying

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(1) the amount of Notes to be authenticated and the date on which the Notes are to be authenticated,

(2) whether the Notes are to be Initial Notes or, Additional Notes or Exchange Notes,

(3) in the case of Initial Additional Notes, that the issuance of such Notes does not contravene clause (c)(ii) above or any provision of Article 4,

(4) whether the Notes are to be issued as one or more Global Notes or Certificated Notes, and

(5) other information the Issuer may determine to include or the Trustee may reasonably request.

(B) In the case of Initial Additional Notes, receipt by the Trustee of an Opinion of Counsel confirming that the Holders of the outstanding Notes will be subject to federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such Additional Notes were not issued.

(C) In the case of Exchange Notes, effectiveness of an Exchange Offer Registration Statement and Consummation (as defined in the Registration Rights Agreement) of the exchange offer thereunder (and receipt by the Trustee of an Officers' Certificate to that effect). Initial Notes or Initial Additional Notes exchanged for Exchange Notes will be cancelled by the Trustee.

Section 2.03. *Registrar, Paying Agent and Authenticating Agent; Paying Agent to Hold Money in Trust.* (a) The Issuer may appoint one or more Registrars and one or more Paying Agents, and the Trustee may appoint an Authenticating Agent, in which case each reference in the Indenture to the Trustee in respect of the obligations of the Trustee to be performed by that Agent will be deemed to be references to the Agent. The Issuer may act as Registrar or (except for purposes of Article 8) Paying Agent. In each case the Issuer and the Trustee will enter into an appropriate agreement with the Agent implementing the provisions of the Indenture relating to the obligations of the Trustee to be performed by the Agent and the related rights.

(b) The Issuer will require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of the Holders or the Trustee all money held by the Paying Agent for the payment of

principal of and interest on the Notes and will promptly notify the Trustee of any default by the Issuer in making any such payment. The Issuer at any time may require a Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed, and the Trustee may at any time during the continuance of any payment default, upon written request to a Paying Agent, require the Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed. Upon doing so, the Paying Agent will have no further liability for the money so paid over to the Trustee.

Section 2.04. *Replacement Notes.* If a mutilated Note is surrendered to the Trustee or if a Holder claims that its Note has been lost, destroyed or wrongfully taken, the Issuer will issue and the Trustee will authenticate a replacement Note of like tenor and principal amount and bearing a number not contemporaneously outstanding. Every replacement Note is an additional obligation of the Issuer and entitled to the benefits of the Indenture. If required by the Trustee or the Issuer, an indemnity must be furnished that is sufficient in the judgment of both the Trustee and the Issuer to protect the Issuer and the Trustee from any loss they may suffer if a Note is replaced. The Issuer may charge the Holder for the expenses of the Issuer and the Trustee in replacing a Note. In case the mutilated, lost, destroyed or wrongfully taken Note has become or is about to become due and payable, the Issuer in its discretion may pay the Note instead of issuing a replacement Note.

Section 2.05. *Outstanding Notes.* (a) Notes outstanding at any time are all Notes that have been authenticated by the Trustee except for

(i) Notes cancelled by the Trustee or delivered to it for cancellation;

(ii) any Note which has been replaced pursuant to Section 2.04 unless and until the Trustee and the Issuer receive proof satisfactory to them that the replaced Note is held by a *bona fide* purchaser; and

(iii) on or after the maturity date or any redemption date or date for purchase of the Notes pursuant to an Offer to Purchase, those Notes payable or to be redeemed or purchased on that date for which the Trustee (or Paying Agent, other than the Issuer or an Affiliate of the Issuer) holds money sufficient to pay all amounts then due.

(b) A Note does not cease to be outstanding because the Issuer or one of its Affiliates holds the Note, *provided* that in determining whether the Holders of the requisite principal amount of the outstanding Notes have given or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder, Notes owned by the Issuer or any Affiliate of the Issuer will be disregarded and deemed not to be outstanding, (it being understood that in

determining whether the Trustee is protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Notes which the Trustee knows to be so owned will be so disregarded). Notes so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Issuer or any Affiliate of the Issuer.

Section 2.06. *Temporary Notes.* Until definitive Notes are ready for delivery, the Issuer may prepare and the Trustee will authenticate temporary Notes. Temporary Notes will be substantially in the form of definitive Notes but may have insertions, substitutions, omissions and other variations determined to be appropriate by the Officer executing the temporary Notes, as evidenced by the execution of the temporary Notes. If temporary Notes are issued, the Issuer will cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes will be exchangeable for definitive Notes upon surrender of the temporary Notes at the office or agency of the Issuer designated for the purpose pursuant to Section 4.02, without charge to the Holder. Upon surrender for cancellation of any temporary Notes the Issuer will execute and the Trustee will authenticate and deliver in exchange therefor a like principal amount of definitive Notes of authorized denominations. Until so exchanged, the temporary Notes will be entitled to the same benefits under the Indenture as definitive Notes.

Section 2.07. *Cancellation.* The Issuer at any time may deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever, and may deliver to the Trustee for cancellation any Notes previously authenticated hereunder which the Issuer has not issued and sold. Any Registrar or the Paying Agent will forward to the Trustee any Notes surrendered to it for transfer, exchange or payment. The Trustee will cancel all Notes surrendered for transfer, exchange, payment or cancellation and dispose of them in accordance with its normal procedures or the written instructions of the Issuer. The Issuer may not issue new Notes to replace Notes it has paid in full or delivered to the Trustee for cancellation.

Section 2.08. *CUSIP and ISIN Numbers.* The Issuer in issuing the Notes may use "CUSIP" and "ISIN" numbers, and the Trustee will use CUSIP numbers or ISIN numbers in notices of redemption or exchange or in Offers to Purchase as a convenience to Holders, the notice to state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of redemption or exchange or Offer to Purchase. The Issuer will promptly notify the Trustee of any change in the CUSIP or ISIN numbers.

Section 2.09. *Registration, Transfer and Exchange.* (a) The Notes will be issued in registered form only, without coupons, and the Issuer shall cause the Trustee to maintain a register (the "**Register**") of the Notes, for registering the record ownership of the Notes by the Holders and transfers and exchanges of the Notes.

(b) (i) Each Global Note will be registered in the name of the Depository or its nominee and, so long as DTC is serving as the Depository thereof, will bear the DTC Legend.

(ii) Each Global Note will be delivered to the Trustee as custodian for the Depository. Transfers of a Global Note (but not a beneficial interest therein) will be limited to transfers thereof in whole, but not in part, to the Depository, its successors or their respective nominees, except (A) as set forth in Section 2.09(b)(iv) and (B) transfers of portions thereof in the form of Certificated Notes may be made upon request of an Agent

Member (for itself or on behalf of a beneficial owner) by 20 days' prior written notice given to the Trustee by or on behalf of the Depository in accordance with customary procedures of the Depository and in compliance with this Section and Section 2.10.

(iii) Agent Members will have no rights under the Indenture with respect to any Global Note held on their behalf by the Depository, and the Depository may be treated by the Issuer, the Trustee and any agent of the Issuer or the Trustee as the absolute owner and Holder of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, the Depository or its nominee may grant proxies and otherwise authorize any Person (including any Agent Member and any Person that holds a beneficial interest in a Global Note through an Agent Member) to take any action which a Holder is entitled to take under the Indenture or the Notes, and nothing herein will impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any security.

(iv) If (x) the Depository (i) notifies the Issuer that it is unwilling or unable to continue as Depository for a Global Note and a successor depository is not appointed by the Issuer within 90 days of the notice, (ii) or has ceased to be a clearing agency registered under the Exchange Act, (y) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Certificated Notes or (z) an Event of Default has occurred and is continuing and the Trustee has received a request from the Depository, the Trustee will promptly exchange each beneficial interest in the Global Note for one or more Certificated Notes in authorized denominations having an equal aggregate principal amount registered in the name of the owner of such beneficial interest, as

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identified to the Trustee by the Depository, and thereupon the Global Note will be deemed canceled. If such Note does not bear the Restricted Legend, then the Certificated Notes issued in exchange therefor will not bear the Restricted Legend. If such Note bears the Restricted Legend, then the Certificated Notes issued in exchange therefor will bear the Restricted Legend, *provided* that any Holder of any such Certificated Note issued in exchange for a beneficial interest in a Regulation S Temporary Global Note will have the right upon presentation to the Trustee of a duly completed Certificate of Beneficial Ownership after the Restricted Period to exchange such Certificated Note for a Certificated Note of like tenor and amount that does not bear the Restricted Legend, registered in the name of such Holder.

(c) Each Certificated Note will be registered in the name of the holder thereof or its nominee.

(d) A Holder may transfer a Note (or a beneficial interest therein) to another Person or exchange a Note (or a beneficial interest therein) for another Note or Notes of any authorized denomination by presenting to the Trustee a written request therefor stating the name of the proposed transferee or requesting such an exchange, accompanied by any certification, opinion or other document required by Section 2.10. The Trustee will promptly register any transfer or exchange that meets the requirements of this Section by noting the same in the register maintained by the Trustee for the purpose; *provided* that

(i) no transfer or exchange will be effective until it is registered in such register and

(ii) the Trustee will not be required (x) to issue, register the transfer of or exchange any Note for a period of 15 days before a selection of Notes to be redeemed or purchased pursuant to an Offer to Purchase, (y) to register the transfer of or exchange any Note so selected for redemption or purchase in whole or in part, except, in the case of a partial redemption or purchase, that portion of any Note not being redeemed or purchased, or (z) if a redemption or a purchase pursuant to an Offer to Purchase is to occur after a Regular Record Date but on or before the corresponding Interest Payment Date, to register the transfer of or exchange any Note on or after the Regular Record Date and before the date of redemption or purchase. Prior to the registration of any transfer, the Issuer, the Trustee and their agents will treat the Person in whose name the Note is registered as the owner and Holder thereof for all purposes (whether or not the Note is overdue), and will not be affected by notice to the contrary.

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From time to time the Issuer will execute and the Trustee will authenticate additional Notes as necessary in order to permit the registration of a transfer or exchange in accordance with this Section.

No service charge will be imposed in connection with any transfer or exchange of any Note, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than a transfer tax or other similar governmental charge payable upon exchange pursuant to subsection (b)(b)(iv)).

(e) (i) *Global Note to Global Note*. If a beneficial interest in a Global Note is transferred or exchanged for a beneficial interest in another Global Note, the Trustee will (x) record a decrease in the principal amount of the Global Note being transferred or exchanged equal to the principal amount of such transfer or exchange and (y) record a like increase in the principal amount of the other Global Note. Any beneficial interest in one Global Note that is transferred to a Person who takes delivery in the form of an interest in another Global Note, or exchanged for an interest in another Global Note, will, upon transfer or exchange, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer and exchange restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

(ii) *Global Note to Certificated Note*. If a beneficial interest in a Global Note is transferred or exchanged for a Certificated Note, the Trustee will (x) record a decrease in the principal amount of such Global Note equal to the principal amount of such transfer or exchange and (y) deliver one or more new Certificated Notes in authorized denominations having an equal aggregate principal amount to the transferee (in the case of a transfer) or the owner of such beneficial interest (in the case of an exchange), registered in the name of such transferee or owner, as applicable.

(iii) *Certificated Note to Global Note*. If a Certificated Note is transferred or exchanged for a beneficial interest in a Global Note, the Trustee will (x) cancel such Certificated Note, (y) record an increase in the principal amount of such Global Note equal to the principal amount of such transfer or exchange and (z) in the event that such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more new Certificated Notes in authorized denominations having an aggregate principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

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(iv) *Certificated Note to Certificated Note.* If a Certificated Note is transferred or exchanged for another Certificated Note, the Trustee will (x) cancel the Certificated Note being transferred or exchanged, (y) deliver one or more new Certificated Notes in authorized denominations having an aggregate principal amount equal to the principal amount of such transfer or exchange to the transferee (in the case of a transfer) or the Holder of the canceled Certificated Note (in the case of an exchange), registered in the name of such transferee or Holder, as applicable, and (z) if such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more Certificated Notes in authorized denominations having an aggregate principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

Section 2.10. *Restrictions on Transfer and Exchange.* (a) The transfer or exchange of any Note (or a beneficial interest therein) may only be made in accordance with this Section and Section 2.09 and, in the case of a Global Note (or a beneficial interest therein), the applicable rules and procedures of the Depository. The Trustee shall refuse to register any requested transfer or exchange that does not comply with the preceding sentence.

(b) Subject to paragraph (c), the transfer or exchange of any Note (or a beneficial interest therein) of the type set forth in column A below for a Note (or a beneficial interest therein) of the type set forth opposite in column B below may only be made in compliance with the certification requirements (if any) described in the clause of this paragraph set forth opposite in column C below.

A	B	C
Rule 144A Global Note	Rule 144A Global Note	(i)
Rule 144A Global Note	Regulation S Global Note	(ii)
Rule 144A Global Note	Certificated Note	(iii)
Regulation S Global Note	Rule 144A Global Note	(iv)
Regulation S Global Note	Regulation S Global Note	(i)
Regulation S Global Note	Certificated Note	(v)
Certificated Note	Rule 144A Global Note	(iv)
Certificated Note	Regulation S Global Note	(ii)
Certificated Note	Certificated Note	(iii)

(i) No certification is required.

(ii) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee a duly completed Regulation S Certificate; *provided* that if the requested transfer or exchange is made by the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required.

(iii) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee (x) a duly completed Rule 144A Certificate, (y) a duly completed Regulation S Certificate or (z) a duly completed Institutional Accredited Investor Certificate, and/or an opinion of counsel and such other certifications and evidence as the Issuer may reasonably require in order to determine that the proposed transfer or exchange is being made in compliance with the Securities Act and any applicable securities laws of any state of the United States; *provided* that if the requested transfer or exchange is made by the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required. In the event that (A) the requested transfer or exchange takes place after the Restricted Period and a duly completed Regulation S Certificate is delivered to the Trustee or (B) a Certificated Note that does not bear the Restricted Legend is surrendered for transfer or exchange, upon transfer or exchange the Trustee will deliver a Certificated Note that does not bear the Restricted Legend.

(iv) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee a duly completed Rule 144A Certificate.

(v) Notwithstanding anything to the contrary contained herein, no such exchange is permitted if the requested exchange involves a beneficial interest in a Regulation S Temporary Global Note. If the requested transfer or exchange involves a beneficial interest in a Permanent Regulation S Global Note, no certification is required and the Trustee will deliver a Certificated Note that does not bear the Restricted Legend.

(c) No certification is required in connection with any transfer or exchange of any Note (or a beneficial interest therein)

(i) after such Note is eligible for resale pursuant to Rule 144(k) under the Securities Act (or a successor provision); *provided* that the Issuer has provided the Trustee with a certificate to that effect, and the Issuer may require from any Person requesting a transfer or exchange in reliance upon this clause (i) an opinion of counsel and any other reasonable certifications and evidence in order to support such certificate; or

(ii) (A) sold pursuant to an effective registration statement, pursuant to the Registration Rights Agreement or otherwise or (B) which is validly tendered for exchange into an Exchange Note pursuant to an Exchange Offer.

Any Certificated Note delivered in reliance upon this paragraph will not bear the Restricted Legend.

(d) The Trustee will retain copies of all certificates, opinions and other documents received in connection with the transfer or exchange of a Note (or a beneficial interest therein), and the Issuer will have the right to inspect and make copies thereof at any reasonable time upon written notice to the Trustee.

Section 2.11. *Regulation S Temporary Global Notes.* (a) Each Note originally sold by the Initial Purchasers in reliance upon Regulation S will be evidenced by one or more Regulation S Global Notes that bear the Regulation S Temporary Global Note Legend.

(b) An owner of a beneficial interest in a Regulation S Temporary Global Note (or a Person acting on behalf of such an owner) may provide to the Trustee (and the Trustee will accept) a duly completed Certificate of Beneficial Ownership at any time after the Restricted Period (it being understood that the Trustee will not accept any such certificate during the Restricted Period). Promptly after acceptance of a Certificate of Beneficial Ownership with respect to such a beneficial interest, the Trustee will cause such beneficial interest to be exchanged for an equivalent beneficial interest in a Permanent Regulation S Global Note, and will (x) permanently reduce the principal amount of such Regulation S Temporary Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Regulation S Global Note by the amount of such beneficial interest.

(c) Notwithstanding anything to the contrary contained herein, beneficial interests in a Regulation S Temporary Global Note may be held through the Depository only through Euroclear and Clearstream and their respective direct and indirect participants.

(d) Notwithstanding paragraph (b), if after the Restricted Period any Initial Purchaser owns a beneficial interest in a Regulation S Temporary Global Note, such Initial Purchaser may, upon written request to the Trustee accompanied by a certification as to its status as an Initial Purchaser, exchange such beneficial interest for an equivalent beneficial interest in a Permanent Regulation S Global Note, and the Trustee will comply with such request and will (x) permanently reduce the principal amount of such Regulation S Temporary Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Regulation S Global Note by the amount of such beneficial interest.

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ARTICLE 3 REDEMPTION; OFFER TO PURCHASE

Section 3.01. *Optional Redemption.* The Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (a) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date; *plus*
- (b) the Make-Whole Amount.

The Trustee shall have no responsibility in connection with the calculation of such redemption price.

Section 3.02. *Sinking Fund; Mandatory Redemption.* There is no sinking fund for, or mandatory redemption of, the Notes.

Section 3.03. *Method and Effect of Redemption.* (a) If the Issuer elects to redeem Notes, it must notify the Trustee of the redemption date and the principal amount of Notes to be redeemed by delivering an Officers' Certificate at least 60 days before the redemption date (unless a shorter period is satisfactory to the Trustee). If fewer than all of the Notes are being redeemed, the Officers' Certificate must also specify a record date not less than 15 days after the date of the notice of redemption is given to the Trustee, and the Trustee will select the Notes to be redeemed pro rata, or as nearly a pro rata basis as is practicable (subject to the procedures of DTC), unless such method is otherwise prohibited, in which case, by lot or by any other method the Trustee in its sole discretion deems fair and appropriate, in denominations of \$1,000 principal amount and multiples thereof. The Trustee will notify the Issuer promptly of the Notes or portions of Notes to be called for redemption. Notice of redemption must be sent by the Issuer or at the Issuer's request, by the Trustee in the name and at the expense of the Issuer, to Holders whose Notes are to be redeemed at least 30 days but not more than 60 days before the redemption date.

- (b) The notice of redemption will identify the Notes to be redeemed and will include or state the following:
 - (i) the redemption date;
 - (ii) the redemption price, including the portion thereof representing any accrued interest or Additional Interest;
 - (iii) the place or places where Notes are to be surrendered for redemption;

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- (iv) Notes called for redemption must be so surrendered in order to collect the redemption price;
- (v) on the redemption date the redemption price will become due and payable on Notes called for redemption, and interest on Notes called for redemption will cease to accrue on and after the redemption date;
- (vi) if any Note is redeemed in part, on and after the redemption date, upon surrender of such Note, new Notes equal in principal amount to the unredeemed portion will be issued; and
- (vii) if any Note contains a CUSIP or ISIN number, no representation is being made as to the correctness of the CUSIP or ISIN number either as printed on the Notes or as contained in the notice of redemption and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Once notice of redemption is sent to the Holders, Notes called for redemption become due and payable at the redemption price on the redemption date, and upon surrender of the Notes called for redemption, the Issuer shall redeem such Notes at the redemption price. Commencing on the redemption date, Notes redeemed will cease to accrue interest. Upon surrender of any Note redeemed in part, the Holder will receive a new Note equal in principal amount to the unredeemed portion of the surrendered Note.

Section 3.04. *Offer to Purchase.* (a) An "Offer to Purchase" means an offer by the Issuer to purchase Notes as required by the Indenture. An Offer to Purchase must be made by written offer (the "offer") sent to the Holders. The Issuer will notify the Trustee at least 15 days (or such shorter period as is

acceptable to the Trustee) prior to sending the offer to Holders of its obligation to make an Offer to Purchase, and the offer will be sent by the Issuer or, at the Issuer's request, by the Trustee in the name and at the expense of the Issuer.

- (b) The offer must include or state the following as to the terms of the Offer to Purchase:
- (i) the provision of the Indenture pursuant to which the Offer to Purchase is being made;
 - (ii) the aggregate principal amount of the outstanding Notes offered to be purchased by the Issuer pursuant to the Offer to Purchase (including, if less than 100%, the manner by which such amount has been determined pursuant to the Indenture) (the “**purchase amount**”);

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- (iii) the purchase price, including the portion thereof representing accrued interest and Additional Interest, if any;
- (iv) an expiration date (the “**expiration date**”) not less than 30 days or more than 60 days after the date of the offer, and a settlement date for purchase (the “**purchase date**”) not more than five Business Days after the expiration date;
- (v) information concerning the business of the Issuer and its Subsidiaries which the Issuer in good faith believes will enable the Holders to make an informed decision with respect to the Offer to Purchase, at a minimum to include
 - (A) the most recent annual and quarterly financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for the Company,
 - (B) a description of material developments in the Company’s business subsequent to the date of the latest of the financial statements (including a description of the events requiring the Issuer to make the Offer to Purchase), and
 - (C) if applicable, appropriate pro forma financial information concerning the Offer to Purchase and the events requiring the Issuer to make the Offer to Purchase;
- (vi) a Holder may tender all or any portion of its Notes, subject to the requirement that any portion of a Note tendered must be in a multiple of \$1,000 principal amount;
- (vii) the place or places where Notes are to be surrendered for tender pursuant to the Offer to Purchase;
- (viii) each Holder electing to tender a Note pursuant to the offer will be required to surrender such Note at the place or places specified in the offer prior to the close of business on the expiration date (such Note being, if the Issuer or the Trustee so requires, duly endorsed or accompanied by a duly executed written instrument of transfer);
- (ix) interest on any Note not tendered, or tendered but not purchased by the Issuer pursuant to the Offer to Purchase, will continue to accrue;
- (x) on the purchase date the purchase price will become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date;

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- (xi) Holders are entitled to withdraw Notes tendered by giving notice, which must be received by the Issuer or the Trustee not later than the close of business on the expiration date, setting forth the name of the Holder, the principal amount of the tendered Notes, the certificate number of the tendered Notes and a statement that the Holder is withdrawing all or a portion of the tender;
- (xii) (A) if Notes in an aggregate principal amount less than or equal to the purchase amount are duly tendered and not withdrawn pursuant to the Offer to Purchase, the Issuer will purchase all such Notes, and (B) if the Offer to Purchase is for less than all of the outstanding Notes and Notes in an aggregate principal amount in excess of the purchase amount are tendered and not withdrawn pursuant to the offer, the Issuer will purchase Notes having an aggregate principal amount equal to the purchase amount on a pro rata basis, with adjustments so that only Notes in multiples of \$1,000 principal amount will be purchased;
- (xiii) if any Note is purchased in part, new Notes equal in principal amount to the unpurchased portion of the Note will be issued; and
- (xiv) if any Note contains a CUSIP or ISIN number, no representation is being made as to the correctness of the CUSIP or ISIN number either as printed on the Notes or as contained in the offer and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Prior to the purchase date, the Issuer will accept tendered Notes for purchase as required by the Offer to Purchase and deliver to the Trustee all Notes so accepted together with an Officers’ Certificate specifying which Notes have been accepted for purchase. On the purchase date the purchase price will become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date. The Trustee will promptly return to Holders any Notes not accepted for purchase and send to Holders new Notes equal in principal amount to any unpurchased portion of any Notes accepted for purchase in part.

(d) The Issuer will comply with Rule 14e-1 under the Exchange Act and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

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ARTICLE 4
COVENANTS

Section 4.01. *Payment of Notes.* (a) The Issuer agrees to pay the principal of and interest and Additional Interest, if any, on the Notes on the dates and in the manner provided in the Notes and the Indenture. The Issuer shall pay Additional Interest in the amounts set forth in the Registration Rights Agreement. Not later than 9:00 A.M. (New York City time) on the due date of any principal of or interest on any Notes, or any redemption or purchase price of the Notes, the Issuer will deposit with the Trustee (or Paying Agent) money in immediately available funds sufficient to pay such amounts, *provided* that if the Issuer or any Affiliate of the Issuer is acting as Paying Agent, it will, on or before each due date, segregate and hold in a separate trust fund for the benefit of the Holders a sum of money sufficient to pay such amounts until paid to such Holders or otherwise disposed of as provided in the Indenture. In each case the Issuer will promptly notify the Trustee of its compliance with this paragraph.

(b) An installment of principal or interest will be considered paid on the date due if the Trustee (or Paying Agent, other than the Issuer or any Affiliate of the Issuer) holds on that date money designated for and sufficient to pay the installment. If the Issuer or any Affiliate of the Issuer acts as Paying Agent, an installment of principal or interest will be considered paid on the due date only if paid to the Holders.

(c) The Issuer agrees to pay interest on overdue principal, and to the extent lawful, overdue installments of interest and Additional Interest at the rate per annum specified in the Notes.

(d) Payments in respect of the Notes represented by the Global Notes are to be made by wire transfer of immediately available funds to the accounts specified by the Holders of the Global Notes. With respect to Certificated Notes, the Issuer will make all payments by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to each Holder's registered address.

Section 4.02. *Maintenance of Office or Agency.* The Issuer will maintain an office or agency where Notes may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Issuer in respect of the Notes and the Indenture may be served. The Issuer hereby initially designates the Corporate Trust Office of the Trustee as such office of the Issuer. The Issuer will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuer fails to maintain any such required office or agency or fails to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served to the Trustee.

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The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be surrendered or presented for any of such purposes and may from time to time rescind such designations. The Issuer will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 4.03. *Existence.* The Company and the Issuer will each do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the existence of each of its Restricted Subsidiaries in accordance with their respective organizational documents, and the material rights, licenses and franchises of the Company, the Issuer and each Restricted Subsidiary, *provided* that the Company and the Issuer are not required to preserve any such right, license or franchise, or the existence of any Restricted Subsidiary, if the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries taken as a whole; and *provided further* that this Section does not prohibit any transaction otherwise permitted by Section 4.10 or Section 4.14.

Section 4.04. *Payment of Taxes and Other Claims.* The Company will pay or discharge, and cause each of its Subsidiaries to pay or discharge before the same become delinquent (a) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or its income or profits or property, and (b) all material lawful claims for labor, materials and supplies that, if unpaid, might by law become a Lien upon the property of the Company or any Subsidiary, other than any such tax, assessment, charge or claim the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves have been established.

Section 4.05. *Maintenance of Properties and Insurance.* (a) The Company will cause all properties used or useful in the conduct of its business or the business of any of its Restricted Subsidiaries to be maintained and kept in good condition, repair and working order as in the judgment of the Company may be necessary so that the business of the Company and its Restricted Subsidiaries may be properly and advantageously conducted at all times; *provided* that nothing in this Section prevents the Company or any Restricted Subsidiary from discontinuing the use, operation or maintenance of any of such properties or disposing of any of them, if such discontinuance or disposal is, in the judgment of the Company, desirable in the conduct of the business of the Company and its Restricted Subsidiaries taken as a whole.

(b) The Company will provide or cause to be provided, for itself and its Restricted Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds customarily insured against by corporations similarly situated and owning like properties, including, but not limited to, products liability insurance and public liability insurance, with reputable insurers, in such

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amounts, with such deductibles and by such methods as are customary for corporations similarly situated in the industry in which the Company and its Restricted Subsidiaries are then conducting business.

Section 4.06. *Limitations on Indebtedness.* (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary, directly or indirectly, to create, incur, assume, become liable for or guarantee the payment of (collectively, an "**incurrence**") any Indebtedness (including Acquired Indebtedness) unless, after giving effect thereto and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio on the date thereof would be at least 2.0 to 1.0.

(b) Notwithstanding the foregoing, the provisions of the Indenture will not prevent the incurrence of:

- (i) Permitted Indebtedness,
- (ii) Refinancing Indebtedness,
- (iii) Non-Recourse Indebtedness,
- (iv) any Guarantee of Indebtedness represented by the Notes or the Issuer's 6 1/4% Senior Notes due 2015, and
- (v) any guarantee of Indebtedness incurred under Credit Facilities in compliance with the Indenture.

(c) For purposes of determining compliance with this covenant, in the event that an item of Indebtedness may be incurred through the first paragraph of this covenant or by meeting the criteria of one or more of the types of Indebtedness described in the second paragraph of this covenant (or the definitions of the terms used therein), the Company, in its sole discretion,

- (i) may classify such item of Indebtedness under and comply with either of such paragraphs (or any of such definitions), as applicable,
- (ii) may classify and divide such item of Indebtedness into more than one of such paragraphs (or definitions), as applicable, and
- (iii) may elect to comply with such paragraphs (or definitions), as applicable, in any order.

Section 4.07. *Limitation on Restricted Payments.* (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

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(i) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;

(ii) immediately after giving effect to such Restricted Payment, the Company could incur at least \$1.00 of Indebtedness pursuant to Section 4.06(a) hereof; and

(iii) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made after May 4, 1999 does not exceed the sum of:

(A) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including February 1, 1999 and ending on the last day of the Company's fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, minus 100% of such deficit), *plus*

(B) 100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after February 1, 1999 or any issue or sale after February 1, 1999 of Qualified Stock (other than to any Subsidiary of the Company) and (2) the issue or sale after February 1, 1999 of any Indebtedness or other securities of the Company convertible into or exercisable for Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*

(C) in the case of the disposition or repayment of any Investment constituting a Restricted Payment made after May 4, 1999, an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (A)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (A)), *plus*

(D) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after May 4, 1999, in accordance with the definition of Unrestricted Subsidiary (so long

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as the designation of such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after May 4, 1999, and only to the extent not included in the calculation of Consolidated Net Income referred to in (A)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value thereof, over (II) the total liabilities of such Subsidiary, determined in accordance with GAAP, and (y) the Designation Amount at the time of such Subsidiary's designation as an Unrestricted Subsidiary, *plus*

(E) \$17 million, *minus*

(F) the aggregate amount of all Restricted Payments (other than Restricted Payments referred to in clause (iii) of paragraph (b) below) made after February 1, 1999 through May 4, 1999.

(b) Clauses (ii) and (iii) of paragraph (a) will not prohibit:

(i) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the Indenture;

(ii) the repurchase, redemption or retirement of any shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, other shares of Qualified Stock; and

(iii) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed \$10 million in the aggregate since May 4, 1999;

provided, however that each Restricted Payment described in clauses (i) and (ii) of this sentence shall be taken into account for purposes of computing the aggregate amount of all Restricted Payments pursuant to clause of the immediately preceding paragraph.

(c) For purposes of determining the aggregate and permitted amounts of Restricted Payments made, the amount of any guarantee of any Investment in any

Person that was initially treated as a Restricted Payment and which was subsequently terminated or expired, net of any amounts paid by the Company or any Restricted Subsidiary in respect of such guarantee, shall be deducted.

(d) In determining the “Fair Market Value of Property” for purposes of clause (iii) of paragraph (a), Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the “equity value” of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq National Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than \$10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

Section 4.08. *Limitation on Liens.* The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its Property, or on any shares of Capital Stock or Indebtedness of any Restricted Subsidiary, which secures Indebtedness other than Senior Indebtedness unless contemporaneously therewith or prior thereto all payments due under the Indenture and the Notes are secured on an equal and ratable basis with the obligation or liability so secured until such time as such obligation or liability is no longer secured by a Lien.

Section 4.09. *Limitations on Restrictions Affecting Restricted Subsidiaries.* The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, assume or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction (other than encumbrances or restrictions imposed by law or by judicial or regulatory action or by provisions of agreements that restrict the assignability thereof) on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,

(b) make loans or advances to the Company or any other Restricted Subsidiary, or

(c) transfer any of its property or assets to the Company or any other Restricted Subsidiary,

except for

(i) encumbrances or restrictions existing under or by reason of applicable law,

(ii) contractual encumbrances or restrictions in effect on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof, *provided* that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect on the Issue Date,

(iii) any restrictions or encumbrances arising under Acquired Indebtedness; *provided* that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,

(iv) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided, however*, that any restrictions and encumbrances of the type described in this clause (iv) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,

(v) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,

(vi) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the Indenture,

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(vii) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

(viii) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition,

(ix) encumbrances or restrictions existing under or by reason of the Indenture or the Notes,

(x) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (c) of the preceding paragraph,

(xi) Liens permitted under the Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,

(xii) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,

(xiii) customary provisions of any franchise, distribution or similar agreements,

(xiv) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and

(xv) any encumbrance or restrictions of the type referred to in clauses (a), (b) or (c) of the first paragraph of this section imposed by any amendments, modifications, restatements, renewals, supplements, refinancings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (i) through (xiv) of this paragraph, *provided* that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company's Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

Section 4.10. *Limitations on Dispositions of Assets.* The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to,

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make any Asset Disposition unless (x) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and (y) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities. The amount of (i) any Indebtedness (other than any Indebtedness subordinated to the Notes) of the Company or any Restricted Subsidiary that is actually assumed by the transferee in such Asset Disposition and (ii) the fair market value (as determined in good faith by the Board of Directors of the Company) of any property or assets received that are used or useful in a Real Estate Business, shall be deemed to be consideration required by clause (y) above for purposes of determining the percentage of such consideration received by the Company or the Restricted Subsidiaries. The Net Cash Proceeds of an Asset Disposition shall, within one year, at the Company's election, (a) be used by the Company or a Restricted Subsidiary in the business of the construction and sale of homes conducted by the Company and the Restricted Subsidiaries or any other business of the Company or a Restricted Subsidiary existing at the time of such Asset Disposition, (b) be used to repay Senior Debt of the Issuer or Senior Debt of a Guarantor or (c) to the extent not so used, be applied to make an Offer to Purchase Notes and, if the Company or a Restricted Subsidiary elects or is required to do so repay, purchase or redeem any other pari passu Indebtedness (on a *pro rata* basis if the amount available for such repayment, purchase or redemption is less than the aggregate amount of (i) the principal amount of the Notes tendered in such Offer to Purchase and (ii) the lesser of the principal amount, or accreted value, of such other pari passu Indebtedness, plus, in each case accrued interest to the date of repayment, purchase or redemption) at 100% of the principal amount or accreted value thereof, as the case may be, plus accrued interest and Additional Interest, if any, to the date of repurchase or repayment. Notwithstanding the foregoing, (A) the Company will not be required to apply such Net Cash Proceeds to the repurchase of Notes in accordance with clause (c) of the preceding sentence except to the extent that such Net Cash Proceeds, together with the aggregate Net Cash Proceeds of prior Asset Dispositions (other than those so used) which have not been applied in accordance with this provision and as to which no prior Offer to Purchase shall have been made, exceed 5% of Consolidated Tangible Assets and (B) in connection with an Asset Disposition, the Company and the Restricted Subsidiaries will not be required to comply with the requirements of clause (y) of the first sentence of the first paragraph of this covenant to the extent that the non-cash consideration received in connection with such Asset Disposition together with the sum of all non-cash consideration received in connection with all prior Asset Disposition that has not yet been converted into cash, does not exceed 5% of Consolidated Tangible Assets; *provided however*, that when any non-cash consideration is converted into cash, such cash shall constitute Net Cash Proceeds and be subject to the preceding sentence.

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Section 4.11. *Guarantees by Restricted Subsidiaries.* Each existing Restricted Subsidiary (other than the Issuer, KHL, Inc. and K. Hovnanian Poland, sp.zo.o.) will provide a Note Guaranty. The Company will be permitted to cause any Unrestricted Subsidiary to provide a Note Guaranty. If the Issuer, the Company or any of its Restricted Subsidiaries acquires or creates a Restricted Subsidiary after the date of the Indenture, the new Restricted Subsidiary (subject to Section 6.03(b)) must provide a Note Guaranty.

A Restricted Subsidiary required to provide a Note Guaranty shall execute a Guarantee substantially in the form included in Exhibit A, execute a supplemental indenture in the form of Exhibit B, and deliver an Opinion of Counsel to the Trustee to the effect that the supplemental indenture has been duly

authorized, executed and delivered by the Restricted Subsidiary and constitutes a valid and binding obligation of the Restricted Subsidiary, enforceable against the Restricted Subsidiary in accordance with its terms (subject to customary exceptions).

Section 4.12. *Repurchase of Notes Upon a Change of Control.* (a) In the event that there shall occur a Change of Control, each Holder of Notes shall have the right, at such Holder's option, to require the Issuer to purchase all or any part of such Holder's Notes on a date (the "**Repurchase Date**") that is no later than 90 days after notice of the Change of Control, at 101% of the principal amount thereof plus accrued and unpaid interest and Additional Interest, if any, to the Repurchase Date.

(b) On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail or cause to be mailed, to all Holders of record of Notes a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, The City of New York. To exercise such right, the Holder of such Note must deliver at least ten days prior to the Repurchase Date written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder's exercise of such right, together with the Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Issuer.

(c) The Issuer will comply with applicable law, including Section 14(e) of Exchange Act and Rule 14e-1 thereunder, if applicable, if the Issuer is required to give a notice of a right of repurchase as a result of a Change of Control.

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Section 4.13. *Limitation on Transactions with Affiliates.* (a) The Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the benefit of, or sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company's Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or series of related transactions (each, an "**Affiliate Transaction**"), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company's Subsidiaries.

(b) In addition, the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, enter into an Affiliate Transaction unless:

(i) with respect to any such Affiliate Transaction involving or having a value of more than \$1 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) either obtained the approval of a majority of the Company's disinterested directors or obtained an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view, and

(ii) with respect to any such Affiliate Transaction involving or having a value of more than \$10 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) delivered to the Trustee an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view.

(c) Notwithstanding the foregoing, an Affiliate Transaction will not include:

(i) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,

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(ii) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,

(iii) any Restricted Payment otherwise permitted under Section 4.07 hereof,

(iv) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (*provided, however*, no such transaction shall involve any other Affiliate of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by the Indenture)),

(v) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously divided, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,

(vi) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and

(vii) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

Section 4.14. *Limitations on Mergers, Consolidations and Sales of Assets.* Neither the Company nor the Issuer nor any Guarantor will consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including, without limitation, by way of liquidation or

dissolution), or assign any of its obligations under the Notes, the Guarantee or the Indenture (as an entirety or substantially as an entirety in one transaction or in a series of related transactions), to any Person (in each case other than in a transaction in which the Company, the Issuer or a Restricted Subsidiary is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

(i) the Person formed by or surviving such consolidation or merger (if other than the Company, the Issuer or the Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition or assignment will be made (collectively, the “**Successor**”), is a corporation

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or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all of the obligations of the Company, the Issuer or the Guarantor, as the case may be, under the Notes or a Guarantee, as the case may be, and the Indenture,

(ii) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing, and

(iii) immediately after giving effect to such transaction, the Company (or its Successor) could incur at least \$1.00 of Indebtedness pursuant to Section 4.06(a) hereof.

The foregoing provisions shall not apply to (i) a transaction involving the sale or disposition of Capital Stock of a Guarantor, or the consolidation or merger of a Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor, that in any such case results in such Guarantor being released from its Guarantee pursuant to the Indenture, or (ii) a transaction the purpose of which is to change the state of incorporation of the Company, the Issuer or any Guarantor.

Section 4.15. *Reports to Holders of Notes.* (a) The Company shall file with the Commission the annual reports and the information, documents and other reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. The Company shall file with the Trustee and mail to each Holder of record of Notes such reports, information and documents within 15 days after it files them with the Commission. In the event that the Company is no longer subject to these periodic requirements of the Exchange Act, it will nonetheless continue to file reports with the Commission and the Trustee and mail such reports to each Holder of Notes as if it were subject to such reporting requirements. Regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the Exchange Act, the Company will cause its consolidated financial statements and a “Management’s Discussion and Analysis of Results of Operations and Financial Condition” written report, similar to those that would have been required to appear in annual or quarterly reports, to be delivered to Holders of Notes.

(b) For so long as any of the Notes remain outstanding and constitute “restricted securities” under Rule 144, the Company will furnish to the Holders of the Notes and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) All obligors on the Notes will comply with Section 314(a) of the Trust Indenture Act.

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(d) Delivery of these reports and information to the Trustee is for informational purposes only and the Trustee’s receipt of them will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company’s compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers’ Certificates).

Section 4.16. *Reports to Trustee.* (a) The Company will deliver to the Trustee within 120 days after the end of each fiscal year a written statement by the Company’s independent public accountants stating (i) that their audit examination has included a review of the terms of this Indenture and the Notes as they relate to accounting matters, and (ii) whether, in connection with their audit examination, any Default has come to their attention and, if a Default has come to their attention, specifying the nature and period of the existence thereof.

(b) The Company shall deliver to the Trustee, on or prior to each Interest Payment Date, an Officer’s Certificate setting forth the amount of Additional Interest, if any, the Issuer is required to pay on that Interest Payment Date. If no Additional Interest are required to be paid on a given Interest Payment Date, no such Officer’s Certificate is required to be delivered to the Trustee for that Interest Payment Date.

(c) The Company will notify the Trustee when any Notes are listed on any national securities exchange and of any delisting.

Section 4.17. *Notice of Other Defaults.* In the event that any Indebtedness of the Issuer or any Guarantor is declared due and payable before its maturity because of the occurrence of any default under such Indebtedness, the Issuer or the relevant Guarantor, as the case may be, shall promptly deliver to the Trustee and Officers’ Certificate stating such declaration; *provided* that the term “Indebtedness” as used in this Section 4.17 shall not include Non-Recourse Indebtedness.

Section 4.18. *Limitation of Applicability of Certain Covenants if Notes Rated Investment Grade.* (a) The Issuer, the Company and its Restricted Subsidiaries’ obligations to comply with the provisions of the Indenture under this Article 4 (except for Sections 4.01, 4.02, 4.03, 4.04, 4.05, 4.08, 4.11 (subject to Section 6.03(b)), 4.12, 4.14 (other than clause (iii) of the first paragraph thereof), 4.15, 4.16, 4.17, 4.19 and this Section 4.18, will terminate (such terminated covenants, the “**Extinguished Covenants**”) and cease to have any further effect from and after the first date when the Notes issued under the Indenture are rated Investment Grade; *provided*, that if the Notes subsequently cease to be rated Investment Grade, then, from and after the time the Notes cease to be rated Investment Grade, the Issuer’s, the Company’s and its Restricted Subsidiaries’ obligation to comply with the Extinguished Covenants shall be reinstated.

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(b) In the event of any such reinstatement of the obligation to comply with the Extinguished Covenants, no action taken or omitted to be taken by the Issuer, the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the Indenture upon

reinstatement; provided, that with respect to Restricted Payments made after any such reinstatement, the amount of Restricted Payments made after May 4, 1999 will be calculated as though Section 4.07 hereof had been in effect during the entire period after such date.

Section 4.19. *Limitation on Senior Subordinated Indebtedness.* The Company and the Issuer will not, and will not cause or permit any Guarantor to, incur any Indebtedness that is subordinate in right of payment to any Senior Debt of the Issuer or Senior Debt of a Guarantor, as the case may be, unless such Indebtedness is pari passu with, or subordinated in right of payment to, the Notes or any Note Guarantee; *provided* that the foregoing limitation shall not apply to distinctions between categories of Senior Debt of the Issuer or Senior Debt of a Guarantor that exist by reason of any Liens or guarantees arising or created in respect of some but not all such Senior Debt of the Issuer or Senior Debt of a Guarantor or priorities of paydown, from proceeds of collateral or otherwise, among classes or tranches of any issue of Senior Debt of the Issuer or Senior Debt of a Guarantor.

ARTICLE 5 REMEDIES

Section 5.01. *Events of Default.* “**Event of Default**” means any one or more of the following events:

(i) the failure by the Company, the Issuer and the Guarantors to pay interest on, or Additional Interest with respect to, any Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days (whether or not prohibited by Article 11);

(ii) the failure by the Company, the Issuer and the Guarantors to pay the principal or premium of any Note when the same becomes due and payable at maturity, upon acceleration or otherwise;

(iii) the failure by the Company, the Issuer or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the Notes, the Guarantee or the Indenture and such failure continues for the period and after the notice specified below (except in the case of a default under Sections 4.12 and 4.14 hereof, which will constitute Events of Default with notice but without passage of time);

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(iv) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company, the Issuer or any Restricted Subsidiary that has an outstanding principal amount of \$10 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;

(v) the failure by the Company, the Issuer or any Restricted Subsidiary to make any principal or interest payment in an amount of \$10 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Restricted Subsidiary within 30 days of such principal or interest becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(vi) a final judgment or judgments that exceed \$10 million or more, individually or in the aggregate, for the payment of money having been entered by a court or courts of competent jurisdiction against the Company, the Issuer or any of its Restricted Subsidiaries and such judgment or judgments is not satisfied, stayed, annulled or rescinded within 60 days of being entered;

(vii) the Company or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

- (A) commences a voluntary case,
- (B) consents to the entry of an order for relief against it in an involuntary case,
- (C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or
- (D) makes a general assignment for the benefit of its creditors;

(viii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (A) is for relief against the Company or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,
- (B) appoints a Custodian of the Company or any Restricted Subsidiary that is a Significant Subsidiary or a

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Custodian for all or substantially all of the property of the Company or any Restricted Subsidiary that is a Significant Subsidiary, or

- (C) orders the liquidation of the Company or any Restricted Subsidiary that is a Significant Subsidiary,

and the order or decree remains unstayed and in effect for 60 days, or

(ix) any Guarantee of a Guarantor which is a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Guarantee and the Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Guarantee (other than by reason of release of a Guarantor from its Guarantee in accordance with the terms of the Indenture and the Guarantee).

A Default as described in subclause (iii) above will not be deemed an Event of Default until the Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding Notes notify the Company and the Trustee, of the Default and (except in the case of a default with respect to Sections 4.12 and 4.14 hereof) the Company does not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default." If such a Default is cured within such time period, it ceases.

If an Event of Default (other than an Event of Default with respect to the Company resulting from subclauses (vii) and (viii) above), shall have occurred and be continuing under the Indenture, the Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the Notes then outstanding by notice to the Company and the Trustee, may declare all Notes to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on the Notes will be due and payable immediately. If an Event of Default with respect to the Company specified in subclauses (vii) and (viii) above occurs, such an amount will ipso facto become and be immediately due and payable without any declaration, notice or other act on the part of the Trustee and the Company or any Holder.

Except with respect to an Event of Default pursuant to clauses (i) or (ii) of this Section 5.01, the Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to the Trustee by the Issuer or any Holder.

Section 5.02. *Other Remedies.* If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express

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trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest or Additional Interest, if any, on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

Section 5.03. *Waiver of Defaults by Majority of Holders.* The Holders of a majority in principal amount of the Notes then outstanding by written notice to the Trustee and the Company may waive any Default or Event of Default (other than any Default or Event of Default in payment of principal or interest or Additional Interest) on the Notes under the Indenture. Holders of a majority in principal amount of the then outstanding Notes may rescind an acceleration and its consequence (except an acceleration due to nonpayment of principal or interest or Additional Interest, if any, on the Notes) if the rescission would not conflict with any judgment or decree and if all existing Events of Default (other than the non-payment of accelerated principal) have been cured or waived.

Section 5.04. *Direction of Proceedings.* The Holders of a majority in aggregate principal amount of the outstanding Notes may direct the Trustee in its exercise of any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of Notes not joining in the giving of such direction, and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Notes.

Section 5.05. *Application of Moneys Collected by Trustee.* Any moneys collected by the Trustee pursuant to this Article with respect to Notes shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys, upon presentation of the Notes and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

FIRST: To the payment of costs and expenses of collection and reasonable compensation to the Trustee, its agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee pursuant to Section 7.07;

SECOND: If the principal of the Notes shall not have become due and be unpaid, to the payment of interest or Additional Interest, if any, on the Notes with interest (to the extent that such interest has been collected by the Trustee) upon the overdue installments of interest and Additional Interest, if any, at the rate borne by the Notes, such payment to be made ratably to the Persons entitled thereto;

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THIRD: If the principal of the Notes shall have become due, by declaration or otherwise, to the payment of the whole amount then owing and unpaid upon the Notes for principal, interest and Additional Interest, if any, with interest on the overdue principal and (to the extent that such interest has been collected by the Trustee) upon overdue installments of interest and Additional Interest, if any, at the rate borne by the Notes, and in case such moneys shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest and Additional Interest, if any, without preference or priority of principal over interest or Additional Interest or of interest or Additional Interest over principal, or of interest over Additional Interest, or of any installment of interest or Additional Interest over any other installment of interest or Additional Interest, ratably to the aggregate of such principal and accrued and unpaid interest and Additional Interest, if any; and

FOURTH: To the payment of any surplus then remaining to the Issuer, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same.

No claim for interest which in any manner at or after maturity shall have been transferred or pledged separate or apart from the Notes to which it relates, or which in any manner shall have been kept alive after maturity by an extension (otherwise than pursuant to an extension made pursuant to a plan proposed by the Issuer to the Holders of all Notes), purchase, funding or otherwise by or on behalf or with the consent or approval of the Issuer shall be entitled, in case of a default hereunder, to any benefit of this Indenture, except after prior payment in full of the principal of all Notes and of all claims for interest not so transferred, pledged, kept alive, extended, purchased or funded.

Section 5.06. *Proceedings by Holders.* No holder of any Notes shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture for the appointment of a receiver or trustee or similar official, or for any other remedy hereunder, unless such Holder previously shall have given to the Trustee written notice of default and of the continuance thereof, as hereinbefore provided, and unless the Holders of not less than 25% in aggregate principal amount of the Notes shall have made written request to the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request

and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the Holder of every Note with every other Holder and the Trustee, that no one or more Holders of Notes shall have any right in any manner whatever by virtue of or by availing

of any provision of this Indenture or of the Notes to affect, disturb or prejudice the rights of any other Holder of Notes, or to obtain or seek to obtain priority over or preference as to any other such Holder, or to enforce any right under this Indenture or the Notes, except in the manner herein provided and for the equal, ratable and common benefit of all Holders of Notes.

Notwithstanding any other provisions in this Indenture, however, the right of any Holder of any Note to receive payment of the principal of, premium, if any, and interest and Additional Interest, if any, on such Note, on or after the maturity thereof, or to institute suit for the enforcement of any such payment on or after such respective dates shall not be impaired or affected without the consent of such Holder.

Section 5.07. *Proceedings by Trustee.* In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceedings in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 5.08. *Remedies Cumulative and Continuing.* All powers and remedies given by this Article Five to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.06, every power and remedy given by this Article 5 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

Section 5.09. *Undertaking to Pay Costs.* All parties to this Indenture agree and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, or in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of any undertaking to pay the cost of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the

merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.09 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Notes, or to any suit instituted by any Holders for the enforcement of the payment of the principal of or interest or Additional Interest, if any, on any Note against the Issuer on or after the due date of such Note.

Section 5.10. *Notice of Defaults.* The Company is required to deliver to the Trustee an annual statement regarding compliance with the Indenture, and include in such statement, if any officer of the Company is aware of any Default or Event of Default, a statement specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto. In addition, the Company is required to deliver to the Trustee prompt written notice of the occurrence of any Default or Event of Default.

Section 5.11. *Waiver of Stay, Extension or Usury Laws.* The Company, the Issuer and each Guarantor covenants, to the extent that it may lawfully do so, that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company, the Issuer or the Guarantor from paying all or any portion of the principal of, or interest or Additional Interest, if any, on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of the Indenture. The Company, the Issuer and each Guarantor hereby expressly waives, to the extent that it may lawfully do so, all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.12. *Trustee May File Proof of Claim.* The Trustee may file proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee hereunder) and the Holders allowed in any judicial proceedings relating to the Company or any Guarantor or their respective creditors or property, and is entitled and empowered to collect, receive and distribute any money, securities or other property payable or deliverable upon conversion or exchange of the Notes or upon any such claims. Any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, if the Trustee consents to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the

Trustee, its agent and counsel, and any other amounts due the Trustee hereunder. Nothing in the Indenture will be deemed to empower the Trustee to authorize or consent to, or accept or adopt on behalf of any Holder, any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

ARTICLE 6
GUARANTEE

Section 6.01. *Guarantee.* Each of the Guarantors hereby unconditionally guarantees, jointly and severally, to each Holder and to the Trustee and its successors and assigns, irrespective of the validity and enforceability of this Indenture, the Notes or the obligations of the Issuer hereunder or thereunder, that: (i) the due and punctual payment of the principal of and any premium, interest or Additional Interest on the Notes, whether at maturity or on an interest payment date, by acceleration, pursuant to an Offer to Purchase or otherwise, and interest on the overdue principal of and interest and Additional Interest, if any, on the Notes, if lawful, and all other obligations of the Issuer to the Holders or the Trustee hereunder or thereunder shall be promptly paid in full when due or performed in accordance with the terms hereof and thereof; including all amounts payable to the Trustee under Section 7.07 hereof, and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, the same shall be promptly paid in full when due or to be performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

If the Issuer fails to make any payment when due of any amount so guaranteed for whatever reason, each Guarantor shall be obligated to pay the same immediately. Each Guarantor hereby agrees that its obligations hereunder shall be continuing, absolute and unconditional, irrespective of, and shall be unaffected by, the validity regularity or enforceability of the Notes, this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder or the Trustee with respect to any provisions hereof or thereof, the recovery of any judgment against the Issuer, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of such Guarantor. If any Holder is required by any court or otherwise to return to the Issuer or any Guarantor, or any custodian, trustee, liquidator or other similar official acting in relation to the Issuer or such Guarantor, any amount paid by the Issuer or any Guarantor to the Trustee or such Holder, this Article 6, to the extent theretofore discharged, shall be reinstated in full force and effect. Each Guarantor agrees that is shall not be entitled to any

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right of subrogation in relation to the Holders in respect of any obligations guaranteed hereby until payment in full of all obligations guaranteed hereby.

The Guarantee set forth in this Section 6.01 shall not be valid or become obligatory for any purpose with respect to a Note until the certificate of authentication on such Note shall have been signed by the Trustee or any duly appointed agent.

Section 6.02. *Obligations of Each Guarantor Unconditional.* Nothing contained in this Article 6 or elsewhere in this Indenture or in any Note is intended to or shall impair, as between each Guarantor and the Holders, which are absolute and unconditional, to pay to the Holders the principal of and interest and Additional Interest, if any, on the Notes as and when the same shall become due and payable in accordance with the provisions of the Guarantee or is intended to or shall affect the relative rights of the Holders and creditors of the Issuer, nor shall anything herein or therein prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon any Default under this Indenture in respect of cash, property or securities of such Guarantor received upon the exercise of any such remedy.

Upon any distribution of assets of a Guarantor referred to in this Article 6, the Trustee, subject to the provisions of Article 7, and the Holders shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of other indebtedness of such Guarantor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 6.

Section 6.03. *Release of a Guarantor.* (a) If all or substantially all of the assets of any Guarantor other than the Company or all of the Capital Stock of any Guarantor other than the Company is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any Guarantor other than the Company is designated an Unrestricted Subsidiary in accordance with the terms of the Indenture, then such Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the Indenture without any further action on the part of the Trustee or any Holder of the Notes.

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(b) Upon the release of the guarantee by a Guarantor (including, for the avoidance of doubt, the Issuer after it ceases to be the Issuer pursuant to Article 11) other than the Company under all then outstanding Applicable Debt, at any time after the suspension of the Extinguished Covenants pursuant to Section 4.18 hereof, the Guarantee of such Guarantor under the Indenture will be released and discharged in respect of the Notes at such time and no Restricted Subsidiary thereafter acquired or created will be required to be a Guarantor in respect of the Notes; *provided*, that the foregoing shall not apply to any release of any Guarantor done in contemplation of, or in connection with, any cessation of the Notes being rated Investment Grade. In the event that (i) any such released Guarantor thereafter guarantees any Applicable Debt (or if any released guarantee under any Applicable Debt is reinstated or renewed) or (ii) the Extinguished Covenants cease to be suspended pursuant to Section 4.18 hereof then any such released Guarantor and any other Restricted Subsidiary of Hovnanian then existing (other than KHL, Inc., the Issuer (for so long as it remains the Issuer) and K. Hovnanian Poland, sp.zo.o.) will Guarantee the Notes on the terms and conditions set forth in this Indenture. For purposes of this clause (b), Applicable Debt secured by a Lien on such Restricted Subsidiary's Property or issued by such Restricted Subsidiary shall be deemed guaranteed by such Restricted Subsidiary.

(c) An Unrestricted Subsidiary that is a Guarantor shall be deemed automatically and unconditionally released and discharged from all obligations under its Guarantee upon notice from the Company to the Trustee to such effect, without any further action required on the part of the Trustee or any Holder.

Section 6.04. *Execution and Delivery of Guaranty.* The execution by each Guarantor of the Indenture (or a supplemental indenture in the form of Exhibit B) together with an executed guarantee substantially in the form included in Exhibit A evidences the Note Guaranty of such Guarantor, whether or not the person signing as an officer of the Guarantor still holds that office at the time of authentication of any Note. The delivery of any Note by the Trustee after authentication constitutes due delivery of the Note Guaranty set forth in the Indenture on behalf of each Guarantor.

Section 6.05. *Limitation on Guarantor Liability.* Notwithstanding anything to the contrary in this Article, each Guarantor, and by its acceptance of Notes, each Holder, hereby confirms that it is the intention of all such parties that the Note Guaranty of such Guarantor not constitute a fraudulent conveyance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law. To effectuate that intention, the Trustee, the Holders and the Guarantors hereby irrevocably agree that the obligations of each Guarantor under its Note Guaranty are limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law.

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Section 6.06. *Article 6 Not to Prevent Events of Default.* The failure to make a payment on account of principal or interest or Additional Interest, if any, on the Notes by reason of any provision in this Article 6 shall not be construed as preventing the occurrence of any Event of Default under Section 5.01.

Section 6.07. *Waiver by the Guarantors.* Each Guarantor hereby irrevocably waives diligence, presentment, demand of payment, demand of performance, filing of claims with a court in the event of insolvency of bankruptcy of the Issuer, any right to require a proceeding first against the Issuer, the benefit of discussion, protest, notice and all demand whatsoever and covenants that this Guarantee shall not be discharged except by complete performance of the obligations contained in the Notes, in this Indenture and in this Article 6.

Section 6.08. *Subrogation and Contribution.* Upon making any payment with respect to any obligation of the Issuer under this Article, the Guarantor making such payment will be subrogated to the rights of the payee against the Issuer with respect to such obligation, *provided* that the Guarantor may not enforce either any right of subrogation, or any right to receive payment in the nature of contribution, or otherwise, from any other Guarantor, with respect to such payment so long as any amount payable by the Issuer hereunder or under the Notes remains unpaid.

Section 6.09. *Stay of Acceleration.* If acceleration of the time for payment of any amount payable by the Issuer under the Indenture or the Notes is stayed upon the insolvency, bankruptcy or reorganization of the Issuer, all such amounts otherwise subject to acceleration under the terms of the Indenture are nonetheless payable by the Guarantors hereunder forthwith on demand by the Trustee or the Holders.

ARTICLE 7 THE TRUSTEE

Section 7.01. *General.* (a) The duties and responsibilities of the Trustee are as provided by the Trust Indenture Act and as set forth herein. Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to this Article.

(b) Except during the continuance of an Event of Default, the Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise those rights and powers vested in it by the Indenture,

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and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Section 7.02. *Certain Rights of Trustee.* Subject to Trust Indenture Act Sections 315(a) through (d):

(a) The Trustee may rely, and will be protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document, but the Trustee, in its discretion, may make further inquiry or investigation into such facts or matters as it sees fit.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel conforming to Section 13.05 and the Trustee will not be liable for any action it takes or omits to take in good faith in reliance on the certificate or opinion. Unless otherwise specifically provided in the Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(c) The Trustee may act through its attorneys and agents and will not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

(e) The Trustee will not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers or for any action it takes or omits to take in accordance with the direction of the Holders in accordance with Section 5.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture.

(f) The Trustee may consult with counsel, and the written advice of such counsel or any Opinion of Counsel will be full and

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complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(g) No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

Section 7.03. *Individual Rights of Trustee.* The Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not the Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Trust Indenture Act Sections 310(b) and 311. For purposes of Trust Indenture Act Section 311(b)(4) and (6):

(a) “**cash transaction**” means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) “**self-liquidating paper**” means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 7.04. *Trustee’s Disclaimer.* The Trustee (a) makes no representation as to the validity or adequacy of the Indenture or the Notes, (b) is not accountable for the Company’s use or application of the proceeds from the Notes and (c) is not responsible for any statement in the Notes other than its certificate of authentication.

Section 7.05. *Notice of Default.* If any Default occurs and is continuing and is known to the Trustee, the Trustee will send notice of the Default to each Holder within 90 days after it occurs, unless the Default has been cured; *provided that*, except in the case of a default in the payment of the principal of or interest or Additional Interest, if any, on any Note or a Default that resulted from the failure to comply with Section 4.12 hereof, the Trustee may withhold the notice if and so

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long as the board of directors, the executive committee or a trust committee of directors of the Trustee in good faith determines that withholding the notice is in the interest of the Holders. Notice to Holders under this Section will be given in the manner and to the extent provided in Trust Indenture Act Section 313(c).

Section 7.06. *Reports by Trustee to Holders.* Within 60 days after each May 1, beginning with May 1, 2005, the Trustee will mail to each Holder, as provided in Trust Indenture Act Section 313(c), a brief report dated as of such May 1, if required by Trust Indenture Act Section 313(a).

Section 7.07. *Compensation and Indemnity.* (a) The Company will pay the Trustee compensation as agreed upon in writing for its services. The compensation of the Trustee is not limited by any law on compensation of a trustee of an express trust. The Company will reimburse the Trustee upon request for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by the Trustee, including the reasonable compensation and expenses of the Trustee’s agents and counsel.

(b) In addition to any other indemnity provided to the Trustee hereunder, the Company will indemnify the Trustee for, and hold it harmless against, any loss or liability or expense incurred by it without negligence or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture and its duties under the Indenture and the Notes, including the costs and expenses of defending itself against any claim or liability and of complying with any process served upon it or any of its officers in connection with the exercise or performance of any of its powers or duties under the Indenture and the Notes.

(c) To secure the Company’s payment obligations in this Section or as otherwise provided in this Indenture, the Trustee will have a lien prior to the Notes on all money or property held or collected by the Trustee, in its capacity as Trustee, except money or property held in trust to pay principal of, and interest or Additional Interest, if any, on particular Notes.

Section 7.08. *Replacement of Trustee.* (a) (i) The Trustee may resign at any time by written notice to the Company.

(ii) The Holders of a majority in principal amount of the outstanding Notes may remove the Trustee by written notice to the Trustee.

(iii) If the Trustee is no longer eligible under Section 7.10 or in the circumstances described in Trust Indenture Act Section 310(b), any Holder that satisfies the requirements of Trust Indenture Act Section 310(b)

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may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(iv) The Company may remove the Trustee if: (A) the Trustee is no longer eligible under Section 7.10; (B) the Trustee is adjudged a bankrupt or an insolvent; (C) a receiver or other public officer takes charge of the Trustee or its property; or (D) the Trustee becomes incapable of acting.

A resignation or removal of the Trustee and appointment of a successor Trustee will become effective only upon the successor Trustee’s acceptance of appointment as provided in this Section.

(b) If the Trustee has been removed by the Holders, Holders of a majority in principal amount of the Notes may appoint a successor Trustee with the consent of the Company. Otherwise, if the Trustee resigns or is removed, or if a vacancy exists in the office of Trustee for any reason, the Company will

promptly appoint a successor Trustee. If the successor Trustee does not deliver its written acceptance within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount of the outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) Upon delivery by the successor Trustee of a written acceptance of its appointment to the retiring Trustee and to the Company, (i) the retiring Trustee will transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07, (ii) the resignation or removal of the retiring Trustee will become effective, and (iii) the successor Trustee will have all the rights, powers and duties of the Trustee under the Indenture. Upon request of any successor Trustee, the Company will execute any and all instruments for fully and vesting in and confirming to the successor Trustee all such rights, powers and trusts. The Company will give notice of any resignation and any removal of the Trustee and each appointment of a successor Trustee to all Holders, and include in the notice the name of the successor Trustee and the address of its Corporate Trust Office.

(d) Notwithstanding replacement of the Trustee pursuant to this Section, the Company's obligations under Section 7.07 will continue for the benefit of the retiring Trustee.

(e) The Trustee agrees to give the notices provided for in, and otherwise comply with, Trust Indenture Act Section 310(b).

Section 7.09. *Successor Trustee by Merger.* If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate

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trust business to, another corporation or national banking association, the resulting, surviving or transferee corporation or national banking association without any further act will be the successor Trustee with the same effect as if the successor Trustee had been named as the Trustee in the Indenture.

Section 7.10. *Eligibility.* The Indenture must always have a Trustee that satisfies the requirements of Trust Indenture Act Section 310(a) and has a combined capital and surplus of at least \$25,000,000 as set forth in its most recent published annual report of condition.

Section 7.11. *Money Held in Trust.* The Trustee will not be liable for interest on any money received by it except as it may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law and except for money held in trust under Article 8.

ARTICLE 8 DEFEASANCE AND DISCHARGE

Section 8.01. *Discharge Of Issuer's Obligations.* (a) Subject to paragraph (b), the Issuer's obligations under the Notes and the Indenture, and each Guarantor's obligations under its Note Guaranty, will terminate if:

(i) all Notes previously authenticated and delivered (other than (A) destroyed, lost or stolen Notes that have been replaced or (B) Notes that are paid pursuant to Section 4.01 or (C) Notes for whose payment money or U.S. Government Obligations have been held in trust and then repaid to the Issuer pursuant to Section 8.05) have been delivered to the Trustee for cancellation and the Issuer has paid all sums payable by it hereunder; or

(ii) (A) the Notes mature within one year, or all of them are to be called for redemption within one year under arrangements satisfactory to the Trustee for giving the notice of redemption,

(B) the Issuer irrevocably deposits in trust with the Trustee, as trust funds solely for the benefit of the Holders, money or U.S. Government Obligations or a combination thereof sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certificate delivered to the Trustee, without consideration of any reinvestment, to pay principal of and premium, interest and Additional Interest, if any, on the Notes to maturity or redemption,

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as the case may be, and to pay all other sums payable by it hereunder,

(C) no Default has occurred and is continuing on the date of the deposit,

(D) the deposit will not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which the Issuer is a party or by which it is bound, and

(E) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that all conditions precedent provided for herein relating to the satisfaction and discharge of the Indenture have been complied with.

(b) After satisfying the conditions in clause (a)(i), only the Company's obligations under Section 7.07 and 8.07 will survive. After satisfying the conditions in clause (a)(ii), only the Issuer's or the Company's, as applicable, obligations in Article 2 and Sections 4.01, 4.02, 7.07, 7.08, 8.05, 8.06 and 8.07 will survive. In either case, the Trustee, upon the request and at the cost and expense of the Issuer, will acknowledge in writing the discharge of the Issuer's obligations under the Notes and the Indenture other than the surviving obligations.

Section 8.02. *Legal Defeasance.* On the 91st day following the deposit referred to in clause (1), the Issuer will be deemed to have paid and will be discharged from its obligations in respect of the Notes and the Indenture, other than its or the Company's, as applicable, obligations in Article 2 and Sections 4.01, 4.02, 7.07, 7.08, 8.05, 8.06 and 8.07, and each Guarantor's obligations under its Note Guaranty will terminate, provided the following conditions have been satisfied:

(1) The Issuer has irrevocably deposited in trust with the Trustee, as trust funds solely for the benefit of the Holders, money or U.S. Government Obligations or a combination thereof sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certificate thereof delivered to the Trustee, without consideration of any reinvestment, to pay principal of and premium, interest and Additional Interest, if any, on the Notes to maturity or redemption, as the case may be, provided that any redemption before maturity has been irrevocably provided for under arrangements satisfactory to the Trustee.

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(2) The deposit will not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which the Issuer is a party or by which it is bound.

(3) The Issuer has delivered to the Trustee either (x) a ruling received from the Internal Revenue Service to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case or (y) an Opinion of Counsel, based on a change in law after the date of the Indenture, to the same effect as the ruling described in clause (x).

(4) The Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that all conditions precedent provided for herein relating to the defeasance have been complied with.

Prior to the end of the 91-day period, none of the Issuer's obligations under the Indenture will be discharged. Thereafter, the Trustee, upon the request and at the cost and expense of the Issuer, will acknowledge in writing the discharge of the Issuer's obligations under the Notes and the Indenture except for the surviving obligations specified above.

Section 8.03. *Covenant Defeasance.* After the 91st day following the deposit referred to in clause (1), the Issuer's obligations set forth in Sections 4.06 through 4.13, inclusive and clause (iii) of Section 4.14, and each Guarantor's obligations under its Note Guaranty, will terminate, and clauses (iii), (iv), (v), (vi) and (ix) of Section 5.01 will no longer constitute Events of Default, provided the following conditions have been satisfied:

(1) The Issuer has complied with clauses (1), (2) and (4) of Section 8.02; and

(2) the Issuer has delivered to the Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case.

Except as specifically stated above, none of the Issuer's or the Company's obligations under the Indenture will be discharged.

Section 8.04. *Application Of Trust Money.* Subject to Section 8.05, the Trustee will hold in trust the money or U.S. Government Obligations deposited

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with it pursuant to Section 8.01, 8.02 or 8.03, and apply the deposited money and the proceeds from deposited U.S. Government Obligations to the payment of principal of and premium, interest and Additional Interest, if any, on the Notes in accordance with the Notes and the Indenture. Such money and U.S. Government Obligations need not be segregated from other funds except to the extent required by law.

Section 8.05. *Repayment To Issuer.* Subject to Section 7.07, 8.01, 8.02, 8.03 or 8.07, the Trustee will promptly pay to the Issuer upon request any excess money held by the Trustee at any time and thereupon be relieved from all liability with respect to such money. The Trustee will pay to the Issuer upon written request, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, any money deposited with or paid to the Trustee for the payment of the principal of, premium, interest or Additional Interest, if any, with respect to the Notes and not applied but remaining unclaimed for two years after the date upon which such principal, premium, interest or Additional Interest, shall have become due and payable; *provided, however,* that the Trustee or such paying agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in The New York Times and The Wall Street Journal (national editions), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. Thereafter, the Holder of the Notes must look solely to the Issuer for any payment such Holder may be entitled to collect, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, and all liability of the Trustee with respect to such money shall thereupon cease.

Section 8.06. *Reinstatement.* If and for so long as the Trustee is unable to apply any money or U.S. Government Obligations held in trust pursuant to Section 8.01, 8.02 or 8.03 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Issuer's obligations under the Indenture and the Notes will be reinstated as though no such deposit in trust had been made. If the Issuer makes any payment of principal of or interest or Additional Interest, if any, on any Notes because of the reinstatement of its obligations, it will be subrogated to the rights of the Holders of such Notes to receive such payment from the money or U.S. Government Obligations held in trust.

Section 8.07. *Indemnity For U.S. Government Obligations.* The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 8.01, 8.02 or 8.03.

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Section 9.01. *Amendments Without Consent of Holders.* The Company, the Issuer, the Guarantors and the Trustee may amend or supplement the Indenture or the Notes without notice to or the consent of any Holder

- (a) to cure any ambiguity, defect or inconsistency in the Indenture or the Notes;
- (b) to comply with Section 4.14;
- (c) to comply with any requirements of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act;
- (d) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee;
- (e) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (f) to provide for any Guarantee of the Notes, to secure the Notes or to confirm and evidence the release, termination or discharge of any Guarantee of or Lien securing the Notes when such release, termination or discharge is permitted by the Indenture;
- (g) to provide for or confirm the issuance of Additional Notes; or
- (h) to make any other change that does not adversely affect the legal rights of any Holder.

Section 9.02. *Amendments With Consent of Holders.* (a) Except as otherwise provided in Sections 5.01, 5.03 or 5.06 or paragraph (b), the Company, the Issuer, the Guarantors and the Trustee may amend or supplement the Indenture and the Notes with the written consent of the Holders of a majority in principal amount of the outstanding Notes (which may include consents obtained in connection with a tender offer or exchange offer), and the Holders of a majority in principal amount of the outstanding Notes by written notice to the Trustee may waive future compliance by the Company, the Issuer and the Guarantors with any provision of the Indenture or the Notes (which may include waivers obtained in connection with a tender offer or exchange offer).

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- (b) Notwithstanding the provisions of paragraph (a), without the consent of each Holder affected, an amendment or waiver may not
 - (i) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver,
 - (ii) reduce the rate of or change the time for payment of any interest, including default interest, on any Note,
 - (iii) reduce principal of or change the fixed maturity of any Note or alter the provisions (including related definitions) with respect to redemptions described under Section 3.01 or with respect to mandatory offers to repurchase Notes described under Section 4.10 and 4.12,
 - (iv) make any Note payable in money other than that stated in the Note,
 - (v) modify the ranking or priority of the Notes or any Guarantee,
 - (vi) make any change in Section 5.03 or 5.06,
 - (vii) release any Guarantor from any of its obligations under its Guarantee or the Indenture otherwise than in accordance with the Indenture, or
 - (viii) waive a continuing Default or Event of Default in the payment of principal of or interest or Additional Interest on the Notes.

(c) It is not necessary for Holders to approve the particular form of any proposed amendment, supplement or waiver, but is sufficient if their consent approves the substance thereof.

(d) An amendment, supplement or waiver under this Section will become effective on receipt by the Trustee of written consents from the Holders of the requisite percentage in principal amount of the outstanding Notes. After an amendment, supplement or waiver under this Section becomes effective, the Issuer will send to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. The Issuer will send supplemental indentures to Holders upon request. Any failure of the Issuer to send such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such supplemental indenture or waiver.

Section 9.03. *Effect of Consent.* (a) After an amendment, supplement or waiver becomes effective, it will bind every Holder unless it is of the type requiring the consent of each Holder affected. If the amendment, supplement or

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waiver is of the type requiring the consent of each Holder affected, the amendment, supplement or waiver will bind each Holder that has consented to it and every subsequent Holder of a Note that evidences the same debt as the Note of the consenting Holder.

(b) If an amendment, supplement or waiver changes the terms of a Note, the Trustee may require the Holder to deliver it to the Trustee so that the Trustee may place an appropriate notation of the changed terms on the Note and return it to the Holder, or exchange it for a new Note that reflects the changed terms. The Trustee may also place an appropriate notation on any Note thereafter authenticated. However, the effectiveness of the amendment, supplement or waiver is not affected by any failure to annotate or exchange Notes in this fashion.

Section 9.04. *Trustee's Rights and Obligations.* The Trustee is entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article is authorized or permitted by the Indenture. If the Trustee has received such an Opinion of Counsel, it shall sign the amendment, supplement or waiver so long as the same does not adversely affect the rights of the Trustee. The Trustee may, but is not obligated to, execute any amendment, supplement or waiver that affects the Trustee's own rights, duties or immunities under the Indenture.

Section 9.05. *Conformity with Trust Indenture Act.* Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

Section 9.06. *Payments for Consents.* Neither the Issuer, the Company nor any of its Subsidiaries or Affiliates may, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders of the Notes that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to the consent, waiver or amendment.

ARTICLE 10 RELEASE OF ISSUER AND GUARANTORS

Section 10.01. *Release of Issuer.* (a) The Issuer shall be released from its obligations under this Indenture and the Notes, without the consent of the Holders, if: (1) the Company or any successor to the Company has assumed the obligations of the Issuer under this Indenture and the Notes, by supplemental indenture executed and delivered to the Trustee and satisfactory in form to the

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Trustee, (2) the Company delivers an Opinion of Counsel to the Trustee to the effect that Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such release and such Holders will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such release had not occurred and (3) the Issuer shall (w) become a Guarantor subject to the provisions of Section 4.11 and Article 6 hereof, (x) execute a Guarantee, (y) execute a supplemental indenture evidencing its Guarantee and (z) deliver an Opinion of Counsel to the Trustee to the effect that the supplemental indenture has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms (subject to customary exceptions).

(b) A Guarantor may be released from its obligations under the Indenture, the Notes and its Guarantee in accordance with the provisions contained in Section 6.03 herein.

ARTICLE 11 SUBORDINATION OF NOTES

Section 11.01. *Notes Subordinated to Senior Debt of the Issuer.* The Issuer covenants and agrees, and each Holder of the Notes by his acceptance thereof likewise covenants and agrees, that the payment of the principal and interest on the Notes is subordinated, to the extent and in the manner provided in this Article 11, to the prior payment in full of all Senior Debt of the Issuer. The obligations of the Issuer and the Guarantors in respect of the Notes and the Guarantees shall rank on a parity with the obligations of the Issuer and the Guarantors under the Issuer's 8⁷/₈% Senior Subordinated Notes due 2012, and 7³/₄% Senior Subordinated Notes due 2013 and the guarantees thereof, as applicable.

"**Senior Debt of the Issuer**" means the principal of and interest on:

- (1) all Indebtedness of the Issuer;
- (2) lease obligations of the Issuer;
- (3) all Indebtedness, secured or unsecured, in connection with the acquisition or improvement of any property or asset or the acquisition of any business by the Issuer;
- (4) all Indebtedness secured by any mortgage, lien, pledge, charge or encumbrance upon property owned by the Issuer and all Indebtedness

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secured in the manner specified in this clause (4) even if the Issuer has not assumed or become liable for the payment thereof;

- (5) all customer deposits held in escrow accounts by the Issuer pending closing of the related sales;
- (6) all Indebtedness of the Issuer created or arising under any conditional sale or other title retention agreement with respect to property acquired by the Issuer or otherwise representing the deferred and unpaid balance of the purchase price of any such property, including all indebtedness created or arising in the manner specified in this clause (6) even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property;
- (7) guarantees by the Issuer, direct or indirect, of any indebtedness of another Person of the types referred to in clauses (1), (2), (3), (4), (5) or (6); and
- (8) contingent obligations of the Issuer in respect of, or to purchase or otherwise acquire or be responsible or liable for through the purchase of products or services irrespective of whether such products are delivered or such services are rendered, any such indebtedness referred to in clauses (1), (2), (3), (4), (5) or (6),

which indebtedness, lease obligation, deposit, guarantee or contingent obligation the Issuer has directly or indirectly created, incurred, assumed, guaranteed, or otherwise become liable or responsible for, whether currently outstanding or hereafter created. Any reference in this definition to any indebtedness shall be deemed to include any renewals, extensions, refundings, amendments and modifications of any such indebtedness issued in exchange for such indebtedness; *provided, however*, that Senior Debt of the Issuer shall not include, without limitation, (i) the Notes issued under this Indenture and related Guarantees, (ii) the Issuer's 8⁷/₈% Senior Subordinated Notes due 2012 and related guarantees, (iii) the 7³/₄% Senior Subordinated Notes due 2013 and related guarantees, (iv) accounts payable or any other indebtedness to trade creditors created or assumed by the Issuer or a Guarantor in the ordinary course of business in connection with the obtaining of materials or services, (v) any liability for federal, state or local taxes owed or owing by the Issuer or a Guarantor, (vi) all obligations of the Issuer to the Company or any Subsidiary and (vii) any Indebtedness as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness is on a parity with or otherwise not superior in right of payment to the Notes or Guarantees, as applicable.

This Article 11 shall constitute a continuing offer to all persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Debt of the Issuer, and such provisions are made for the benefit of the holders of Senior Debt of the Issuer, and such holders are made obligees hereunder and any one or more of them may enforce such provisions.

Section 11.02. *Issuer Not To Make Payments with Respect to Notes in Certain Circumstances.*

(a) Upon the maturity of the principal of any Senior Debt of the Issuer (other than payment of sinking fund installments) by lapse of time, acceleration or otherwise, all principal thereof and interest thereon shall first be paid in full, or such payment duly provided for in cash or in a manner satisfactory to the holders of such Senior Debt of the Issuer, before any deposit is made pursuant to Article 8 hereof or any payment is made on account of the principal of or interest on the Notes or to acquire any of the Notes or on account of the mandatory redemption provisions in the Notes (except mandatory redemption payments made in respect of Notes acquired by the Issuer before the maturity of such Senior Debt of the Issuer), including any payment pursuant to Section 4.10 or 4.12.

(b) Unless Section 11.03 shall be applicable, upon (1) the occurrence of a Payment Default with respect to any Senior Debt of the Issuer and receipt by the Trustee and the Issuer of written notice of such occurrence or (2) upon acceleration of such Senior Debt of the Issuer, then no deposit pursuant to Article 8 hereof and no payment or distribution of any assets of the Issuer of any kind or character shall be made by the Issuer or the Trustee on account of principal of or interest on the Notes or on account of the purchase or redemption or other acquisition of Notes, including any payment pursuant to Section 4.10 or 4.12, unless and until such Payment Default shall have been cured or waived in writing or shall have ceased to exist or such Senior Debt of the Issuer shall have been discharged, after which the Issuer shall resume making any and all required payments in respect of the Notes, including any missed payments.

(c) Unless Section 11.03 shall be applicable, upon (1) the occurrence of a Non-Payment Default and (2) receipt by the Trustee of written notice of such occurrence, then no deposit pursuant to Article 8 hereof and no payment or distribution of any assets of the Issuer of any kind or character shall be made by the Issuer or the Trustee on account of any principal of or interest on the Notes or on account of the purchase or redemption or other acquisition of Notes, including any payment pursuant to Section 4.10 or 4.12, for a period ("**Payment Blockage Period**") commencing upon receipt by the Trustee of such written notice from the holders of Senior Debt of the Issuer or of a Guarantor or any representative of a holder of Senior Debt of the Issuer or of a Guarantor unless and until (subject to any blockage of payment that may then be in effect under subsection (a) or (b) of this Section 11.02) the earlier of (x) more than 120 days shall have elapsed since

receipt of such written notice by the Trustee, (y) such Non-Payment Default shall have been cured or waived in writing or shall have ceased to exist or such Senior Debt of the Issuer or of a Guarantor shall have been discharged or (z) such Payment Blockage Period shall have been terminated by written notice to the Issuer or the relevant Guarantor, as the case may be, or to the Trustee from the holders of the Senior Debt of the Issuer or any representative of the holders of the Senior Debt of the Issuer or of a Guarantor initiating such Payment Blockage Period, after which, in the case of clause (x), (y) or (z), the Issuer shall promptly resume making any and all required payments in respect of the Notes, including any missed payments. In no event shall a Payment Blockage Period extend beyond 120 days from the date of the receipt by the Trustee of the notice referred to in clause (2) hereof (the "**Initial Period**"). Any number of additional Payment Blockage Periods may be commenced during the Initial Period; *provided, however*, that no such additional period shall extend beyond the Initial Period. After the expiration of the Initial Period, no Payment Blockage Period may be commenced on the basis of a Non-Payment Default on the Senior Debt of the Issuer or Senior Debt of a Guarantor which was the basis of a Payment Blockage Period commenced during the Initial Period until at least 270 consecutive days have elapsed from the last day of the Initial Period. No Non-Payment Default with respect to Senior Debt of the Issuer or Senior Debt of a Guarantor which existed or was continuing on the date of the commencement of any Payment Blockage Period and of which the applicable holder(s) of Senior Debt of the Issuer or Senior Debt of a Guarantor are aware shall be, or can be made, the basis for the commencement of a second Payment Blockage Period whether or not within a period of 270 consecutive days unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days.

(d) In the event that notwithstanding the provisions of this Section 11.02 the Issuer shall make any deposit pursuant to Article 8 hereof or any payment or distribution of any character to the Trustee on account of the principal of or interest on the Notes, or on account of the mandatory redemption provisions contained in this Indenture, including any payment pursuant to Section 4.10 or 4.12 after the happening of an event of default with respect to any Senior Debt of the Issuer based on a default in the payment of the principal of or interest on Senior Debt of the Issuer, or after receipt by the Trustee of written notice as provided in this Section 11.02 of an event of default with respect to any Senior Debt of the Issuer, or after the acceleration of the Notes pursuant to Section 5.01, then, but only if the Trustee is in receipt of the notice specified in Section 11.06 unless and until such default or event of default shall have been cured or waived or shall have ceased to exist, or such acceleration shall have been rescinded, such payment or deposit (subject to the provisions of Section 11.05 and 11.06) shall be held by the Trustee in trust for the benefit of, and, if the Senior Debt of the Issuer shall have been declared immediately due and payable, shall be paid forthwith over and delivered to, the holders of Senior Debt of the Issuer (pro rata as to each

of such holders on the basis of the respective amounts of Senior Debt of the Issuer held by them) or their representative or the trustee under the indenture or other agreement (if any) pursuant to which Senior Debt of the Issuer may have been issued, as their respective interests may appear, such payments to be made in accordance with an Officers' Certificate as provided in Section 11.13 (on which the Trustee may conclusively rely) identifying all holders of Senior Debt of the Issuer and the principal amount of Senior Debt of the Issuer then outstanding held by each and stating the reasons why such Officers' Certificate is being delivered to the Trustee, for application to the payment of all Senior Debt of the Issuer remaining unpaid to the extent necessary to pay all Senior Debt of the Issuer in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt of the Issuer. In the event of the failure of any Holder of a Note to endorse or assign any such payment or distribution, each holder of Senior Debt of the Issuer is hereby irrevocably authorized to endorse or assign the same. The Issuer shall give prompt written notice to the Trustee of any default under any Senior Debt of the Issuer or under any agreement pursuant to which Senior Debt of the Issuer may have been issued, as required by Section 4.17.

Section 11.03. Notes Subordinated to Prior Payment of All Senior Debt of the Issuer on Dissolution, Winding Up, Liquidation or Reorganization of Issuer.

In the event of (i) any insolvency, bankruptcy, receivership, liquidation, reorganization, readjustment, composition or other similar proceeding relating to the Issuer, its creditors or its property, (ii) any case or proceeding for the liquidation, dissolution or other winding-up of the Issuer, voluntary or involuntary, whether or not involving insolvency or bankruptcy proceedings, (iii) any assignment by the Issuer for the benefit of creditors, or (iv) any other marshalling of the assets of the Issuer:

(a) the holders of all Senior Debt of the Issuer shall first be entitled to receive payment in full (or to have such payment duly provided for) of the principal and interest due thereon (including any interest thereon accruing after commencement of any such proceeding) before the Holders of the Notes are entitled to receive any payment or any distribution, whether in cash, securities or other property, on account of the principal of or interest on the Notes;

(b) any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities (other than securities of the Issuer as reorganized or readjusted or securities of the Issuer or any other Issuer, trust or corporation provided for by a plan of reorganization or readjustment, junior, or the payment of which is otherwise subordinate, at least to the extent provided in this Article 11, to the payment of all Senior Debt of the Issuer at the time outstanding and to the payment of all securities issued in exchange therefor to the holders of the Senior Debt of the Issuer at the time outstanding), to which

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the Holders of the Notes or the Trustee on behalf of the Holders of the Notes would be entitled except for the provisions of this Article 11, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Issuer being subordinated to the payment of the Notes, shall be paid by the liquidating trustee or agent or other person making such payment or distribution directly to the holders of Senior Debt of the Issuer or their representative(s), or to the trustee under any indenture under which Senior Debt of the Issuer may have been issued (pro rata as to each such holder, representative or trustee on the basis of the respective amounts of unpaid Senior Debt of the Issuer held or represented by each), to the extent necessary to make payment in full of all Senior Debt of the Issuer remaining unpaid after giving effect to any concurrent payment or distribution or provision therefor to the holders of such Senior Debt of the Issuer; and

(c) in the event that notwithstanding the foregoing provisions of this Section 11.03, any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities shall be received by the Trustee or the Holders of the Notes on account of principal or interest on the Notes before all Senior Debt of the Issuer is paid in full, or effective provisions made for its payment, such payment or distribution (subject to the provisions of Section 11.05 and 11.06) shall be received and held in trust for and shall be paid over or delivered forthwith to the liquidating trustee, agent or other person making such payment or distribution or to the holders of the Senior Debt of the Issuer or their representative, or to the trustee under any indenture under which Senior Debt of the Issuer may have been issued (pro rata as provided in subsection (b) above), for application to the payment of such Senior Debt of the Issuer until all such Senior Debt of the Issuer shall have been paid in full, after giving effect to any concurrent payment or distribution or provision therefor to the holders of such Senior Debt of the Issuer.

If the Issuer effects a transaction permitted by Section 4.14, such transaction shall not be deemed to be a dissolution, winding up, liquidation or reorganization of the Issuer for purposes of this Section 11.03.

The Issuer shall give prompt written notice to the Trustee of any dissolution, winding up, liquidation or reorganization of the Issuer, assignment for the benefit of creditors by the Issuer or any other marshalling of assets of the Issuer.

Section 11.04. Holders to be Subrogated to Rights of Holders of Senior Debt of the Issuer.

Subject to the payment in full of all Senior Debt of the Issuer, the Holders of the Notes shall be subrogated to the rights of the holders of Senior Debt of the Issuer to receive payments or distributions of assets of the Issuer applicable to the

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Senior Debt of the Issuer until all amounts owing on the Notes shall be paid in full, and for the purpose of such subrogation no payments or distributions to the holders of Senior Debt of the Issuer by virtue of this Article 11 which otherwise would have been made to the Holders of the Notes shall, as among the Issuer, its creditors other than the holders of Senior Debt of the Issuer and the Holders of the Notes, be deemed to be payment by the Issuer to or on account of the Senior Debt of the Issuer, it being understood that the provisions of this Article 11 are intended solely for the purpose of defining the relative rights of the Holders of the Notes, on the one hand, and the holders of the Senior Debt of the Issuer, on the other hand.

If any payment or distribution to which the Holders would otherwise have been entitled but for the provisions of this Article 11 shall have been applied, pursuant to the provisions of this Article 11, to the payment of all amounts payable under the Senior Debt of the Issuer, then and in such case, the Holders shall be entitled to receive from the holders of such Senior Debt of the Issuer at the time outstanding any payments or distributions received by such holders of Senior Debt of the Issuer in excess of the amount sufficient to pay all amounts payable under or in respect of the Senior Debt of the Issuer in full.

Section 11.05. *Obligations of the Issuer Unconditional.*

Nothing contained in this Article 11 or elsewhere in this Indenture or in any Note is intended to or shall impair, as among the Issuer, its creditors other than holders of Senior Debt of the Issuer and the Holders of the Notes, the obligation of the Issuer, which is absolute and unconditional, to pay to the Holders of the Notes the principal of and interest on the Notes as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders of the Notes and creditors of the Issuer other than the holders of the Senior Debt of the Issuer, nor shall anything herein or therein prevent the Trustee or the Holder of any Note from exercising all remedies otherwise permitted by applicable law upon the occurrence of a Default under this Indenture, subject to the rights, if any, under this Article 11 of the holders of Senior Debt of the Issuer in respect of cash, property or securities of the Issuer received upon the exercise of any such remedy.

Upon any distribution of assets of the Issuer referred to in this Article 11, the Trustee, subject to the provisions of Article 7, and the Holders of the Notes shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders of the Notes, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Issuer, the amount

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thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 11.

Section 11.06. *Trustee Entitled to Assume Payments Not Prohibited in Absence of Notice.*

The Trustee shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee, and the Trustee shall not be required to withhold payment to the Holders of Notes as provided in Section 11.02(d), unless and until the Trustee shall have received written notice thereof at its Corporate Trust Office from the Issuer or from one or more holders of Senior Debt of the Issuer or from any representative thereof or trustee therefor identifying the specific sections of this Indenture involved and describing in detail the facts that would obligate the Trustee to withhold payments to Holders of Notes, as well as any other facts required by the next succeeding paragraph of this Section 11.06; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Article 7, shall be entitled to assume conclusively that no such facts exist.

The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Debt of the Issuer (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt of the Issuer or a trustee on behalf of any such holder. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Debt of the Issuer to participate in any payment or distribution pursuant to this Article 11, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article 11, and if such evidence is not furnished the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment.

Section 11.07. *Application by Trustee of Monies Deposited With it.*

Except as provided in Section 8.04 any deposit of monies by the Issuer with the Trustee or any Paying Agent (whether or not in trust) for the payment of the principal of or interest on any Notes shall be subject to the provisions of Sections 11.01, 11.02, 11.03 or 11.04, except that, if prior to the opening of business on the date on which by the terms of this Indenture any such monies may become payable for any purpose (including, without limitation, the payment of either the principal or the interest on any Note), the Trustee shall not have received with respect to such monies the notice provided for in Section 11.06, then the Trustee shall have full power and authority to receive such monies and to

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apply the same to the purpose for which they were received and shall not be affected by any notice to the contrary which may be received by it on or after such date, without, however, limiting any rights that holders of Senior Debt of the Issuer may have to recover any such payments from the Holders in accordance with the provisions of this Article 11.

Section 11.08. *Subordination Rights Not Impaired by Acts or Omissions of Issuer or Holders of Senior Debt of the Issuer.*

No right of any present or future holders of any Senior Debt of the Issuer to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Issuer or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Issuer with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with. The holders of Senior Debt of the Issuer may extend, renew, modify or amend the terms of the Senior Debt of the Issuer or any security therefor and release, sell or exchange such security and otherwise deal freely with the Issuer, all without affecting the liabilities and obligations of the parties to this Indenture or the Holders.

Section 11.09. *Holders Authorize Trustee to Effectuate Subordination of Notes.*

Each Holder of the Notes by his acceptance thereof authorizes and expressly directs the Trustee (subject to Sections 7.02(d) and (g) hereof) on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article 11 and appoints the Trustee his attorney-in-fact for such purpose, including, in the event of any dissolution, winding up, liquidation or reorganization of the Issuer (whether in bankruptcy, insolvency or receivership proceedings, voluntary liquidation or upon assignment for the benefit of creditors or otherwise) tending towards liquidation of the business and assets of the Issuer, the timely filing of a claim for the unpaid balance of its or his Notes in the form required in said proceedings and cause said claim to be approved. If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding on or prior to 30 days before the expiration of the time to file such claim or claims, then the holders of Senior Debt of the Issuer have the right to file and are hereby authorized to file an appropriate claim for and on behalf of the Holders of said Notes.

Section 11.10. *Right of Trustee to Hold Senior Debt of the Issuer.*

nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

Section 11.11. *Trustee Not Fiduciary for Holders of Senior Debt of the Issuer.*

With respect to the holders of Senior Debt of the Issuer, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article 11, and no implied covenants or obligations with respect to the holders of Senior Debt of the Issuer shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt of the Issuer and the Trustee shall not be liable to any holder of Senior Debt of the Issuer if it shall pay over or deliver to Holders of Notes, the Issuer or any other person monies or assets to which any holder of Senior Debt of the Issuer shall be entitled by virtue of this Article 11 or otherwise.

Section 11.12. *Article 10 Not to Prevent Events of Default.*

The failure to make a payment on account of principal or interest on the Notes by reason of any provision in this Article 11 shall not be construed as preventing the occurrence of an Event of Default under Section 5.01.

Section 11.13. *Officers' Certificate.*

If there occurs an event referred to in the first sentence of Section 11.02(d) or the first sentence of Section 11.03, the Issuer shall promptly give to the Trustee an Officers' Certificate (on which the Trustee may conclusively rely) identifying all holders of Senior Debt of the Issuer and the principal amount of Senior Debt of the Issuer then outstanding held by each such holder and stating the reasons why such Officers' Certificate is being delivered to the Trustee.

ARTICLE 12
SUBORDINATION OF GUARANTEES

Section 12.01. *Guarantees Subordination to Senior Debt of a Guarantor.*

Each Guarantor covenants and agrees, and each Holder of the Notes by his acceptance thereof likewise covenants and agrees, that the payments pursuant to the Guarantee by such Guarantor shall be subordinated in accordance with the following provisions of this Article 12 to the prior payment in full of all Senior Debt of a Guarantor for such Guarantor.

“**Senior Debt of a Guarantor**” means the Principal of and interest on:

- (1) all Indebtedness of a Guarantor;
- (2) lease obligations of a Guarantor;
- (3) all Indebtedness, secured or unsecured, in connection with the acquisition or improvement of any property or asset or the acquisition of any business by a Guarantor;
- (4) all Indebtedness secured by any mortgage, lien, pledge, charge or encumbrance upon property owned by a Guarantor and all Indebtedness secured in the manner specified in this clause (4) even if such Guarantor has not assumed or become liable for the payment thereof;
- (5) all customer deposits held by a Guarantor in escrow accounts pending closing of the related sales;
- (6) all Indebtedness of a Guarantor created or arising under any conditional sale or other title retention agreement with respect to property acquired by a Guarantor or otherwise representing the deferred and unpaid balance of the purchase price of any such property, including all Indebtedness created or arising in the manner specified in this clause (6) even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property;
- (7) guarantees by a Guarantor, direct or indirect, of any indebtedness of another Person of the types referred to in clauses (1), (2), (3), (4), (5) or (6); and
- (8) contingent obligations of a Guarantor in respect of, or to purchase or otherwise acquire or be responsible or liable for through the purchase of products or services, irrespective of whether such products are delivered or such services are rendered, any such indebtedness referred to in clauses (1), (2), (3), (4), (5) or (6),

which indebtedness, lease obligation, deposit, guarantee or contingent obligation a Guarantor has directly or indirectly created, incurred, assumed, guaranteed or otherwise become liable or responsible for, whether currently outstanding or hereafter created. All references to indebtedness include any renewals, extensions, refundings, amendments and modifications of any such Indebtedness issued in exchange for such indebtedness; *provided, however*, that Senior Debt of a Guarantor shall not include, without limitation (i) a Guarantee, (ii) the guarantee by a Guarantor of the Issuer's 8⁷/₈% Senior Subordinated Notes due 2012, (iii) the guarantee by a Guarantor of the Issuer's 7³/₄% Senior Subordinated Notes due 2013, (iv) accounts payable or any other indebtedness to trade creditors created or

assumed by a Guarantor in the ordinary course of business in connection with the obtaining of materials or services, (v) any liability for federal, state or local taxes owed or owing by a Guarantor, (vi) any obligation of a Guarantor to the Company or any Subsidiary and (vii) any Indebtedness as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness is on a parity with or otherwise not superior in right of payment to a Guarantee.

This Article 12 shall constitute a continuing offer to all persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Debt of a Guarantor, and such provisions are made for the benefit of the holders of Senior Debt of a Guarantor, and such holders are made obligees hereunder and any one or more of them may enforce such provisions.

Section 12.02. *Guarantor Not to Make Payments With Respect to Notes in Certain Circumstances.*

(a) Upon the maturity of the principal of any Senior Debt of a Guarantor (other than payment of sinking fund installments) by lapse of time, acceleration or otherwise, all principal thereof and interest thereon shall first be paid in full, or such payment duly provided for in cash or in a manner satisfactory to the holders of such Senior Debt of a Guarantor, before any payment, pursuant to the Guarantee, is made on account of the principal of or interest on the Notes or to acquire any of the Notes or on account of the mandatory redemption provisions in the Notes (except mandatory redemption payments made in respect of Notes acquired by such Guarantor before the maturity of such Senior Debt of a Guarantor), including any payment pursuant to Section 4.10 or 4.12.

(b) Unless Section 12.03 shall be applicable, upon (1) the occurrence of a Payment Default with respect to any Senior Debt of a Guarantor and receipt by the relevant Guarantor and the Trustee of written notice of such occurrence or (2) upon the acceleration of such Senior Debt of a Guarantor, then no payment or distribution of any assets of such Guarantor of any kind or character shall be made by such Guarantor or the Trustee on account of principal of or interest on the Notes or on account of the purchase or redemption or other acquisition of Notes, including any payment pursuant to Section 4.10 or 4.12, unless and until such Payment Default shall have been cured or waived in writing or shall have ceased to exist or such Senior Debt of a Guarantor shall have been discharged, after which the relevant Guarantor shall resume making any and all required payments in respect of the Notes, including any missed payments.

(c) Unless Section 12.03 shall be applicable, upon (1) the occurrence of a Non-Payment Default and (2) receipt by the Trustee of written notice of such occurrence, then no payment or distribution of any assets of the relevant Guarantor of any kind or character shall be made by such Guarantor or the

Trustee on account of any principal of or interest on the Notes or on account of the purchase or redemption or other acquisition of Notes, including, any payment pursuant to Section 4.10 or 4.12, for a period (“**Guarantee Payment Blockage Period**”) commencing on the earlier of the date of receipt by the Trustee of such written notice from the holders of Senior Debt of a Guarantor or of the Issuer, or any representative of a holder of Senior Debt of a Guarantor or of the Issuer unless and until (subject to any blockage of payment that may then be in effect under subsection (a) or (b) of this Section 12.02) the earlier of (x) more than 120 days shall have elapsed since receipt of such written notice by the Trustee, (y) such Non-Payment Default shall have been cured or waived in writing or shall have ceased to exist or such Senior Debt of a Guarantor or of the Issuer shall have been discharged or (z) such Guarantee Payment Blockage Period shall have been terminated by written notice to the relevant Guarantor or to the Issuer, as the case may be, or to the Trustee from the holders of the Senior Debt of a Guarantor or of the Issuer or any representative of the holders of the Senior Debt of a Guarantor or of the Issuer initiating such Guarantee Payment Blockage Period, after which, in the case of clause (x), (y) or (z), the relevant Guarantor shall promptly resume making any and all required payments in respect of the Notes, including any missed payments. In no event shall a Guarantee Payment Blockage Period extend beyond 120 days from the date of the receipt by the Trustee of the notice referred to in clause (2) hereof (the “**Guarantee Initial Period**”). Any number of additional Guarantee Payment Blockage Periods may be commenced during the Guarantee Initial Period; *provided, however*, that no such additional period shall extend beyond the Initial Period. After the expiration of the Guarantee Initial Period, no Guarantee Payment Blockage Period may be commenced on the basis of a Non-Payment Default on the Senior Debt of the Issuer or Senior Debt of a Guarantor which was the basis of a Guarantee Payment Blockage Period commenced during the Guarantee Initial Period until at least 270 consecutive days have elapsed from the last day of the Guarantee Initial Period. No Non-Payment Default with respect to Senior Debt of the Issuer or Senior Debt of a Guarantor which existed or was continuing on the date of the commencement of any Guarantee Payment Blockage Period and of which the applicable holder(s) of Senior Debt of the Issuer or Senior Debt of a Guarantor are aware shall be, or can be made, the basis for the commencement of a second Guarantee Payment Blockage Period whether or not within a period of 270 consecutive days unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days.

(d) In the event that notwithstanding the provisions of this Section 12.02 a Guarantor shall make, pursuant to its Guarantee, any payment or distribution of any character to the Trustee on account of the principal of or interest on the Notes, or on account of the mandatory redemption provisions contained in this Indenture, including any payment pursuant to Section 4.10 or 4.12, after the happening of an event of default with respect to any Senior Debt of a Guarantor based on a default

in the payment of the principal of or interest on Senior Debt of a Guarantor, or after receipt by the Trustee of written notice as provided in this Section 12.02 of an event of default with respect to any Senior Debt of a Guarantor, or after the acceleration of the Notes pursuant to Section 5.01, then, but only if the Trustee is in receipt of the notice specified in Section 12.06, unless and until such default or event of default shall have been cured or waived or shall have ceased to exist, or such acceleration shall have been rescinded, such payment (subject to the provisions of Sections 12.05 and 12.06) shall be held by the Trustee in trust for the benefit of, and, if the Senior Debt of a Guarantor shall have been declared immediately due and payable, shall be paid forthwith over and delivered to, the holders of Senior Debt of a Guarantor (pro rata as to each of such holders on the basis of the respective amounts of Senior Debt of a Guarantor held by them) or their representative or the trustee under the indenture or other agreement (if any) pursuant to which Senior Debt of a Guarantor may have been issued, as their respective interests may appear, such payments to be made in accordance with an Officers’ Certificate as provided in Section 12.13 (on which the Trustee may conclusively rely) identifying all holders of Senior Debt of a Guarantor and the principal amount of Senior Debt of a Guarantor then outstanding held by each and stating the reasons why such Officers’ Certificate is being delivered to the Trustee, for application to the payment of all Senior Debt of a Guarantor remaining unpaid to the extent necessary to pay all Senior Debt of a Guarantor in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt of a Guarantor. In the event of the failure of any Holder of a

Note to endorse or assign any such payment or distribution, each holder of Senior Debt of a Guarantor is hereby irrevocably authorized to endorse or assign the same. The relevant Guarantor shall give prompt written notice to the Trustee of any default under any Senior Debt of a Guarantor or under any agreement pursuant to which Senior Debt of a Guarantor may have been issued, as required by Section 4.17.

Section 12.03. Guarantee Subordinated to Prior Payment of All Senior Debt of a Guarantor on Dissolution, Winding Up, Liquidation or Reorganization of a Guarantor.

In the event of (i) any insolvency, bankruptcy, receivership, liquidation, reorganization, readjustment, composition or other similar proceeding relating to a Guarantor, its creditors or its property, (ii) any case or proceeding for the liquidation, dissolution or other winding-up of a Guarantor, voluntary or involuntary, whether or not involving insolvency or bankruptcy proceedings, (iii) any assignment by a Guarantor for the benefit of creditors, or (iv) any other marshalling of the assets of a Guarantor:

(a) the holders of all Senior Debt of a Guarantor shall first be entitled to receive payment in full (or to have such payment duly provided for) of the principal and interest due thereon (including any interest thereon accruing after

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commencement of any such proceeding) before the Holders of the Notes are entitled to receive, pursuant to this Guarantee any payment or any distribution, whether in cash, securities or other property, on account of the principal of or interest on the Notes;

(b) any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities (other than securities of a Guarantor as reorganized or readjusted or securities of a Guarantor or any other Issuer, trust or corporation provided for by a plan of reorganization or readjustment, junior, or the payment of which is otherwise subordinate, at least to the extent provided in this Article 12, to the payment of all Senior Debt of a Guarantor at the time outstanding and to the payment of all securities issued in exchange therefor to the holders of the Senior Debt of a Guarantor at the time outstanding), to which the Holders of the Notes or the Trustee on behalf of the Holders of the Notes would be entitled, pursuant to this Guarantee except for the provisions of this Article 12, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of a Guarantor being subordinated to the payment of the Notes, shall be paid by the liquidating trustee or agent or other person making such payment or distribution directly to the holders of Senior Debt of a Guarantor or their representative(s), or to the trustee under any indenture under which Senior Debt of a Guarantor may have been issued (pro rata as to each such holder, representative or trustee on the basis of the respective amounts of unpaid Senior Debt of a Guarantor held or represented by each), to the extent necessary to make payment in full of all Senior Debt of a Guarantor remaining unpaid after giving effect to any concurrent payment or distribution or provision therefor to the holders of such Senior Debt of a Guarantor; and

(c) in the event that notwithstanding the foregoing provisions of this Section 12.03, any payment or distribution of assets of a Guarantor of any kind or character, whether in cash, property or securities shall be received, pursuant to the Guarantee, by the Trustee or the Holders of the Notes on account of principal or interest on the Notes before all Senior Debt of a Guarantor is paid in full, or effective provisions made for its payment, such payment or distribution (subject to the provisions of Sections 12.05 and 12.06) shall be received and held in trust for and shall be paid over or delivered to the liquidating trustee, agent or other person making such payment or distribution or to the holders of the Senior Debt of a Guarantor remaining unpaid or unprovided for or their representative, or to the trustee under any indenture under which Senior Debt of a Guarantor may have been issued (pro rata as provided in subsection (b) above), for application to the payment of such Senior Debt of a Guarantor until all such Senior Debt of a Guarantor shall have been paid in full, after giving effect to any concurrent payment or distribution or provision therefor to the holders of such Senior Debt of a Guarantor.

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If a Guarantor effects a transaction permitted by Section 4.14, such transaction shall not be deemed to be a dissolution, winding up, liquidation or reorganization of a Guarantor for purposes of this Section 12.03.

A Guarantor shall give prompt written notice to the Trustee of any dissolution, winding up, liquidation or reorganization of such Guarantor, assignment for the benefit of creditors by such Guarantor or any other marshalling of assets of such Guarantor.

Section 12.04. Holders to Be Subrogated to Rights of Holders of Senior Debt of a Guarantor.

Subject to the payment in full of all Senior Debt of a Guarantor, the Holders of the Notes shall be subrogated to the rights of the holders of Senior Debt of a Guarantor to receive payments or distributions of assets of a Guarantor applicable to the Senior Debt of a Guarantor until all amounts owing under the Guarantee shall be paid in full and for the purpose of such subrogation no payments or distributions to the holders of Senior Debt of a Guarantor by virtue of this Article 12 which otherwise would have been made to the Holders of the Notes, shall, as between a Guarantor, its creditors other than holders of its Senior Debt of a Guarantor and the Holders, be deemed to be a payment by such Guarantor to or on account of the Senior Debt of a Guarantor, it being understood that the provisions of this Article 12 are intended solely for the purpose of defining the relative rights of the holders of Senior Debt of a Guarantor on the one hand and the Holders on the other hand.

If any payment or distribution to which the Holders would otherwise have been entitled but for the provisions of this Article 12 shall have been applied, pursuant to the provisions of this Article 12, to the payment of all amounts payable under the Senior Debt of a Guarantor, then and in such case, the Holders shall be entitled to receive from the holders of such Senior Debt of a Guarantor at the time outstanding any payments or distributions received by such holders of such Senior Debt of a Guarantor in excess of the amount sufficient to pay all amounts payable under or in respect of such Senior Debt of a Guarantor in full.

Section 12.05. Obligations of the Guarantors Unconditional.

Nothing contained in this Article 12 or elsewhere in this Indenture or in any Note is intended to or shall impair, as between the Guarantors and the Holders, the obligations of each Guarantor, which are absolute and unconditional, to pay to the Holders the principal of and interest on the Notes as and when the same shall become due and payable in accordance with the provisions of the Guarantees or is intended to or shall affect the relative rights of the Holders and creditors of a Guarantor other than the holders of the Senior Debt of a Guarantor, nor shall anything herein or therein prevent the Trustee or any Holder from

exercising all remedies otherwise permitted by applicable law upon the occurrence of a Default under this Indenture, subject to the rights, if any, under this Article 12 of the holders of Senior Debt of a Guarantor in respect of cash, property or securities of a Guarantor received upon the exercise of any such remedy.

Upon any distribution of assets of a Guarantor referred to in this Article 12, the Trustee, subject to the provisions of Article 7, and the Holders of the Notes shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders of the Notes, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of such Guarantor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 12.

Section 12.06. Trustee Entitled to Assume Payments Not Prohibited in Absence of Notice.

The Trustee shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee, and the Trustee shall not be required to withhold payment to the Holders of Notes as provided in Section 12.02(d), unless and until the Trustee shall have received written notice thereof at its Corporate Trust Office from a Guarantor or from one or more holders of Senior Debt of a Guarantor or from any representative thereof or trustee therefor identifying the specific sections of this Indenture involved and describing in detail the facts that would obligate the Trustee to withhold payments to Holders of Notes, as well as any other facts required by the next succeeding paragraph of this Section 12.06; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Article 7, shall be entitled to assume conclusively that no such facts exist.

The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Debt of a Guarantor (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt of a Guarantor or a trustee on behalf of any such holder. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Debt of a Guarantor to participate in any payment or distribution pursuant to this Article 12, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt of a Guarantor held by such person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article 12, and if such evidence is not furnished the Trustee may defer

any payment to such person pending judicial determination as to the right of such person to receive such payment.

Section 12.07. Application by Trustee of Monies Deposited With it.

Except as provided in Section 8.04, any deposit of monies by a Guarantor with the Trustee or any Paying Agent (whether or not in trust) for the payment of the principal or of interest on any Notes shall be subject to the provisions of Sections 12.01, 12.02, 12.03 and 12.04, except that, if prior to the opening of business on the date on which by the terms of this Indenture any such monies may become payable for any purpose (including, without limitation, the payment, pursuant to this Guarantee, of either the principal or the interest on any Note), the Trustee shall not have received with respect to such monies the notice provided for in Section 12.06, then the Trustee shall have full power and authority to receive such monies and to apply the same to the purpose for which they were received and shall not be affected by any notice to the contrary which may be received by it on or after such date, without, however, limiting any rights that holders of Senior Debt of a Guarantor may have to recover any such payments from the Holders in accordance with the provisions of this Article 12.

Section 12.08. Subordination Rights Not Impaired by Acts or Omissions of Any Guarantor or Holders of Senior Debt of a Guarantor.

No right of any present or future holders of any Senior Debt of a Guarantor to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of any Guarantor or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by any Guarantor with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with. The holders of Senior Debt of a Guarantor may extend, renew, modify or amend the terms of the Senior Debt of a Guarantor or any security therefor and release, sell or exchange such security and otherwise deal freely with any Guarantor, all without affecting the liabilities and obligations of the parties to this Indenture or the Holders.

Section 12.09. Holders Authorize Trustee to Effectuate Subordination of Notes.

Each Holder of the Notes by his acceptance thereof authorizes and expressly directs the Trustee (subject to Sections 7.02(d) and (g) hereof) on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article 12 and appoints the Trustee his attorney-in-fact for such purpose, including, in the event of any dissolution, winding up, liquidation or reorganization of a Guarantor (whether in bankruptcy, insolvency or receivership proceedings, voluntary liquidation or upon assignment for the

benefit of creditors or otherwise) tending towards liquidation of the business and assets of such Guarantor, the timely filing of a claim for the unpaid balance, pursuant to the relevant Guarantee, of its Notes in the form required in said proceedings and cause said claim to be approved. If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding on or prior to 30 days before the expiration of the time to file such claim or claims, then the holders of Senior Debt of a Guarantor have the right to file and are hereby authorized to file an appropriate claim for and on behalf of the Holders of said Notes.

Section 12.10. *Right of Trustee to Hold Senior Debt of a Guarantor.*

The Trustee in its individual capacity, shall be entitled to all of the rights set forth in this Article 12 in respect of any Senior Debt of a Guarantor at any time held by it to the same extent as any other holder of such Senior Debt of a Guarantor, and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

Section 12.11. *Trustee Not Fiduciary for Holders of Senior Debt of a Guarantor.*

With respect to the holders of Senior Debt of a Guarantor, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article 12, and no implied covenants or obligations with respect to the holders of Senior Debt of a Guarantor shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt of a Guarantor and the Trustee shall not be liable to any holder of Senior Debt of a Guarantor if it shall pay over or deliver to Holders of Notes, the relevant Guarantor or any other person monies or assets to which any holder of Senior Debt of a Guarantor shall be entitled by virtue of this Article 12 or otherwise.

Section 12.12. *Article 11 Not to Prevent Events of Default.*

The failure to make a payment on account of principal or interest on the Notes by reason of any provision in this Article 12 shall not be construed as preventing the occurrence of an Event of Default under Section 5.01.

Section 12.13. *Subordination of Indebtedness Owed by the Issuer to a Guarantor.*

Any indebtedness owed by the Issuer to a Guarantor shall be subordinate to all obligations of the Issuer with respect to the Notes and this Indenture to the same extent as the Notes are subordinated to Senior Debt of the Issuer.

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Section 12.14. *Officers' Certificate.*

If there occurs an event referred to in the first sentence of Section 12.02(c) or the first sentence of Section 12.03, the relevant Guarantor shall promptly give to the Trustee an Officers' Certificate (on which the Trustee may conclusively rely) identifying all holders of Senior Debt of a Guarantor and the principal amount of Senior Debt of a Guarantor then outstanding held by each such holder and stating the reasons why such Officers' Certificate is being delivered to the Trustee.

ARTICLE 13
MISCELLANEOUS

Section 13.01. *Trust Indenture Act of 1939.* The Indenture shall incorporate and be governed by the provisions of the Trust Indenture Act that are required to be part of and to govern indentures qualified under the Trust Indenture Act. To the extent permitted by applicable law, in the event of any inconsistency between the terms of the Notes and the terms of the Indenture, the terms of the Indenture will control.

Section 13.02. *Holder Communications; Holder Actions.* (a) The rights of Holders to communicate with other Holders with respect to the Indenture or the Notes are as provided by the Trust Indenture Act, and the Company and the Trustee shall comply with the requirements of Trust Indenture Act Section 312(a). Neither the Company, the Issuer nor the Trustee will be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

(b) (i) Any request, demand, authorization, direction, notice, consent to amendment, supplement or waiver or other action provided by this Indenture to be given or taken by a Holder (an "act") may be evidenced by an instrument signed by the Holder delivered to the Trustee. The fact and date of the execution of the instrument, or the authority of the person executing it, may be proved in any manner that the Trustee deems sufficient.

(ii) The Trustee may make reasonable rules for action by or at a meeting of Holders, which will be binding on all the Holders.

(c) Any act by the Holder of any Note binds that Holder and every subsequent Holder of a Note that evidences the same debt as the Note of the acting Holder, even if no notation thereof appears on the Note. Subject to paragraph (d), a Holder may revoke an act as to its Notes, but only if the Trustee receives the notice of revocation before the date the amendment or waiver or other consequence of the act becomes effective.

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(d) The Issuer may, but is not obligated to, fix a record date (which need not be within the time limits otherwise prescribed by Trust Indenture Act Section 316(c)) for the purpose of determining the Holders entitled to act with respect to any amendment or waiver or in any other regard, except that during the continuance of an Event of Default, only the Trustee may set a record date as to notices of default, any declaration or acceleration or any other remedies or other consequences of the Event of Default. If a record date is fixed, those Persons that were Holders at such record date and only those Persons will be entitled to act, or to revoke any previous act, whether or not those Persons continue to be Holders after the record date. No act will be valid or effective for more than 90 days after the record date.

Section 13.03. *Notices.* (a) Any notice or communication to the Issuer or the Company will be deemed given if in writing (i) when delivered in person or (ii) five days after mailing when mailed by first class mail, or (iii) when sent by facsimile transmission, with transmission confirmed. Notices or communications to a Guarantor will be deemed given if given to the Issuer. Any notice to the Trustee will be effective only upon receipt. In each case the notice or communication should be addressed as follows:

if to the Issuer:

K. Hovnanian Enterprises, Inc.
10 Highway 35
P.O. Box 500
Red Bank, NJ 07701
Facsimile: (732) 747-7159

if to the Trustee:

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
ATTN: Corporate Trust Administration
(K. Hovnanian Enterprises, Inc. Senior Subordinated Notes due 2010)
Facsimile: (973) 682-4531

The Issuer or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

(b) Except as otherwise expressly provided with respect to published notices, any notice or communication to a Holder will be deemed given when mailed to the Holder at its address as it appears on the Register by first class mail or, as to any Global Note registered in the name of DTC or its nominee, as agreed

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by the Issuer, the Trustee and DTC. Copies of any notice or communication to a Holder, if given by the Issuer or the Company, will be mailed to the Trustee at the same time. Defect in mailing a notice or communication to any particular Holder will not affect its sufficiency with respect to other Holders.

(c) Where the Indenture provides for notice, the notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and the waiver will be the equivalent of the notice. Waivers of notice by Holders must be filed with the Trustee, but such filing is not a condition precedent to the validity of any action taken in reliance upon such waivers.

Section 13.04. *Certificate and Opinion as to Conditions Precedent.* Upon any request or application by the Issuer or the Company to the Trustee to take any action under the Indenture, the Issuer or the Company will furnish to the Trustee:

(a) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel stating that all such conditions precedent relating to the proposed action have been complied with.

Section 13.05. *Statements Required in Certificate or Opinion.* Each certificate or opinion with respect to compliance with a condition or covenant provided for in the Indenture must include:

(a) a statement that each person signing the certificate or opinion has read the covenant or condition and the related definitions;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in the certificate or opinion is based;

(c) a statement that, in the opinion of each such person, that person has made such examination or investigation as is necessary to enable the person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of each such person, such condition or covenant has been complied with, provided that an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials with respect to matters of fact.

Section 13.06. *Payment Date Other Than a Business Day.* If any payment with respect to a payment of any principal of, premium, if any, or interest or Additional Interest, if any, on any Note (including any payment to be

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made on any date fixed for redemption or purchase of any Note) is due on a day which is not a Business Day, then the payment need not be made on such date, but may be made on the next Business Day with the same force and effect as if made on such date, and no interest will accrue for the intervening period.

Section 13.07. *Governing Law.* The Indenture, including any Note Guaranties, and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 13.08. *No Adverse Interpretation of Other Agreements.* The Indenture may not be used to interpret another indenture or loan or debt agreement of the Issuer, the Company or any Subsidiary of the Company, and no such indenture or loan or debt agreement may be used to interpret the Indenture.

Section 13.09. *Successors.* All agreements of the Issuer, the Company or any Guarantor in the Indenture and the Notes will bind its successors. All agreements of the Trustee in the Indenture will bind its successor.

Section 13.10. *Duplicate Originals.* The parties may sign any number of copies of the Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 13.11. *Separability*. In case any provision in the Indenture or in the Notes is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

Section 13.12. *Table of Contents and Headings*. The Table of Contents, Cross-Reference Table and headings of the Articles and Sections of the Indenture have been inserted for convenience of reference only, are not to be considered a part of the Indenture and in no way modify or restrict any of the terms and provisions of the Indenture.

Section 13.13. *No Liability of Directors, Officers, Employees, Incorporators and Stockholders*. No director, officer, employee, incorporator, member or stockholder of the Issuer, the Company or any Guarantor, as such, will have any liability for any obligations of the Issuer, the Company or such Guarantor under the Notes, any Note Guaranty or the Indenture or for any claim based on, in respect of, or by reason of, such obligations. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused the Indenture to be duly executed as of the date first written above.

K. HOVNIANIAN ENTERPRISES, INC.
as Issuer

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Executive Vice-President
and Chief Financial Officer

HOVNIANIAN ENTERPRISES, INC. as
the Company

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Executive Vice-President
and Chief Financial Officer

On behalf of each entity
named in Schedule A hereto, as a
Guarantor

By: /s/ J. Larry Sorsby
Name: J. Larry Sorsby
Title: Authorized Officer

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Trustee

By: /s/ Stephanie Roche
Name: Stephanie Roche
Title: Vice President

SCHEDULE A

Guarantors

ALL SEASONS, INC.
ARROW PROPERTIES, INC.
CONDOMINIUM COMMUNITY (BOWIE NEW TOWN), INC.
CONDOMINIUM COMMUNITY (LARGO TOWN), INC.
CONDOMINIUM COMMUNITY (PARK PLACE), INC.
CONDOMINIUM COMMUNITY (QUAIL RUN), INC.
CONDOMINIUM COMMUNITY (TRUMAN DRIVE), INC.
CONSULTANTS CORPORATION
DESIGNED CONTRACTS, INC.
EDISON CONTRACT SERVICES, L.L.C.

EXC, INC.
FORTIS HOMES, INC.
HOUSING-HOME SALES, INC.
HOVNANIAN DEVELOPMENTS OF FLORIDA, INC.
K. HOV INTERNATIONAL, INC.
K. HOV IP, II, INC.
K. HOV IP, INC.
K. HOVNANIAN ACQUISITIONS, INC.
K. HOVNANIAN AT ALISO, L.L.C.
K. HOVNANIAN AT ASHBURN VILLAGE, INC.
K. HOVNANIAN AT BALLANTRAE ESTATES, INC.
K. HOVNANIAN AT BARRINGTON, INC.
K. HOVNANIAN AT BELLA LAGO, L.L.C.
K. HOVNANIAN AT BELMONT, INC.
K. HOVNANIAN AT BERNARDS IV, INC.
K. HOVNANIAN AT BRANCHBURG III, INC.
K. HOVNANIAN AT BRIDGEPORT, INC.
K. HOVNANIAN AT BRIDGEWATER VI, INC.
K. HOVNANIAN AT BRIDLEWOOD, L.L.C.
K. HOVNANIAN AT BULL RUN, INC.
K. HOVNANIAN AT BURLINGTON III, INC.
K. HOVNANIAN AT BURLINGTON, INC.
K. HOVNANIAN AT CALABRIA, INC.
K. HOVNANIAN AT CAPISTRANO, L.L.C.
K. HOVNANIAN AT CAMERON CHASE, INC.
K. HOVNANIAN AT CARMEL DEL MAR, INC.
K. HOVNANIAN AT CASTILE, INC.
K. HOVNANIAN AT CEDAR GROVE I, INC.
K. HOVNANIAN AT CEDAR GROVE II, INC.

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K. HOVNANIAN AT CEDAR GROVE IV, L.L.C.
K. HOVNANIAN AT CHAPARRAL, INC.
K. HOVNANIAN AT CHESTERFIELD, L.L.C.
K. HOVNANIAN AT CITY IN THE HILLS, L.L.C.
K. HOVNANIAN AT CLARKSTOWN, INC.
K. HOVNANIAN AT CRESTLINE, INC.
K. HOVNANIAN AT DEPTFORD TOWNSHIP, L.L.C.
K. HOVNANIAN AT DOMINGUEZ HILLS, INC.
K. HOVNANIAN AT DOMINION RIDGE, INC.
K. HOVNANIAN AT EAST BRUNSWICK VI, INC.
K. HOVNANIAN AT EAST WHITELAND I, INC.
K. HOVNANIAN AT EXETER HILLS, INC.
K. HOVNANIAN AT FAIR LAKES GLEN, INC.
K. HOVNANIAN AT FAIR LAKES, INC.
K. HOVNANIAN AT FLORENCE I, L.L.C.
K. HOVNANIAN AT FLORENCE II, L.L.C.
K. HOVNANIAN AT FRANKLIN, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT GASLAMP SQUARE, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN, INC.
K. HOVNANIAN AT HAMPTON OAKS, INC.
K. HOVNANIAN AT HAWTHORNE, L.L.C.
K. HOVNANIAN AT HERSHEY'S MILL, INC.
K. HOVNANIAN AT HIGHLAND VINEYARDS, INC.
K. HOVNANIAN AT HIGHWATER, L.L.C.
K. HOVNANIAN AT HOLLY CREST, INC.
K. HOVNANIAN AT HOPEWELL IV, INC.
K. HOVNANIAN AT HOPEWELL VI, INC.
K. HOVNANIAN AT HOWELL TOWNSHIP, INC.
K. HOVNANIAN AT HUDSON POINT, L.L.C.
K. HOVNANIAN AT HUNTER ESTATES, INC.
K. HOVNANIAN AT KINGS GRANT I, INC.
K. HOVNANIAN AT KLOCKNER FARMS, INC.
K. HOVNANIAN AT LA TERRAZA, INC.
K. HOVNANIAN AT LA TROVATA, INC.
K. HOVNANIAN AT LAKEWOOD, INC.
K. HOVNANIAN AT LOWER SAUCON II, INC.
K. HOVNANIAN AT LOWER SAUCON, INC.
K. HOVNANIAN AT MAHWAH II, INC.
K. HOVNANIAN AT MAHWAH V, INC.
K. HOVNANIAN AT MAHWAH VI, INC.
K. HOVNANIAN AT MAHWAH VII, INC.

K. HOVNANIAN AT MANALAPAN, INC.
K. HOVNANIAN AT MARLBORO II, INC.

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K. HOVNANIAN AT MARLBORO TOWNSHIP IV, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP III, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IX, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.
K. HOVNANIAN OF METRO DC SOUTH, INC.
K. HOVNANIAN AT MILLVILLE I, L.L.C.
K. HOVNANIAN AT MONROE II, INC.
K. HOVNANIAN AT MONTCLAIR NJ, INC.
K. HOVNANIAN AT MONTCLAIR, INC.
K. HOVNANIAN AT MONTGOMERY I, INC.
K. HOVNANIAN AT MONTVALE, L.L.C.
K. HOVNANIAN AT NORTH BERGEN II, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL II, L.L.C.
K. HOVNANIAN AT NORTHERN WESTCHESTER, INC.
K. HOVNANIAN AT NORTHLAKE, INC.
K. HOVNANIAN AT OCEAN TOWNSHIP, INC.
K. HOVNANIAN AT OCEAN WALK, INC.
K. HOVNANIAN AT P.C. PROPERTIES, INC.
K. HOVNANIAN AT PARK RIDGE, INC.
K. HOVNANIAN AT PERKIOMEN I, INC.
K. HOVNANIAN AT PERKIOMEN II, INC.
K. HOVNANIAN AT PITTSBORO, L.L.C.
K. HOVNANIAN AT PLAINSBORO III, INC.
K. HOVNANIAN AT PRINCETON, INC.
K. HOVNANIAN AT RANCHO CHRISTIANITOS, INC.
K. HOVNANIAN AT RESERVOIR RIDGE, INC.
K. HOVNANIAN AT RIVER OAKS, INC.
K. HOVNANIAN AT SAN SEVAINE, INC.
K. HOVNANIAN AT SARATOGA, INC.
K. HOVNANIAN AT SCOTCH PLAINS II, INC.
K. HOVNANIAN AT SCOTCH PLAINS, INC.
K. HOVNANIAN AT SCOTCH PLAINS, L.L.C.
K. HOVNANIAN AT SMITHVILLE, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK III, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK V, INC.
K. HOVNANIAN AT STONE CANYON, INC.
K. HOVNANIAN AT STONY POINT, INC.
K. HOVNANIAN AT STUART ROAD, INC.
K. HOVNANIAN AT SULLY STATION, INC.
K. HOVNANIAN AT SUMMERWOOD, INC.
K. HOVNANIAN AT SYCAMORE, INC.
K. HOVNANIAN AT TANNERY HILL, INC.

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K. HOVNANIAN AT TEANECK, L.L.C.
K. HOVNANIAN AT THE BLUFF, INC.
K. HOVNANIAN AT THE CEDARS, INC.
K. HOVNANIAN AT THE CROSBY, L.L.C.
K. HOVNANIAN AT THE GLEN, INC.
K. HOVNANIAN AT THE PRESERVE, L.L.C.
K. HOVNANIAN AT THORNBURY, INC.
K. HOVNANIAN AT TIERRASANTA, INC.
K. HOVNANIAN AT TUXEDO, INC.
K. HOVNANIAN AT UNION TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER MAKEFIELD I, INC.
K. HOVNANIAN AT VAIL RANCH, INC.
K. HOVNANIAN AT WALL TOWNSHIP VI, INC.
K. HOVNANIAN AT WALL TOWNSHIP VIII, INC.
K. HOVNANIAN AT WASHINGTONVILLE, INC.
K. HOVNANIAN AT WAYNE III, INC.
K. HOVNANIAN AT WAYNE V, INC.
K. HOVNANIAN AT WILDROSE, INC.
K. HOVNANIAN AT WOODMONT, INC.
K. HOVNANIAN AT WOOLWICH I, L.L.C.
K. HOVNANIAN AT YONKERS I, L.L.C.

K. HOVNANIAN AT YONKERS II, L.L.C.
K. HOVNANIAN COMPANIES NORTHEAST, INC.
K. HOVNANIAN COMPANIES OF CALIFORNIA, INC.
K. HOVNANIAN COMPANIES OF MARYLAND, INC.
K. HOVNANIAN COMPANIES OF METRO WASHINGTON, INC.
K. HOVNANIAN COMPANIES OF NEW YORK, INC.
K. HOVNANIAN COMPANIES OF NORTH CAROLINA, INC.
K. HOVNANIAN COMPANIES OF PENNSYLVANIA, INC.
K. HOVNANIAN COMPANIES OF SOUTHERN CALIFORNIA, INC.
K. HOVNANIAN CONSTRUCTION MANAGEMENT, INC.
K. HOVNANIAN DEVELOPMENTS OF ARIZONA, INC.
K. HOVNANIAN DEVELOPMENTS OF CALIFORNIA, INC.
K. HOVNANIAN DEVELOPMENTS OF MARYLAND, INC.
K. HOVNANIAN DEVELOPMENTS OF METRO WASHINGTON, INC.
K. HOVNANIAN DEVELOPMENTS OF MICHIGAN, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY II, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW YORK, INC.
K. HOVNANIAN DEVELOPMENTS OF OHIO, INC.
K. HOVNANIAN DEVELOPMENTS OF PENNSYLVANIA, INC.
K. HOVNANIAN DEVELOPMENTS OF SOUTH CAROLINA, INC.
K. HOVNANIAN DEVELOPMENTS OF TEXAS, INC.
K. HOVNANIAN DEVELOPMENTS OF WEST VIRGINIA, INC.

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K. HOVNANIAN EQUITIES, INC.
K. HOVNANIAN FORECAST HOMES, INC.
K. HOVNANIAN'S FOUR SEASONS AT ASHBURN VILAGE, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT DULLES DISCOVERY CONDOMINIUM, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT DULLES DISCOVERY, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT KENT ISLAND CONDOMINIUMS, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT KENT ISLAND, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT MENIFEE VALLEY, L.L.C.
K. HOVNANIAN HOMES AT FAIRWOOD, L.L.C.
K. HOVNANIAN HOMES OF D.C., L.L.C.
K. HOVNANIAN HOMES OF DELAWARE, L.L.C.
K. HOVNANIAN HOMES OF MINNESOTA, L.L.C.
K. HOVNANIAN HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNANIAN INVESTMENT PROPERTIES OF NEW JERSEY, INC.
K. HOVNANIAN MARINE, INC.
K. HOVNANIAN PA REAL ESTATE, INC.
K. HOVNANIAN PORT IMPERIAL URBAN RENEWAL, INC.
K. HOVNANIAN PROPERTIES OF NEWARK URBAN RENEWAL CORPORATION, INC.
K. HOVNANIAN PROPERTIES OF NORTH BRUNSWICK V, INC.
K. HOVNANIAN PROPERTIES OF PISCATAWAY, INC.
K. HOVNANIAN PROPERTIES OF RED BANK, INC.
K. HOVNANIAN PROPERTIES OF WALL, INC.
KHC ACQUISITION, INC.
LANDARAMA, INC.
M&M AT LONG BRANCH, INC.
MATZEL & MUMFORD OF DELAWARE, INC.
MATZEL & MUMFORD AT EGG HARBOR, L.L.C.
MCNJ, INC.
PINE BROOK COMPANY, INC.
QUE CORPORATION
REFLECTIONS OF YOU INTERIORS, INC.
SEABROOK ACCUMULATION CORPORATION
STONEBROOK HOMES, INC.
THE MATZEL & MUMFORD ORGANIZATION, INC.
THE NEW FORTIS CORPORATION
THE SOUTHAMPTON CORPORATION
WASHINGTON HOMES AT CAMERON STATION, L.L.C.
WASHINGTON HOMES AT RUSSETT, L.L.C.
WASHINGTON HOMES OF WEST VIRGINIA, INC.
WASHINGTON HOMES, INC.

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WASHINGTON HOMES, INC. OF VIRGINIA
WESTMINSTER HOMES (CHARLOTTE), INC.
WESTMINSTER HOMES OF TENNESSEE, INC.
WESTMINSTER HOMES, INC.
WH LAND I, INC
WH LAND II, INC.
WH PROPERTIES, INC.
ARBOR WEST, L.L.C.
DULLES COPPERMINE, L.L.C.
K. HOVNANIAN AT 4S, L.L.C.
K. HOVNANIAN AT ACQUA VISTA, L.L.C.
K. HOVNANIAN AT ARBOR HEIGHTS, LLC
K. HOVNANIAN AT ASHBURN VILLAGE, L.L.C.
K. HOVNANIAN AT BARNEGAT I, L.L.C.
K. HOVNANIAN AT BERKELEY, L.L.C.
K. HOVNANIAN AT BERNARDS V, L.L.C.
K. HOVNANIAN AT BLOOMS CROSSING, L.L.C.
K. HOVNANIAN AT BLUE HERON PINES, L.L.C.
K. HOVNANIAN AT BRENBROOKE, L.L.C.
K. HOVNANIAN AT BRIDGEWATER I, L.L.C.
K. HOVNANIAN AT CAMDEN I, L.L.C.
K. HOVNANIAN AT CARMEL VILLAGE, L.L.C.
K. HOVNANIAN AT CEDAR GROVE III, L.L.C.
K. HOVNANIAN AT CHESTER I, L.L.C.
K. HOVNANIAN AT CLIFTON, L.L.C.
K. HOVNANIAN AT CLIFTON II, L.L.C.
K. HOVNANIAN AT CORTEZ HILL, L.L.C.
K. HOVNANIAN AT CRANBURY, L.L.C.
K. HOVNANIAN AT CURRIES WOODS, L.L.C.
K. HOVNANIAN AT DENVILLE, L.L.C.
K. HOVNANIAN AT EASTLAKE, L.L.C.
K. HOVNANIAN AT EDGEWATER, L.L.C.
K. HOVNANIAN AT EDGEWATER II, L.L.C.
K. HOVNANIAN AT EGG HARBOR TOWNSHIP, L.L.C.
K. HOVNANIAN AT ENCINITAS RANCH, L.L.C.
K. HOVNANIAN AT FOREST MEADOWS, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP, L.L.C.
K. HOVNANIAN AT GREAT NOTCH, L.L.C.
K. HOVNANIAN AT GUTTENBERG, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN II, L.L.C.
K. HOVNANIAN AT HAMBURG, L.L.C.
K. HOVNANIAN AT HAMBURG CONTRACTORS, L.L.C.
K. HOVNANIAN AT JACKSON I, L.L.C.
K. HOVNANIAN AT JACKSON, L.L.C.

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K. HOVNANIAN AT JERSEY CITY IV, L.L.C.
K. HOVNANIAN AT JERSEY CITY V URBAN RENEWAL CO., L.L.C.
K. HOVNANIAN AT KINCAID, L.L.C.
K. HOVNANIAN AT KING FARM, L.L.C.
K. HOVNANIAN AT LA COSTA, L.L.C.
K. HOVNANIAN AT LA HABRA KNOLLS, L.L.C.
K. HOVNANIAN AT LAFAYETTE ESTATES, L.L.C.
K. HOVNANIAN AT LAKE RIDGE CROSSING, L.L.C.
K. HOVNANIAN AT LAKE TERRAPIN, L.L.C.
K. HOVNANIAN AT LAWRENCE V, L.L.C.
K. HOVNANIAN AT LINWOOD, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR CONTRACTORS, L.L.C.
K. HOVNANIAN AT LONG BRANCH I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP II, L.L.C.
K. HOVNANIAN AT LOWER MAKEFIELD TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND II, L.L.C.
K. HOVNANIAN AT MANALAPAN II, L.L.C.
K. HOVNANIAN AT MANSFIELD I, LLC
K. HOVNANIAN AT MANSFIELD II, LLC
K. HOVNANIAN AT MANSFIELD III, L.L.C.
K. HOVNANIAN AT MARLBORO TOWNSHIP V, L.L.C.
K. HOVNANIAN AT MARLBORO VI, L.L.C.
K. HOVNANIAN AT MARLBORO VII, L.L.C.
K. HOVNANIAN AT MIDDLE TOWNSHIP, L.L.C.

K. HOVNANIAN AT MIDDLETOWN II, L.L.C.
K. HOVNANIAN AT MIDDLETOWN, L.L.C.
K. HOVNANIAN AT MONROE III, L.L.C.
K. HOVNANIAN AT MOSAIC, L.L.C.
K. HOVNANIAN AT MT. OLIVE TOWNSHIP, L.L.C.
K. HOVNANIAN AT NORTH BERGEN, L.L.C.
K. HOVNANIAN AT NORTH BRUNSWICK VI, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL, L.L.C.
K. HOVNANIAN AT NORTH HALEDON, L.L.C.
K. HOVNANIAN AT NORTH WILDWOOD, L.L.C.
K. HOVNANIAN AT NORTHAMPTON, L.L.C.
K. HOVNANIAN AT NORTHFIELD, L.L.C.
K. HOVNANIAN AT OLD BRIDGE, L.L.C.
K. HOVNANIAN AT OLDE ORCHARD, L.L.C.
K. HOVNANIAN AT PACIFIC BLUFFS, L.L.C.
K. HOVNANIAN AT PARAMUS, L.L.C.
K. HOVNANIAN AT PARK LANE, L.L.C.

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K. HOVNANIAN AT RANCHO SANTA MARGARITA, L.L.C.
K. HOVNANIAN AT RANDOLPH I, L.L.C.
K. HOVNANIAN AT READINGTON II, L.L.C.
K. HOVNANIAN AT RIVERBEND II, L.L.C.
K. HOVNANIAN AT RIVERBEND, L.L.C.
K. HOVNANIAN AT RODERUCK, L.L.C.
K. HOVNANIAN AT ROWLAND HEIGHTS, L.L.C.
K. HOVNANIAN AT SAYREVILLE, L.L.C.
K. HOVNANIAN AT SMITHVILLE III, L.L.C.
K. HOVNANIAN AT SOMERS POINT, L.L.C.
K. HOVNANIAN AT SOUTH AMBOY, L.L.C.
K. HOVNANIAN AT SOUTH BANK, L.L.C.
K. HOVNANIAN AT SOUTH BRUNSWICK, L.L.C.
K. HOVNANIAN AT SPRING HILL ROAD, L.L.C.
K. HOVNANIAN AT SUNSETS, L.L.C.
K. HOVNANIAN AT THE GABLES, L.L.C.
K. HOVNANIAN AT TRAIL RIDGE, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP II, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP III, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN II, L.L.C.
K. HOVNANIAN AT WANAQUE, L.L.C.
K. HOVNANIAN AT WASHINGTON, L.L.C.
K. HOVNANIAN AT WAYNE VIII, L.L.C.
K. HOVNANIAN AT WAYNE IX, L.L.C.
K. HOVNANIAN AT WEST MILFORD, L.L.C.
K. HOVNANIAN AT WEST WINDSOR, L.L.C.
K. HOVNANIAN AT WILLOW BROOK, L.L.C.
K. HOVNANIAN AT WINCHESTER, L.L.C.
K. HOVNANIAN AT WOODHILL ESTATES, L.L.C.
K. HOVNANIAN CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN COMPANIES OF METRO D.C. NORTH, L.L.C.
K. HOVNANIAN COMPANIES, LLC
K. HOVNANIAN CONSTRUCTION II, INC.
K. HOVNANIAN CONSTRUCTION III, INC.
K. HOVNANIAN DEVELOPMENTS OF D.C., INC.
K. HOVNANIAN DEVELOPMENTS OF DELAWARE, INC.
K. HOVNANIAN DEVELOPMENTS OF MINNESOTA, INC.
K. HOVNANIAN EASTERN PENNSYLVANIA, L.L.C.
K. HOVNANIAN ENTERPRISES, INC.
K. HOVNANIAN FOUR SEASONS AT GOLD HILL, L.L.C.
K. HOVNANIAN FOUR SEASONS AT HISTORIC VIRGINIA, L.L.C.
K. HOVNANIAN GREAT WESTERN BUILDING COMPANY, L.L.C.

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K. HOVNANIAN GREAT WESTERN HOMES, L.L.C.
K. HOVNANIAN HOLDINGS NJ, L.L.C.
K. HOVNANIAN INVESTMENTS, L.L.C.
K. HOVNANIAN NORTH CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTH JERSEY ACQUISITIONS, L.L.C.

K. HOVNIANIAN NORTHEAST SERVICES, L.L.C.
K. HOVNIANIAN OHIO REALTY, L.L.C.
K. HOVNIANIAN PENNSYLVANIA ACQUISITIONS, L.L.C.
K. HOVNIANIAN SHORE ACQUISITIONS, L.L.C.
K. HOVNIANIAN SOUTH JERSEY ACQUISITION, L.L.C.
K. HOVNIANIAN SOUTHERN NEW JERSEY, L.L.C.
K. HOVNIANIAN SUMMIT HOLDINGS, L.L.C.
K. HOVNIANIAN SUMMIT HOMES, L.L.C.
K. HOVNIANIAN SUMMIT HOMES OF MICHIGAN, L.L.C.
K. HOVNIANIAN SUMMIT HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNIANIAN SUMMIT HOMES OF WEST VIRGINIA, L.L.C.
K. HOVNIANIAN WINDWARD HOMES, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT HEMET, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT PALM SPRINGS, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS AT VINT HILL, L.L.C.
K. HOVNIANIAN'S FOUR SEASONS, L.L.C.
K. HOVNIANIAN'S PRIVATE HOME PORTFOLIO, L.L.C.
KHIP, LLC
KINGS COURT AT MONTGOMERY, L.L.C.
M&M AT APPLE RIDGE, L.L.C.
M&M AT BROOKHILL, L.L.C.
M&M AT CHESTERFIELD, L.L.C.
M&M AT EAST MILL, L.L.C.
M&M AT HERITAGE WOODS, L.L.C.
M&M AT KENSINGTON WOODS, L.L.C.
M&M AT MORRISTOWN, L.L.C.
M & M AT ROBERT MORRIS, L.L.C.
M&M AT SHERIDAN, L.L.C.
M & M AT SOUTH BOUND BROOK, L.L.C.
M&M AT SPARTA, L.L.C.
M&M AT SPINNAKER POINTE, L.L.C.
M&M AT SPRUCE HOLLOW, L.L.C.
M&M AT SPRUCE MEADOWS, L.L.C.
M&M AT SPRUCE RUN, L.L.C.
M&M AT THE HIGHLANDS, L.L.C.
M&M AT WEST ORANGE, L.L.C.
M&M AT WHEATENA URBAN RENEWAL, L.L.C.
MATZEL & MUMFORD AT CRANBURY KNOLL, L.L.C.
MATZEL & MUMFORD AT FREEHOLD, L.L.C.

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MATZEL & MUMFORD AT HERITAGE LANDING, L.L.C.
MATZEL & MUMFORD AT MONTGOMERY, L.L.C.
MATZEL & MUMFORD AT PHILLIPSBURG, L.L.C.
MATZEL & MUMFORD AT SOUTH BRUNSWICK, L.L.C.
MATZEL & MUMFORD AT WOODLAND CREST, L.L.C.
MMIP, L.L.C.
PADDOCKS, L.L.C.
RIDGEMORE UTILITY, L.L.C.
THE LANDINGS AT SPINNAKER POINTE, L.L.C.
WASHINGTON HOMES AT COLUMBIA TOWN CENTER, L.L.C.
WASHINGTON HOMES AT CAMP SPRINGS, L.L.C.
WASHINGTON HOMES AT FOREST RUN, L.L.C.
WASHINGTON HOMES AT LAUREL HIGHLANDS, L.L.C.
WASHINGTON HOMES AT RENAISSANCE PLAZA, L.L.C.
WASHINGTON HOMES OF MARYLAND I, L.L.C.
WESTMINSTER HOMES OF ALABAMA, L.L.C.
WESTMINSTER HOMES OF MISSISSIPPI, L.L.C.
WESTMINSTER HOMES OF SOUTH CAROLINA, L.L.C.
WOODLAND LAKES CONDOS AT BOWIE NEWTOWN, LLC
GOODMAN FAMILY OF BUILDERS, L.P.
K. HOVNIANIAN OF HOUSTON II, L.P.
K. HOVNIANIAN OF HOUSTON, L.P.
M & M INVESTMENTS, L.P.
WASHABAMA, L.P.

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EXHIBIT A

[FACE OF NOTE]

K. HOVNIANIAN ENTERPRISES, INC.

6% Senior Subordinated Notes Due 2010

[CUSIP] [ISIN]

No. \$

K. Hovnianian Enterprises, Inc., a California corporation (the "Issuer", which term includes any successor under the Indenture hereinafter referred to), for value received, promises to pay to , or its registered assigns, the principal sum of DOLLARS (\$) on January 15, 2010

Initial Interest Rate: 6% per annum.

Interest Payment Dates: January 15 and July 15, commencing January 15, 2005.

Regular Record Dates: January 1 and July 1.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which will for all purposes have the same effect as if set forth at this place.

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IN WITNESS WHEREOF, the Issuer has caused this Note to be signed manually or by facsimile by its duly authorized officer.

Dated: K. HOVNIANIAN ENTERPRISES, INC.

By: Name: Title:

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(Form of Trustee's Certificate of Authentication)

This is one of the 6% Senior Subordinated Notes Due 2010 described in the Indenture referred to in this Note.

WACHOVIA BANK, NATIONAL ASSOCIATION, as Trustee

By: Name: Title: Authorized Signatory

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[REVERSE SIDE OF NOTE]

K. HOVNIANIAN ENTERPRISES, INC.

6% Senior Subordinated Note Due 2010

1. Principal and Interest.

The Issuer promises to pay the principal of this Note on January 15, 2010.

The Issuer promises to pay interest on the principal amount of this Note on each interest payment date, as set forth on the face of this Note, at the rate of 6% per annum.

Interest will be payable semiannually (to the holders of record of the Notes at the close of business on the January 1 or July 1 immediately preceding the interest payment date) on each interest payment date, commencing January 15, 2005.

[The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated November 30, 2004, among the Issuer, the Guarantors party thereto and the Initial Purchasers named therein (the "Registration Rights Agreement"). In the event of a Registration Default (as defined in the Registration Rights Agreement), the Holder shall be entitled to Additional Interest as specified in the Registration Rights Agreement until the Registration Default is cured.](1)

Interest on this Note will accrue from the most recent date to which interest has been paid on this Note or the Note surrendered in exchange for this Note (or, if there is no existing default in the payment of interest and if this Note is authenticated between a regular record date and the next interest payment date, from such interest payment date) or, if no interest has been paid, from November 30, 2004. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Issuer will pay interest on overdue principal, premium, if any, and, to the extent lawful, interest and Additional Interest, if any, at a rate per annum that is 1% in excess of 6%. Interest and Additional Interest not paid when due and any interest on principal, premium or interest not paid when due will be paid to the Persons that are Holders on a special record date, which will be the 15th day preceding the date fixed by the Issuer for the payment of such interest, whether or not such day is a Business Day. At least 15 days before a special record date, the

(1) For Initial Notes and Initial Additional Notes only

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Issuer will send to each Holder and to the Trustee a notice that sets forth the special record date, the payment date and the amount of interest to be paid.

2. *Paying Agent and Registrar.*

Initially, Wachovia Bank, National Association (the “**Senior Trustee**”) will act as Paying Agent and Registrar. The Issuer may change or appoint any Paying Agent, Registrar or co-Registrar without notice to any Holder. The Issuer or any of its Subsidiaries may act as Paying Agent, Registrar or co-Registrar.

3. *Indentures; Subordination; Note Guarantees.*

This is one of the Notes issued under an Indenture dated as of November 30, 2004 (as amended from time to time, the “**Indenture**”), among the Issuer, the Guarantors party thereto and Wachovia Bank, National Association, as Trustee. Capitalized terms used herein are used as defined in the Indenture unless otherwise indicated. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The Notes are subject to all such terms, and Holders are referred to the Indenture and the Trust Indenture Act for a statement of all such terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture will control.

The Notes are general unsecured obligations of the Issuer. The Indenture limits the original aggregate principal amount of the Notes to \$100,000,000, but Additional Notes may be issued pursuant to the Indenture, and the originally issued Notes and all such Additional Notes vote together for all purposes as a single class. This Note is subordinated as set forth in the Indenture. This Note is guaranteed, on a subordinated basis, by the Guarantors as set forth in the Indenture and the Guarantee endorsed hereon.

4. *Optional Redemption.*

The Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (a) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date; *plus*
- (b) the Make-Whole Amount.

The Trustee shall have no responsibility in connection with the calculation of such redemption price.

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“**Make-Whole Amount**” means, in connection with any optional redemption of any Note, the excess, if any, of: (a) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the Business Day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over (b) the principal amount of the Note being redeemed.

“**Treasury Rate**” means, in connection with the calculation of any Make-Whole Amount with respect to any Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion shall deem appropriate and fair.

No Notes of \$1,000 in original principal amount or less shall be redeemed in part. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon

cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption.

5. *Mandatory Redemption.*

There is no sinking fund for, or mandatory redemption of, the Notes.

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6. *Discharge and Defeasance.*

If the Issuer deposits with the Trustee money and/or U.S. Government Obligations sufficient to pay the then outstanding principal of, premium, interest and Additional Interest, if any, and accrued interest on the Notes to redemption or maturity, as the case may be, the Issuer, the Company and the Guarantors may in certain circumstances be discharged from the Indenture, the Notes and the Guarantees or may be discharged from certain of their obligations under certain provisions of the Indenture.

7. *Registered Form; Denominations; Transfer; Exchange.*

The Notes are in registered form without coupons in denominations of \$1,000 principal amount and any multiple of \$1,000 in excess thereof. A Holder may register the transfer or exchange of Notes in accordance with the Indenture. The Trustee may require a Holder to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Pursuant to the Indenture, there are certain periods during which the Trustee will not be required to issue, register the transfer of or exchange any Note or certain portions of a Note.

8. *Defaults and Remedies.*

If an Event of Default, as defined in the Indenture, occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable. If a bankruptcy or insolvency default with respect to the Issuer occurs and is continuing, the Notes automatically become due and payable. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of remedies.

9. *Amendment and Waiver.*

Subject to certain exceptions, the Indenture and the Notes may be amended, or default may be waived, with the consent of the Holders of a majority in principal amount of the outstanding Notes. Without notice to or the consent of any Holder, the Issuer and the Trustee may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency.

10. *Authentication.*

This Note is not valid until the Trustee (or Authenticating Agent) signs the certificate of authentication on the other side of this Note.

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11. *Abbreviations.*

Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A/ (= Uniform Gifts to Minors Act).

The Issuer will furnish a copy of the Indenture to any Holder upon written request and without charge.

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[FORM OF NOTATION ON NOTE RELATING TO GUARANTEE]

GUARANTEE

The undersigned (the “**Guarantors**”) have unconditionally guaranteed, jointly and severally (such guarantee by each Guarantor being referred to herein as the “**Guarantee**”) (i) the due and punctual payment of the principal of and interest on the Notes, whether at maturity, by acceleration or otherwise, the due and punctual payment of interest on the overdue principal and interest, if any, on the Notes, to the extent lawful, and the due and punctual performance of all other obligations of the Issuer to the Holders or the Trustee all in accordance with the terms set forth in Article 6 of the Indenture and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

The obligations of the Guarantors under this Guarantee are subordinated to all Senior Debt of a Guarantor, as set forth in Article 12 of the Indenture.

No past, present or future stockholder, officer, director, employee or incorporator, as such, of any of the Guarantors shall have any liability under the Guarantee by reason of such person’s status as stockholder, officer, director, employee or incorporator. Each Holder of a Note by accepting a Note waives and releases all such liability. This waiver and release are part of the consideration for the issuance of the Guarantee.

Each Holder of a Note by accepting a Note agrees that any Guarantor named below shall have no further liability with respect to its Guarantee if such Guarantor otherwise ceases to be liable in respect of its Guarantee in accordance with the terms of the Indenture.

The Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Notes upon which the Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers.

HOVNIANIAN ENTERPRISES, INC.
ALL SEASONS, INC.
ARROW PROPERTIES, INC.
CONDOMINIUM COMMUNITY (BOWIE NEW TOWN), INC.
CONDOMINIUM COMMUNITY (LARGO TOWN), INC.
CONDOMINIUM COMMUNITY (PARK PLACE), INC.
CONDOMINIUM COMMUNITY (QUAIL RUN), INC.
CONDOMINIUM COMMUNITY (TRUMAN DRIVE), INC.

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CONSULTANTS CORPORATION
DESIGNED CONTRACTS, INC.
EDISON CONTRACT SERVICES, L.L.C.
EXC, INC.
FORTIS HOMES, INC.
HOUSING-HOME SALES, INC.
HOVNIANIAN DEVELOPMENTS OF FLORIDA, INC.
K. HOV INTERNATIONAL, INC.
K. HOV IP, II, INC.
K. HOV IP, INC.
K. HOVNIANIAN ACQUISITIONS, INC.
K. HOVNIANIAN AT ALISO, L.L.C.
K. HOVNIANIAN AT ASHBURN VILLAGE, INC.
K. HOVNIANIAN AT BALLANTRAE ESTATES, INC.
K. HOVNIANIAN AT BARRINGTON, INC.
K. HOVNIANIAN AT BELLA LAGO, L.L.C.
K. HOVNIANIAN AT BELMONT, INC.
K. HOVNIANIAN AT BERNARDS IV, INC.
K. HOVNIANIAN AT BRANCHBURG III, INC.
K. HOVNIANIAN AT BRIDGEPORT, INC.
K. HOVNIANIAN AT BRIDGEWATER VI, INC.
K. HOVNIANIAN AT BRIDLEWOOD, L.L.C.
K. HOVNIANIAN AT BULL RUN, INC.
K. HOVNIANIAN AT BURLINGTON III, INC.
K. HOVNIANIAN AT BURLINGTON, INC.
K. HOVNIANIAN AT CALABRIA, INC.
K. HOVNIANIAN AT CAPISTRANO, L.L.C.
K. HOVNIANIAN AT CAMERON CHASE, INC.
K. HOVNIANIAN AT CARMEL DEL MAR, INC.
K. HOVNIANIAN AT CASTILE, INC.
K. HOVNIANIAN AT CEDAR GROVE I, INC.
K. HOVNIANIAN AT CEDAR GROVE II, INC.
K. HOVNIANIAN AT CEDAR GROVE IV, L.L.C.
K. HOVNIANIAN AT CHAPARRAL, INC.
K. HOVNIANIAN AT CHESTERFIELD, L.L.C.
K. HOVNIANIAN AT CITY IN THE HILLS, L.L.C.
K. HOVNIANIAN AT CLARKSTOWN, INC.
K. HOVNIANIAN AT CRESTLINE, INC.
K. HOVNIANIAN AT DEPTFORD TOWNSHIP, L.L.C.
K. HOVNIANIAN AT DOMINGUEZ HILLS, INC.
K. HOVNIANIAN AT DOMINION RIDGE, INC.
K. HOVNIANIAN AT EAST BRUNSWICK VI, INC.
K. HOVNIANIAN AT EAST WHITELAND I, INC.
K. HOVNIANIAN AT EXETER HILLS, INC.

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K. HOVNIANIAN AT FAIR LAKES GLEN, INC.
K. HOVNIANIAN AT FAIR LAKES, INC.
K. HOVNIANIAN AT FLORENCE I, L.L.C.
K. HOVNIANIAN AT FLORENCE II, L.L.C.
K. HOVNIANIAN AT FRANKLIN, L.L.C.
K. HOVNIANIAN AT FREEHOLD TOWNSHIP I, INC.
K. HOVNIANIAN AT GASLAMP SQUARE, L.L.C.
K. HOVNIANIAN AT HACKETTSTOWN, INC.

K. HOVNANIAN AT HAMPTON OAKS, INC.
K. HOVNANIAN AT HAWTHORNE, L.L.C.
K. HOVNANIAN AT HERSHEY'S MILL, INC.
K. HOVNANIAN AT HIGHLAND VINEYARDS, INC.
K. HOVNANIAN AT HIGHWATER, L.L.C.
K. HOVNANIAN AT HOLLY CREST, INC.
K. HOVNANIAN AT HOPEWELL IV, INC.
K. HOVNANIAN AT HOPEWELL VI, INC.
K. HOVNANIAN AT HOWELL TOWNSHIP, INC.
K. HOVNANIAN AT HUDSON POINT, L.L.C.
K. HOVNANIAN AT HUNTER ESTATES, INC.
K. HOVNANIAN AT KINGS GRANT I, INC.
K. HOVNANIAN AT KLOCKNER FARMS, INC.
K. HOVNANIAN AT LA TERRAZA, INC.
K. HOVNANIAN AT LA TROVATA, INC.
K. HOVNANIAN AT LAKEWOOD, INC.
K. HOVNANIAN AT LOWER SAUCON II, INC.
K. HOVNANIAN AT LOWER SAUCON, INC.
K. HOVNANIAN AT MAHWAH II, INC.
K. HOVNANIAN AT MAHWAH V, INC.
K. HOVNANIAN AT MAHWAH VI, INC.
K. HOVNANIAN AT MAHWAH VII, INC.
K. HOVNANIAN AT MANALAPAN, INC.
K. HOVNANIAN AT MARLBORO II, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IV, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP III, INC.
K. HOVNANIAN AT MARLBORO TOWNSHIP IX, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY, L.L.C.
K. HOVNANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.
K. HOVNANIAN OF METRO DC SOUTH, INC.
K. HOVNANIAN AT MILLVILLE I, L.L.C.
K. HOVNANIAN AT MONROE II, INC.
K. HOVNANIAN AT MONTCLAIR NJ, INC.
K. HOVNANIAN AT MONTCLAIR, INC.
K. HOVNANIAN AT MONTGOMERY I, INC.
K. HOVNANIAN AT MONTVALE, L.L.C.

K. HOVNANIAN AT NORTH BERGEN II, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL II, L.L.C.
K. HOVNANIAN AT NORTHERN WESTCHESTER, INC.
K. HOVNANIAN AT NORTHLAKE, INC.
K. HOVNANIAN AT OCEAN TOWNSHIP, INC.
K. HOVNANIAN AT OCEAN WALK, INC.
K. HOVNANIAN AT P.C. PROPERTIES, INC.
K. HOVNANIAN AT PARK RIDGE, INC.
K. HOVNANIAN AT PERKIOMEN I, INC.
K. HOVNANIAN AT PERKIOMEN II, INC.
K. HOVNANIAN AT PITTSBORO, L.L.C.
K. HOVNANIAN AT PLAINSBORO III, INC.
K. HOVNANIAN AT PRINCETON, INC.
K. HOVNANIAN AT RANCHO CHRISTIANITOS, INC.
K. HOVNANIAN AT RESERVOIR RIDGE, INC.
K. HOVNANIAN AT RIVER OAKS, INC.
K. HOVNANIAN AT SAN SEVAINE, INC.
K. HOVNANIAN AT SARATOGA, INC.
K. HOVNANIAN AT SCOTCH PLAINS II, INC.
K. HOVNANIAN AT SCOTCH PLAINS, INC.
K. HOVNANIAN AT SCOTCH PLAINS, L.L.C.
K. HOVNANIAN AT SMITHVILLE, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK III, INC.
K. HOVNANIAN AT SOUTH BRUNSWICK V, INC.
K. HOVNANIAN AT STONE CANYON, INC.
K. HOVNANIAN AT STONY POINT, INC.
K. HOVNANIAN AT STUART ROAD, INC.
K. HOVNANIAN AT SULLY STATION, INC.
K. HOVNANIAN AT SUMMERWOOD, INC.
K. HOVNANIAN AT SYCAMORE, INC.
K. HOVNANIAN AT TANNERY HILL, INC.
K. HOVNANIAN AT TEANECK, L.L.C.
K. HOVNANIAN AT THE BLUFF, INC.
K. HOVNANIAN AT THE CEDARS, INC.
K. HOVNANIAN AT THE CROSBY, L.L.C.

K. HOVNANIAN AT THE GLEN, INC.
K. HOVNANIAN AT THE PRESERVE, L.L.C.
K. HOVNANIAN AT THORNBURY, INC.
K. HOVNANIAN AT TIERRASANTA, INC.
K. HOVNANIAN AT TUXEDO, INC.
K. HOVNANIAN AT UNION TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER MAKEFIELD I, INC.
K. HOVNANIAN AT VAIL RANCH, INC.
K. HOVNANIAN AT WALL TOWNSHIP VI, INC.

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K. HOVNANIAN AT WALL TOWNSHIP VIII, INC.
K. HOVNANIAN AT WASHINGTONVILLE, INC.
K. HOVNANIAN AT WAYNE III, INC.
K. HOVNANIAN AT WAYNE V, INC.
K. HOVNANIAN AT WILDROSE, INC.
K. HOVNANIAN AT WOODMONT, INC.
K. HOVNANIAN AT WOOLWICH I, L.L.C.
K. HOVNANIAN AT YONKERS I, L.L.C.
K. HOVNANIAN AT YONKERS II, L.L.C.
K. HOVNANIAN COMPANIES NORTHEAST, INC.
K. HOVNANIAN COMPANIES OF CALIFORNIA, INC.
K. HOVNANIAN COMPANIES OF MARYLAND, INC.
K. HOVNANIAN COMPANIES OF METRO WASHINGTON, INC.
K. HOVNANIAN COMPANIES OF NEW YORK, INC.
K. HOVNANIAN COMPANIES OF NORTH CAROLINA, INC.
K. HOVNANIAN COMPANIES OF PENNSYLVANIA, INC.
K. HOVNANIAN COMPANIES OF SOUTHERN CALIFORNIA, INC.
K. HOVNANIAN CONSTRUCTION MANAGEMENT, INC.
K. HOVNANIAN DEVELOPMENTS OF ARIZONA, INC.
K. HOVNANIAN DEVELOPMENTS OF CALIFORNIA, INC.
K. HOVNANIAN DEVELOPMENTS OF MARYLAND, INC.
K. HOVNANIAN DEVELOPMENTS OF METRO WASHINGTON, INC.
K. HOVNANIAN DEVELOPMENTS OF MICHIGAN, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY II, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW JERSEY, INC.
K. HOVNANIAN DEVELOPMENTS OF NEW YORK, INC.
K. HOVNANIAN DEVELOPMENTS OF OHIO, INC.
K. HOVNANIAN DEVELOPMENTS OF PENNSYLVANIA, INC.
K. HOVNANIAN DEVELOPMENTS OF SOUTH CAROLINA, INC.
K. HOVNANIAN DEVELOPMENTS OF TEXAS, INC.
K. HOVNANIAN DEVELOPMENTS OF WEST VIRGINIA, INC.
K. HOVNANIAN EQUITIES, INC.
K. HOVNANIAN FORECAST HOMES, INC.
K. HOVNANIAN'S FOUR SEASONS AT ASHBURN VILAGE, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT DULLES DISCOVERY
CONDOMINIUM, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT DULLES DISCOVERY, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT KENT ISLAND CONDOMINIUMS,
L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT KENT ISLAND, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT MENIFEE VALLEY, L.L.C.
K. HOVNANIAN HOMES AT FAIRWOOD, L.L.C.
K. HOVNANIAN HOMES OF D.C., L.L.C.

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K. HOVNANIAN HOMES OF DELAWARE, L.L.C.
K. HOVNANIAN HOMES OF MINNESOTA, L.L.C.
K. HOVNANIAN HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNANIAN INVESTMENT PROPERTIES OF NEW JERSEY, INC.
K. HOVNANIAN MARINE, INC.
K. HOVNANIAN PA REAL ESTATE, INC.
K. HOVNANIAN PORT IMPERIAL URBAN RENEWAL, INC.
K. HOVNANIAN PROPERTIES OF NEWARK URBAN RENEWAL
CORPORATION, INC.
K. HOVNANIAN PROPERTIES OF NORTH BRUNSWICK V, INC.
K. HOVNANIAN PROPERTIES OF PISCATAWAY, INC.
K. HOVNANIAN PROPERTIES OF RED BANK, INC.
K. HOVNANIAN PROPERTIES OF WALL, INC.

KHC ACQUISITION, INC.
LANDARAMA, INC.
M&M AT LONG BRANCH, INC.
MATZEL & MUMFORD OF DELAWARE, INC.
MATZEL & MUMFORD AT EGG HARBOR, L.L.C.
MCNJ, INC.
PINE BROOK COMPANY, INC.
QUE CORPORATION
REFLECTIONS OF YOU INTERIORS, INC.
SEABROOK ACCUMULATION CORPORATION
STONEBROOK HOMES, INC.
THE MATZEL & MUMFORD ORGANIZATION, INC.
THE NEW FORTIS CORPORATION
THE SOUTHAMPTON CORPORATION
WASHINGTON HOMES AT CAMERON STATION, L.L.C.
WASHINGTON HOMES AT RUSSETT, L.L.C.
WASHINGTON HOMES OF WEST VIRGINIA, INC.
WASHINGTON HOMES, INC.
WASHINGTON HOMES, INC. OF VIRGINIA
WESTMINSTER HOMES (CHARLOTTE), INC.
WESTMINSTER HOMES OF TENNESSEE, INC.
WESTMINSTER HOMES, INC.
WH LAND I, INC
WH LAND II, INC.
WH PROPERTIES, INC.
ARBOR WEST, L.L.C.
DULLES COPPERMINE, L.L.C.
K. HOVNANIAN AT 4S, L.L.C.
K. HOVNANIAN AT ACQUA VISTA, L.L.C.
K. HOVNANIAN AT ARBOR HEIGHTS, LLC
K. HOVNANIAN AT ASHBURN VILLAGE, L.L.C.

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K. HOVNANIAN AT BARNEGAT I, L.L.C.
K. HOVNANIAN AT BERKELEY, L.L.C.
K. HOVNANIAN AT BERNARDS V, L.L.C.
K. HOVNANIAN AT BLOOMS CROSSING, L.L.C.
K. HOVNANIAN AT BLUE HERON PINES, L.L.C.
K. HOVNANIAN AT BRENBROOKE, L.L.C.
K. HOVNANIAN AT BRIDGEWATER I, L.L.C.
K. HOVNANIAN AT CAMDEN I, L.L.C.
K. HOVNANIAN AT CARMEL VILLAGE, L.L.C.
K. HOVNANIAN AT CEDAR GROVE III, L.L.C.
K. HOVNANIAN AT CHESTER I, L.L.C.
K. HOVNANIAN AT CLIFTON, L.L.C.
K. HOVNANIAN AT CLIFTON II, L.L.C.
K. HOVNANIAN AT CORTEZ HILL, L.L.C.
K. HOVNANIAN AT CRANBURY, L.L.C.
K. HOVNANIAN AT CURRIES WOODS, L.L.C.
K. HOVNANIAN AT DENVILLE, L.L.C.
K. HOVNANIAN AT EASTLAKE, L.L.C.
K. HOVNANIAN AT EDGEWATER, L.L.C.
K. HOVNANIAN AT EDGEWATER II, L.L.C.
K. HOVNANIAN AT EGG HARBOR TOWNSHIP, L.L.C.
K. HOVNANIAN AT ENCINITAS RANCH, L.L.C.
K. HOVNANIAN AT FOREST MEADOWS, L.L.C.
K. HOVNANIAN AT FREEHOLD TOWNSHIP, L.L.C.
K. HOVNANIAN AT GREAT NOTCH, L.L.C.
K. HOVNANIAN AT GUTTENBERG, L.L.C.
K. HOVNANIAN AT HACKETTSTOWN II, L.L.C.
K. HOVNANIAN AT HAMBURG, L.L.C.
K. HOVNANIAN AT HAMBURG CONTRACTORS, L.L.C.
K. HOVNANIAN AT JACKSON I, L.L.C.
K. HOVNANIAN AT JACKSON, L.L.C.
K. HOVNANIAN AT JERSEY CITY IV, L.L.C.
K. HOVNANIAN AT JERSEY CITY V URBAN RENEWAL CO., L.L.C.
K. HOVNANIAN AT KINCAID, L.L.C.
K. HOVNANIAN AT KING FARM, L.L.C.
K. HOVNANIAN AT LA COSTA, L.L.C.
K. HOVNANIAN AT LA HABRA KNOLLS, L.L.C.
K. HOVNANIAN AT LAFAYETTE ESTATES, L.L.C.
K. HOVNANIAN AT LAKE RIDGE CROSSING, L.L.C.
K. HOVNANIAN AT LAKE TERRAPIN, L.L.C.

K. HOVNANIAN AT LAWRENCE V, L.L.C.
K. HOVNANIAN AT LINWOOD, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR, L.L.C.
K. HOVNANIAN AT LITTLE EGG HARBOR CONTRACTORS, L.L.C.

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K. HOVNANIAN AT LONG BRANCH I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MACUNGIE TOWNSHIP II, L.L.C.
K. HOVNANIAN AT LOWER MAKEFIELD TOWNSHIP I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND I, L.L.C.
K. HOVNANIAN AT LOWER MORELAND II, L.L.C.
K. HOVNANIAN AT MANALAPAN II, L.L.C.
K. HOVNANIAN AT MANSFIELD I, LLC
K. HOVNANIAN AT MANSFIELD II, LLC
K. HOVNANIAN AT MANSFIELD III, L.L.C.
K. HOVNANIAN AT MARLBORO TOWNSHIP V, L.L.C.
K. HOVNANIAN AT MARLBORO VI, L.L.C.
K. HOVNANIAN AT MARLBORO VII, L.L.C.
K. HOVNANIAN AT MIDDLE TOWNSHIP, L.L.C.
K. HOVNANIAN AT MIDDLETOWN II, L.L.C.
K. HOVNANIAN AT MIDDLETOWN, L.L.C.
K. HOVNANIAN AT MONROE III, L.L.C.
K. HOVNANIAN AT MOSAIC, L.L.C.
K. HOVNANIAN AT MT. OLIVE TOWNSHIP, L.L.C.
K. HOVNANIAN AT NORTH BERGEN, L.L.C.
K. HOVNANIAN AT NORTH BRUNSWICK VI, L.L.C.
K. HOVNANIAN AT NORTH CALDWELL, L.L.C.
K. HOVNANIAN AT NORTH HALEDON, L.L.C.
K. HOVNANIAN AT NORTH WILDWOOD, L.L.C.
K. HOVNANIAN AT NORTHAMPTON, L.L.C.
K. HOVNANIAN AT NORTHFIELD, L.L.C.
K. HOVNANIAN AT OLD BRIDGE, L.L.C.
K. HOVNANIAN AT OLDE ORCHARD, L.L.C.
K. HOVNANIAN AT PACIFIC BLUFFS, L.L.C.
K. HOVNANIAN AT PARAMUS, L.L.C.
K. HOVNANIAN AT PARK LANE, L.L.C.
K. HOVNANIAN AT RANCHO SANTA MARGARITA, L.L.C.
K. HOVNANIAN AT RANDOLPH I, L.L.C.
K. HOVNANIAN AT READINGTON II, L.L.C.
K. HOVNANIAN AT RIVERBEND II, L.L.C.
K. HOVNANIAN AT RIVERBEND, L.L.C.
K. HOVNANIAN AT RODERUCK, L.L.C.
K. HOVNANIAN AT ROWLAND HEIGHTS, L.L.C.
K. HOVNANIAN AT SAYREVILLE, L.L.C.
K. HOVNANIAN AT SMITHVILLE III, L.L.C.
K. HOVNANIAN AT SOMERS POINT, L.L.C.
K. HOVNANIAN AT SOUTH AMBOY, L.L.C.
K. HOVNANIAN AT SOUTH BANK, L.L.C.
K. HOVNANIAN AT SOUTH BRUNSWICK, L.L.C.

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K. HOVNANIAN AT SPRING HILL ROAD, L.L.C.
K. HOVNANIAN AT SUNSETS, L.L.C.
K. HOVNANIAN AT THE GABLES, L.L.C.
K. HOVNANIAN AT TRAIL RIDGE, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP I, INC.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP II, L.L.C.
K. HOVNANIAN AT UPPER FREEHOLD TOWNSHIP III, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN, L.L.C.
K. HOVNANIAN AT UPPER UWCHLAN II, L.L.C.
K. HOVNANIAN AT WANAQUE, L.L.C.
K. HOVNANIAN AT WASHINGTON, L.L.C.
K. HOVNANIAN AT WAYNE VIII, L.L.C.
K. HOVNANIAN AT WAYNE IX, L.L.C.
K. HOVNANIAN AT WEST MILFORD, L.L.C.
K. HOVNANIAN AT WEST WINDSOR, L.L.C.
K. HOVNANIAN AT WILLOW BROOK, L.L.C.
K. HOVNANIAN AT WINCHESTER, L.L.C.
K. HOVNANIAN AT WOODHILL ESTATES, L.L.C.

K. HOVNANIAN CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN COMPANIES OF METRO D.C. NORTH, L.L.C.
K. HOVNANIAN COMPANIES, LLC
K. HOVNANIAN CONSTRUCTION II, INC.
K. HOVNANIAN CONSTRUCTION III, INC.
K. HOVNANIAN DEVELOPMENTS OF D.C., INC.
K. HOVNANIAN DEVELOPMENTS OF DELAWARE, INC.
K. HOVNANIAN DEVELOPMENTS OF MINNESOTA, INC.
K. HOVNANIAN EASTERN PENNSYLVANIA, L.L.C.
K. HOVNANIAN ENTERPRISES, INC.
K. HOVNANIAN FOUR SEASONS AT GOLD HILL, L.L.C.
K. HOVNANIAN FOUR SEASONS AT HISTORIC VIRGINIA, L.L.C.
K. HOVNANIAN GREAT WESTERN BUILDING COMPANY, L.L.C.
K. HOVNANIAN GREAT WESTERN HOMES, L.L.C.
K. HOVNANIAN HOLDINGS NJ, L.L.C.
K. HOVNANIAN INVESTMENTS, L.L.C.
K. HOVNANIAN NORTH CENTRAL ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTH JERSEY ACQUISITIONS, L.L.C.
K. HOVNANIAN NORTHEAST SERVICES, L.L.C.
K. HOVNANIAN OHIO REALTY, L.L.C.
K. HOVNANIAN PENNSYLVANIA ACQUISITIONS, L.L.C.
K. HOVNANIAN SHORE ACQUISITIONS, L.L.C.
K. HOVNANIAN SOUTH JERSEY ACQUISITION, L.L.C.
K. HOVNANIAN SOUTHERN NEW JERSEY, L.L.C.
K. HOVNANIAN SUMMIT HOLDINGS, L.L.C.
K. HOVNANIAN SUMMIT HOMES, L.L.C.

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K. HOVNANIAN SUMMIT HOMES OF MICHIGAN, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF PENNSYLVANIA, L.L.C.
K. HOVNANIAN SUMMIT HOMES OF WEST VIRGINIA, L.L.C.
K. HOVNANIAN WINDWARD HOMES, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT HEMET, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT PALM SPRINGS, L.L.C.
K. HOVNANIAN'S FOUR SEASONS AT VINT HILL, L.L.C.
K. HOVNANIAN'S FOUR SEASONS, L.L.C.
K. HOVNANIAN'S PRIVATE HOME PORTFOLIO, L.L.C.
KHIP, LLC
KINGS COURT AT MONTGOMERY, L.L.C.
M&M AT APPLE RIDGE, L.L.C.
M&M AT BROOKHILL, L.L.C.
M&M AT CHESTERFIELD, L.L.C.
M&M AT EAST MILL, L.L.C.
M&M AT HERITAGE WOODS, L.L.C.
M&M AT KENSINGTON WOODS, L.L.C.
M&M AT MORRISTOWN, L.L.C.
M & M AT ROBERT MORRIS, L.L.C.
M&M AT SHERIDAN, L.L.C.
M & M AT SOUTH BOUND BROOK, L.L.C.
M&M AT SPARTA, L.L.C.
M&M AT SPINNAKER POINTE, L.L.C.
M&M AT SPRUCE HOLLOW, L.L.C.
M&M AT SPRUCE MEADOWS, L.L.C.
M&M AT SPRUCE RUN, L.L.C.
M&M AT THE HIGHLANDS, L.L.C.
M&M AT WEST ORANGE, L.L.C.
M&M AT WHEATENA URBAN RENEWAL, L.L.C.
MATZEL & MUMFORD AT CRANBURY KNOLL, L.L.C.
MATZEL & MUMFORD AT FREEHOLD, L.L.C.
MATZEL & MUMFORD AT HERITAGE LANDING, L.L.C.
MATZEL & MUMFORD AT MONTGOMERY, L.L.C.
MATZEL & MUMFORD AT PHILLIPSBURG, L.L.C.
MATZEL & MUMFORD AT SOUTH BRUNSWICK, L.L.C.
MATZEL & MUMFORD AT WOODLAND CREST, L.L.C.
MMIP, L.L.C.
PADDOCKS, L.L.C.
RIDGEMORE UTILITY, L.L.C.
THE LANDINGS AT SPINNAKER POINTE, L.L.C.
WASHINGTON HOMES AT COLUMBIA TOWN CENTER, L.L.C.
WASHINGTON HOMES AT CAMP SPRINGS, L.L.C.
WASHINGTON HOMES AT FOREST RUN, L.L.C.
WASHINGTON HOMES AT LAUREL HIGHLANDS, L.L.C.

WASHINGTON HOMES AT RENAISSANCE PLAZA, L.L.C.
 WASHINGTON HOMES OF MARYLAND I, L.L.C.
 WESTMINSTER HOMES OF ALABAMA, L.L.C.
 WESTMINSTER HOMES OF MISSISSIPPI, L.L.C.
 WESTMINSTER HOMES OF SOUTH CAROLINA, L.L.C.
 WOODLAND LAKES CONDOS AT BOWIE NEWTOWN, LLC
 GOODMAN FAMILY OF BUILDERS, L.P.
 K. HOVNIANIAN OF HOUSTON II, L.P.
 K. HOVNIANIAN OF HOUSTON, L.P.
 M & M INVESTMENTS, L.P.
 WASHABAMA, L.P.

By: _____
 Name: _____
 Title: Authorized Signatory

By: _____
 Title: _____

[FORM OF TRANSFER NOTICE]

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto
 Insert Taxpayer Identification No.

 Please print or typewrite name and address including zip code of assignee

 the within Note and all rights thereunder, hereby irrevocably constituting and appointing

 attorney to transfer said Note on the books of the Issuer with full power of substitution in the premises.

[THE FOLLOWING PROVISION TO BE INCLUDED ON ALL
 CERTIFICATES BEARING A RESTRICTED LEGEND]

In connection with any transfer of this Note occurring prior to _____, the undersigned confirms that such transfer is made without utilizing
 any general solicitation or general advertising and further as follows:

Check One

(1) This Note is being transferred to a "qualified institutional buyer" in compliance with Rule 144A under the Securities Act of 1933, as amended and certification in the form of Exhibit F to the Indenture is being furnished herewith.

(2) This Note is being transferred to a Non-U.S. Person in compliance with the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder, and certification in the form of Exhibit E to the Indenture is being furnished herewith.

or

(3) This Note is being transferred other than in accordance with (1) or (2) above and documents are being furnished which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked, the Trustee is not obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in the Indenture have been satisfied.

Date: _____

Seller

By _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned instrument in every particular, without alteration or any change whatsoever.

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Signature Guarantee:(2) _____

By _____
To be executed by an executive officer

(2) Signatures must be guaranteed by an “**eligible guarantor institution**” meeting the requirements of the Registrar, which requirements include membership or participation in the Note Transfer Agent Medallion Program (“**STAMP**”) or such other “**signature guarantee program**” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have all of this Note purchased by the Issuer pursuant to Section 4.10 or Section 4.12 of the Indenture, check the box: o

If you wish to have a portion of this Note purchased by the Issuer pursuant to Section 4.10 or Section 4.12 of the Indenture, state the amount (in original principal amount) below:

\$ _____ .

Date: _____

Your Signature: _____

(Sign exactly as your name appears on the other side of this Note)

Signature Guarantee:(1) _____

(1) Signatures must be guaranteed by an “**eligible guarantor institution**” meeting the requirements of the Registrar, which requirements include membership or participation in the Note Transfer Agent Medallion Program (“**STAMP**”) or such other “**signature guarantee program**” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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SCHEDULE OF EXCHANGES OF NOTES(3)

The following exchanges of a part of this Global Note for Physical Notes or a part of another Global Note have been made:

Date of Exchange	Amount of decrease in principal amount of this Global Note	Amount of increase in principal amount of this Global Note	Principal amount of this Global Note following such decrease (or increase)	Signature of authorized officer of Trustee
------------------	--	--	--	--

(3) For Global Notes

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SUPPLEMENTAL INDENTURE

dated as of _____ ,

among

K. HOVNANIAN ENTERPRISES, INC.

HOVNANIAN ENTERPRISES, INC.

The Guarantors Party Hereto

and

WACHOVIA BANK, NATIONAL ASSOCIATION
as Trustee

6% Senior Subordinated Notes due 2010

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THIS SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**"), entered into as of _____ , _____ , among K. Hovnanian Enterprises, Inc., a California corporation (the "**Issuer**"), Hovnanian Enterprises, Inc. (the "**Company**"), [list each new guarantor and its jurisdiction of incorporation] (each an "**Undersigned**") and Wachovia Bank, National Association, as trustee (the "**Trustee**").

RECITALS

WHEREAS, the Issuer, Company, the Guarantors party thereto and the Trustee entered into the Indenture, dated as of November 30, 2004 (the "**Indenture**"), relating to the Company's 6% Senior Subordinated Notes due 2010 (the "**Notes**");

WHEREAS, as a condition to the Trustee entering into the Indenture and the purchase of the Notes by the Holders, the Company agreed pursuant to the Indenture to cause any newly acquired or created Restricted Subsidiaries to provide Guaranties.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and intending to be legally bound, the parties the Indenture hereby agree as follows:

SECTION 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

SECTION 2. Each Undersigned, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 6 and Article 12 thereof.

SECTION 3. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 4. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

SECTION 5. This Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this Supplemental Indenture will henceforth be read together.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

K. HOVNANIAN ENTERPRISES, INC.,
as Issuer

By: _____
Name:
Title:

HOVNANIAN ENTERPRISES, INC.,

By: _____
Name:
Title:

By: _____
Name:
Title:

WACHOVIA BANK, NATIONAL
ASSOCIATION
as Trustee

By: _____
Name:
Title:

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EXHIBIT C

RESTRICTED LEGEND

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER

(1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), (B) IT HAS ACQUIRED THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (C) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a) (1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "IAI"),

(2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S OF THE SECURITIES ACT, (D) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (E) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE TRANSFER OF THIS NOTE (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) AND, IF SUCH TRANSFER IS IN RESPECT OF AN AGGREGATE PRINCIPAL AMOUNT OF LESS THAN \$250,000, AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER) OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY

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STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND

(3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTIONS" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING.

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EXHIBIT D

DTC LEGEND

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ANY OF ITS SUBSIDIARIES OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS A BENEFICIAL INTEREST HEREIN.

Regulation S Certificate

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
6% Senior Subordinated Notes due 2010 (the "Notes")
Issued under the Indenture (the "Indenture") dated as
as of November 30, 2004 relating to the Notes

Dear Sirs:

Terms are used in this Certificate as used in Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "Securities Act"), except as otherwise stated herein.

[CHECK A OR B AS APPLICABLE.]

- o A. This Certificate relates to our proposed transfer of \$ _____ principal amount of Notes issued under the Indenture. We hereby certify as follows:
1. The offer and sale of the Notes was not and will not be made to a person in the United States (unless such person is excluded from the definition of "U.S. person" pursuant to Rule 902(k)(2)(vi) or the account held by it for which it is acting is excluded from the definition of "U.S. person" pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(g)(3)) and such offer and sale was not and will not be specifically targeted at an identifiable group of U.S. citizens abroad.
 2. Unless the circumstances described in the parenthetical in paragraph 1 above are applicable, either (a) at the time the buy order was originated, the buyer was outside the United States or we and any person acting on our behalf reasonably believed that the buyer was outside the United States or (b) the transaction was executed in, on or through the facilities of a designated offshore securities market, and neither we nor any person acting on our
- behalf knows that the transaction was pre-arranged with a buyer in the United States.
3. Neither we, any of our affiliates, nor any person acting on our or their behalf has made any directed selling efforts in the United States with respect to the Notes.
 4. The proposed transfer of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.
 5. If we are a dealer or a person receiving a selling concession, fee or other remuneration in respect of the Notes, and the proposed transfer takes place during the Restricted Period (as defined in the Indenture), or we are an officer or director of the Company or an Initial Purchaser (as defined in the Indenture), we certify that the proposed transfer is being made in accordance with the provisions of Rule 904(b) of Regulation S.
- o B. This Certificate relates to our proposed exchange of \$ _____ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us. We hereby certify as follows:
1. At the time the offer and sale of the Notes was made to us, either (i) we were not in the United States or (ii) we were excluded from the definition of "U.S. person" pursuant to Rule 902(k)(2)(vi) or the account held by us for which we were acting was excluded from the definition of "U.S. person" pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(g)(3); and we were not a member of an identifiable group of U.S. citizens abroad.
 2. Unless the circumstances described in paragraph 1(ii) above are applicable, either (a) at the time our buy order was originated, we were outside the United States or (b) the transaction was executed in, on or through the facilities of a designated offshore securities market and we did not pre-arrange the transaction in the United States.
 3. The proposed exchange of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF SELLER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____

Name:

Title:

Address:

Date: _____

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EXHIBIT F

Rule 144A Certificate

Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
6% Senior Subordinated Notes due 2010 (the "Notes")
Issued under the Indenture (the "**Indenture**") dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

TO BE COMPLETED BY PURCHASER IF (1) ABOVE IS CHECKED.

This Certificate relates to:

[CHECK A OR B AS APPLICABLE.]

- o A. Our proposed purchase of \$ principal amount of Notes issued under the Indenture.
- o B. Our proposed exchange of \$ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We and, if applicable, each account for which we are acting, are a qualified institutional buyer within the meaning of Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"). If we are acting on behalf of an account, we exercise sole investment discretion with respect to such account. We are aware that the transfer of Notes to us, or such exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Prior to the date of this Certificate we have received such information regarding the Company as we have requested pursuant to Rule 144A(d)(4) or have determined not to request such information.

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You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF SELLER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____

Name:

Title:

Address:

Date: _____

Institutional Accredited Investor Certificate

Wachovia Bank, National Association
 21 South Street
 Morristown, NJ 07960
 Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
 6% Senior Subordinated Notes due 2010 (the "Notes")
 Issued under the Indenture (the "Indenture") dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

This Certificate relates to:

[CHECK A, B OR C AS APPLICABLE.]

- o A. Our proposed purchase of \$ principal amount of Notes issued under the Indenture.
- o B. Our proposed purchase of \$ principal amount of a beneficial interest in a Global Note
- o C. Our proposed exchange of \$ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We hereby confirm that:

1. We are an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act of 1933, as amended (the "Securities Act") (an "Institutional Accredited Investor").
2. Any acquisition of Notes by us will be for our own account or for the account of one or more other Institutional Accredited Investors as to which we exercise sole investment discretion.
3. We have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of an investment in the Notes and we and any accounts for which we are acting are able to bear the economic risks of and an entire loss of our or their investment in the Notes.

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4. We are not acquiring the Notes or beneficial interest therein with a view to any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any State of the United States or any other applicable jurisdiction; *provided* that the disposition of our property and the property of any accounts for which we are acting as fiduciary will remain at all times within our and their control.
5. We acknowledge that the Notes have not been registered under the Securities Act and that the Notes may not be offered or sold within the United States or to or for the benefit of U.S. persons except as set forth below.
6. The principal amount of Notes to which this Certificate relates is at least equal to \$250,000.

We agree for the benefit of the Company, on our own behalf and on behalf of each account for which we are acting, that we will not resell or otherwise transfer this note or any beneficial interest herein, except (A) to the company or any of its subsidiaries, (B) to a person whom the we reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (C) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S of the Securities Act, (D) in a transaction meeting the requirements of Rule 144 under the Securities Act, (E) to an IAI that, prior to such transfer, furnishes the Trustee a signed letter containing certain representations and agreements relating to the transfer of this Note (the form of which can be obtained from the Trustee) and, if such transfer is in respect of an aggregate principal amount of less than \$250,000, an opinion of counsel acceptable to the company that such transfer is in compliance with the Securities Act, (F) in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel acceptable to the Company) or (G) pursuant to an effective Registration Statement, and in each case, in accordance with the applicable securities laws of any state of the United States or any other applicable jurisdiction.

Prior to the registration of any transfer, we acknowledge that the Company reserves the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer is being made in compliance with the Securities Act and applicable state securities laws. We acknowledge that no representation is made as to the availability of any Rule 144 exemption from the registration requirements of the Securities Act.

We understand that the Trustee will not be required to accept for registration of transfer any Notes acquired by us, except upon presentation of evidence satisfactory to the Company and the Trustee that the foregoing

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restrictions on transfer have been complied with. We further agree to provide to any person acquiring any of the Notes or any beneficial interest therein from us a notice advising such person that resales of the Notes are restricted as stated herein.

We agree to notify you promptly in writing if any of our acknowledgments, representations or agreements herein ceases to be accurate and complete.

We represent to you that we have full power to make the foregoing acknowledgments, representations and agreements on our own behalf and on behalf of any account for which we are acting.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF SELLER (FOR
TRANSFERS) OR OWNER (FOR
EXCHANGES)]

By: _____
Name:
Title:
Address:

Date: _____

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Upon transfer of certificated Notes, the Notes would be registered in the name of the new beneficial owner as follows:

By: _____

Date: _____

Taxpayer ID number: _____

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EXHIBIT H

[COMPLETE FORM I OR FORM II AS APPLICABLE.]

[FORM I]

Certificate of Beneficial Ownership

To: Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration OR

[Euroclear Bank S.A./N.V., as operator of the Euroclear System] OR

[Clearstream Banking, *société anonyme*]

Re: K. Hovnanian Enterprises, Inc.
6% Senior Subordinated Notes due 2010 (the "Notes")
Issued under the Indenture (the "Indenture") dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

We are the beneficial owner of \$ _____ principal amount of Notes issued under the Indenture and represented by a Regulation S Temporary Global Note (as defined in the Indenture).

We hereby certify as follows:

[CHECK A OR B AS APPLICABLE.]

o A. We are a non-U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended).

o B. We are a U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended) that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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Very truly yours,

[NAME OF BENEFICIAL OWNER]

By: _____

Name:
Title:
Address:

Date: _____

[FORM II]

Certificate of Beneficial Ownership

To: Wachovia Bank, National Association
21 South Street
Morristown, NJ 07960
Attention: Corporate Trust Administration

Re: K. Hovnanian Enterprises, Inc.
6% Senior Subordinated Notes due 2010 (the "Notes")
Issued under the Indenture (the "Indenture") dated as
as of November 30, 2004 relating to the Notes

Ladies and Gentlemen:

This is to certify that based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organizations ("Member Organizations") appearing in our records as persons being entitled to a portion of the principal amount of Notes represented by a Regulation S Temporary Global Note issued under the above-referenced Indenture, that as of the date hereof, \$ principal amount of Notes represented by the Regulation S Temporary Global Note being submitted herewith for exchange is beneficially owned by persons that are either (i) non-U.S. persons (within the meaning of Regulation S under the Securities Act of 1933, as amended) or (ii) U.S. persons that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.

We further certify that (i) we are not submitting herewith for exchange any portion of such Regulation S Temporary Global Note excepted in such Member Organization certifications and (ii) as of the date hereof we have not received any notification from any Member Organization to the effect that the statements made by such Member Organization with respect to any portion of such Regulation S

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Temporary Global Note submitted herewith for exchange are no longer true and cannot be relied upon as of the date hereof.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Yours faithfully,

[EUROCLEAR BANK S.A./N.V., as operator of the Euroclear System]

OR

[CLEARSTREAM BANKING, *société anonyme*]

By: _____

Name:
Title:
Address:

Date: _____

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THIS NOTE IS A TEMPORARY GLOBAL NOTE. PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD APPLICABLE HERETO, BENEFICIAL INTERESTS HEREIN MAY NOT BE HELD BY ANY PERSON OTHER THAN (1) A NON-U.S. PERSON OR (2) A U.S. PERSON THAT PURCHASED SUCH INTEREST IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). BENEFICIAL INTERESTS HEREIN ARE NOT EXCHANGEABLE FOR PHYSICAL NOTES OTHER THAN A PERMANENT GLOBAL NOTE IN ACCORDANCE WITH THE TERMS OF THE INDENTURE. TERMS IN THIS LEGEND ARE USED AS USED IN REGULATIONS UNDER THE SECURITIES ACT.

Ratio of Earnings to Fixed Charges

(Dollars in Thousands)	Actual Year 10/04	Actual Year 10/03	Actual Year 10/02	Actual Year 10/01	Actual Year 10/00
Net Income (Loss)	348,681	257,380	137,696	63,686	33,163
Add:					
Federal and State Inc Taxes	201,091	154,138	88,034	42,668	18,655
Interest Expensed Res & Comm	75,042	63,658	60,371	51,446	34,956
Interest Expensed Mtg & Fin Subs	2,765	2,487	2,337	3,180	2,491
Amort. of Bond Prepaid Exp.	10,999	2,978	2,119	976	670
Amort. of Bond Discount	571	514	441	367	30
Total Earnings	<u>639,150</u>	<u>481,155</u>	<u>290,998</u>	<u>162,323</u>	<u>89,965</u>
Fixed Charges:					
Interest Incurred Res & Comm	87,674	66,332	57,406	47,272	38,878
Interest Incurred Mtg & Fin Subs	2,765	2,487	2,337	3,180	2,491
Amort. of Bond Prepaid Exp.	10,999	2,978	2,119	976	670
Amort. of Bond Discount	571	514	441	367	30
Total Fixed Charges	<u>102,010</u>	<u>72,311</u>	<u>62,303</u>	<u>51,795</u>	<u>42,069</u>
Ratio	6.3	6.7	4.7	3.1	2.1

LEGAL ENTITY NAME (IN ALPHABETICAL ORDER)	State of Formation
ALFORD, L.L.C.	Virginia
ALL SEASONS, INC.	Maryland
ARBOR WEST, L.L.C.	Maryland
ARROW PROPERTIES, INC.	New Jersey
BRIGHTBEACH DEVELOPMENT, LTD.	Texas
BRIGHTCHASE, LTD.	Texas
BRIGHTON HOMES AT WALDEN MANAGEMENT, L.L.C.	Texas
BRIGHTON HOMES AT WALDEN, LTD.	Texas
CONDOMINIUM COMMUNITY (BOWIE NEW TOWN), INC.	Maryland
CONDOMINIUM COMMUNITY (LARGO TOWN), INC.	Maryland
CONDOMINIUM COMMUNITY (PARK PLACE), INC.	Maryland
CONDOMINIUM COMMUNITY (QUAIL RUN), INC.	Maryland
CONDOMINIUM COMMUNITY (TRUMAN DRIVE), INC.	Maryland
CONSULTANTS CORPORATION	Maryland
DESIGNED CONTRACTS. INC.	Maryland
DULLES COPPERMINE, L.L.C.	Virginia
EASTERN TITLE AGENCY, INC.	New Jersey
EDISON CONTRACT SERVICES, L.L.C.	New Jersey
EXC, INC.	Delaware
FOUNDERS TITLE AGENCY OF MARYLAND, L.L.C.	Maryland
FOUNDERS TITLE AGENCY, INC.	Virginia
GOODMAN FAMILY OF BUILDERS, L.P.	Texas
GOSLING ROAD DEVELOPMENT CO., INC.	Texas
GOVERNOR'S ABSTRACT CO., INC.	Pennsylvania
HERITAGE PINES, L.L.C.	North Carolina
HEXTER FAIR LAND TITLE COMPANY I, INC.	Texas
HOMEBUYER'S MORTGAGE, INC.	Maryland
HOUSING-HOME SALES, INC.	Maryland
HOVNIANIAN DEVELOPMENTS OF FLORIDA, INC.	Florida
HOVNIANIAN FINANCIAL SERVICES I, INC.	New Jersey
HOVNIANIAN FINANCIAL SERVICES II, INC.	New Jersey
HOVNIANIAN FINANCIAL SERVICES IV, INC.	New Jersey
HOVNIANIAN LAND INVESTMENT GROUP OF CALIFORNIA, L.L.C.	California
HOVNIANIAN LAND INVESTMENT GROUP OF FLORIDA, L.L.C.	Florida
HOVNIANIAN LAND INVESTMENT GROUP OF MARYLAND, L.L.C.	Maryland
HOVNIANIAN LAND INVESTMENT GROUP OF NORTH CAROLINA, L.L.C.	North Carolina
HOVNIANIAN LAND INVESTMENT GROUP OF TEXAS, L.L.C.	Texas
HOVNIANIAN LAND INVESTMENT GROUP OF VIRGINIA, L.L.C.	Virginia
HOVNIANIAN LAND INVESTMENT GROUP, L.L.C.	Maryland
HUNTER MILL VILLAGE, L.L.C.	Virginia
INGLEWOOD NORTH, L.L.C.	Maryland
JAEGER ROAD 530	California
K. HOV INTERNATIONAL, INC.	New Jersey
K. HOV IP, II, INC.	California
K. HOV IP, INC.	California
K. HOVNIANIAN ACQUISITIONS, INC.	New Jersey
K. HOVNIANIAN AMERICAN MORTGAGE, L.L.C.	New Jersey
K. HOVNIANIAN AT 4S II, L.L.C.	California
K. HOVNIANIAN AT 4S, L.L.C.	California
K. HOVNIANIAN AT ACQUA VISTA, L.L.C.	California
K. HOVNIANIAN AT ALISO, L.L.C.	California
K. HOVNIANIAN AT ARBOR HEIGHTS, LLC	California
K. HOVNIANIAN AT ASHBURN VILLAGE, INC.	Virginia
K. HOVNIANIAN AT ASHBURN VILLAGE, L.L.C.	Maryland
K. HOVNIANIAN AT BALLANTRAE, INC.	Florida
K. HOVNIANIAN AT BARNEGAT I, L.L.C.	New Jersey
K. HOVNIANIAN AT BARRINGTON, INC.	Virginia
K. HOVNIANIAN AT BELLA LAGO, L.L.C.	California
K. HOVNIANIAN AT BELMONT, INC.	Virginia
K. HOVNIANIAN AT BERKELEY, L.L.C.	New Jersey
K. HOVNIANIAN AT BERNARDS IV, INC.	New Jersey
K. HOVNIANIAN AT BERNARDS V, L.L.C.	Delaware
K. HOVNIANIAN AT BLOOMS CROSSING, L.L.C.	Maryland
K. HOVNIANIAN AT BLUE HERON PINES, L.L.C.	New Jersey
K. HOVNIANIAN AT BRANCHBURG III, INC.	New Jersey
K. HOVNIANIAN AT BRENBROOKE, L.L.C.	Virginia
K. HOVNIANIAN AT BRIDGEPORT, INC.	California
K. HOVNIANIAN AT BRIDGEWATER I, L.L.C.	New Jersey
K. HOVNIANIAN AT BRIDGEWATER VI, INC.	New Jersey
K. HOVNIANIAN AT BRIDLEWOOD, L.L.C.	California
K. HOVNIANIAN AT BULL RUN, INC.	Virginia
K. HOVNIANIAN AT BURLINGTON III, INC.	New Jersey

K. HOVNIANIAN AT BURLINGTON, INC.	New Jersey
K. HOVNIANIAN AT CALABRIA, INC.	California
K. HOVNIANIAN AT CAMDEN I, L.L.C.	New Jersey

K. HOVNIANIAN AT CAMERON CHASE, INC.	Virginia
K. HOVNIANIAN AT CAMERON CHASE, INC.	Virginia
K. HOVNIANIAN AT CAPISTRANO, L.L.C.	California
K. HOVNIANIAN AT CARMEL DEL MAR, INC.	California
K. HOVNIANIAN AT CARMEL VILLAGE, L.L.C.	California
K. HOVNIANIAN AT CASTILE, INC.	California
K. HOVNIANIAN AT CEDAR GROVE III, L.L.C.	New Jersey
K. HOVNIANIAN AT CEDAR GROVE IV, L.L.C.	New Jersey
K. HOVNIANIAN AT CHAPARRAL, INC.	California
K. HOVNIANIAN AT CHESTER I, L.L.C.	Delaware
K. HOVNIANIAN AT CHESTERFIELD, L.L.C.	New Jersey
K. HOVNIANIAN AT CITY IN THE HILLS, L.L.C.	California
K. HOVNIANIAN AT CLARKSTOWN, INC.	New Jersey
K. HOVNIANIAN AT CLIFTON II, L.L.C.	New Jersey
K. HOVNIANIAN AT CLIFTON, L.L.C.	New Jersey
K. HOVNIANIAN AT CORTEZ HILL, L.L.C.	California
K. HOVNIANIAN AT CRANBURY, L.L.C.	New Jersey
K. HOVNIANIAN AT CRESTLINE, INC.	California
K. HOVNIANIAN AT CURRIES WOODS, L.L.C.	New Jersey
K. HOVNIANIAN AT DENVILLE, L.L.C.	New Jersey
K. HOVNIANIAN AT DEPTFORD TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT DOMINGUEZ HILLS, INC.	California
K. HOVNIANIAN AT DOMINION RIDGE, INC.	Virginia
K. HOVNIANIAN AT EAST BRUNSWICK VI, INC.	New Jersey
K. HOVNIANIAN AT EAST WHITELAND I, INC.	Pennsylvania
K. HOVNIANIAN AT EASTLAKE, LLC	California
K. HOVNIANIAN AT EDGEWATER II, L.L.C.	New Jersey
K. HOVNIANIAN AT EDGEWATER, L.L.C.	New Jersey
K. HOVNIANIAN AT EGG HARBOR TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT ENCINITAS RANCH, L.L.C.	California
K. HOVNIANIAN AT EXETER HILLS, INC.	Virginia
K. HOVNIANIAN AT FAIR LAKES GLEN, INC.	Virginia
K. HOVNIANIAN AT FAIR LAKES, INC.	Virginia
K. HOVNIANIAN AT FLORENCE I, L.L.C.	New Jersey
K. HOVNIANIAN AT FLORENCE II, L.L.C.	New Jersey
K. HOVNIANIAN AT FOREST MEADOWS, L.L.C.	New Jersey
K. HOVNIANIAN AT FRANKLIN, L.L.C.	New Jersey
K. HOVNIANIAN AT FREEHOLD TOWNSHIP I, INC.	New Jersey
K. HOVNIANIAN AT FREEHOLD TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT GASLAMP SQUARE, L.L.C.	California
K. HOVNIANIAN AT GREAT NOTCH, L.L.C.	New Jersey
K. HOVNIANIAN AT GUTTENBERG, L.L.C.	New Jersey
K. HOVNIANIAN AT HACKETTSTOWN II, L.L.C.	New Jersey
K. HOVNIANIAN AT HACKETTSTOWN, INC.	New Jersey
K. HOVNIANIAN AT HAMBURG CONTRACTORS, L.L.C.	New Jersey
K. HOVNIANIAN AT HAMBURG, L.L.C.	New Jersey
K. HOVNIANIAN AT HAMPTON OAKS, INC.	Virginia
K. HOVNIANIAN AT HAWTHORNE, L.L.C	New Jersey
K. HOVNIANIAN AT HERSHEY'S MILL, INC.	Pennsylvania
K. HOVNIANIAN AT HIGHLAND VINEYARDS, INC.	California
K. HOVNIANIAN AT HIGHWATER, L.L.C.	California
K. HOVNIANIAN AT HOLLY CREST, INC.	Virginia
K. HOVNIANIAN AT HOPEWELL IV, INC.	New Jersey
K. HOVNIANIAN AT HOPEWELL VI, INC.	New Jersey
K. HOVNIANIAN AT HOWELL TOWNSHIP, INC.	New Jersey
K. HOVNIANIAN AT HUDSON POINT, L.L.C.	New Jersey
K. HOVNIANIAN AT HUNTER ESTATES, INC.	Virginia
K. HOVNIANIAN AT JACKSON I, L.L.C.	New Jersey
K. HOVNIANIAN AT JACKSON, L.L.C.	New Jersey
K. HOVNIANIAN AT JERSEY CITY IV, L.L.C.	New Jersey
K. HOVNIANIAN AT JERSEY CITY V URBAN RENEWAL COMPANY, L.L.C.	New Jersey
K. HOVNIANIAN AT KINCAID, L.L.C.	Maryland
K. HOVNIANIAN AT KING FARM, L.L.C.	Maryland
K. HOVNIANIAN AT KINGS GRANT I, INC.	New Jersey
K. HOVNIANIAN AT KLOCKNER FARMS, INC.	New Jersey
K. HOVNIANIAN AT LA COSTA, L.L.C	California
K. HOVNIANIAN AT LA HABRA KNOLLS, LLC	California
K. HOVNIANIAN AT LA TERRAZA, INC.	California
K. HOVNIANIAN AT LA TROVATA, INC.	California

K. HOVNIANIAN AT LAKE RANCHO VIEJO, L.L.C.	California
K. HOVNIANIAN AT LAKE RIDGE CROSSING, L.L.C.	Virginia
K. HOVNIANIAN AT LAKE TERRAPIN, L.L.C.	Virginia
K. HOVNIANIAN AT LAKEWOOD, INC.	New Jersey
K. HOVNIANIAN AT LAWRENCE V, L.L.C.	New Jersey
K. HOVNIANIAN AT LINWOOD, L.L.C.	New Jersey
K. HOVNIANIAN AT LITTLE EGG HARBOR CONTRACTORS, L.L.C.	New Jersey
K. HOVNIANIAN AT LITTLE EGG HARBOR, L.L.C.	New Jersey
K. HOVNIANIAN AT LONG BRANCH I, L.L.C.	New Jersey
K. HOVNIANIAN AT LOWER MACUNGIE TOWNSHIP I, L.L.C.	Pennsylvania
K. HOVNIANIAN AT LOWER MACUNGIE TOWNSHIP II, L.L.C.	Pennsylvania
K. HOVNIANIAN AT LOWER MAKEFIELD TOWNSHIP I, L.L.C.	Pennsylvania
K. HOVNIANIAN AT LOWER MORELAND I, L.L.C.	Pennsylvania
K. HOVNIANIAN AT LOWER MORELAND II, L.L.C.	Pennsylvania
K. HOVNIANIAN AT LOWER SAUCON II, INC.	Pennsylvania
K. HOVNIANIAN AT LOWER SAUCON, INC.	Pennsylvania
K. HOVNIANIAN AT MAHWAH II, INC.	New Jersey
K. HOVNIANIAN AT MAHWAH V, INC.	New Jersey
K. HOVNIANIAN AT MAHWAH VI, INC.	New Jersey
K. HOVNIANIAN AT MAHWAH VII, INC.	New Jersey
K. HOVNIANIAN AT MANALAPAN II, L.L.C.	New Jersey
K. HOVNIANIAN AT MANALAPAN III, LLC	New Jersey
K. HOVNIANIAN AT MANALAPAN, INC.	New Jersey
K. HOVNIANIAN AT MANSFIELD I, LLC	New Jersey
K. HOVNIANIAN AT MANSFIELD II, LLC	New Jersey
K. HOVNIANIAN AT MANSFIELD III, L.L.C.	New Jersey
K. HOVNIANIAN AT MARLBORO II, INC.	New Jersey
K. HOVNIANIAN AT MARLBORO TOWNSHIP III, INC.	New Jersey
K. HOVNIANIAN AT MARLBORO TOWNSHIP IV, INC.	New Jersey
K. HOVNIANIAN AT MARLBORO TOWNSHIP IX, L.L.C.	New Jersey
K. HOVNIANIAN AT MARLBORO TOWNSHIP V, L.L.C.	New Jersey
K. HOVNIANIAN AT MARLBORO TOWNSHIP VIII, L.L.C.	New Jersey
K. HOVNIANIAN AT MARLBORO VI, L.L.C.	New Jersey
K. HOVNIANIAN AT MARLBORO VII, L.L.C.	New Jersey
K. HOVNIANIAN AT MENDHAM TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT MENIFEE VALLEY CONDOMINIUMS, L.L.C.	California
K. HOVNIANIAN AT MENIFEE VALLEY, L.L.C.	California
K. HOVNIANIAN AT METRO DC SOUTH, INC.	Virginia
K. HOVNIANIAN AT MIDDLE TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT MIDDLETOWN II, L.L.C.	New Jersey
K. HOVNIANIAN AT MIDDLETOWN, L.L.C.	New Jersey
K. HOVNIANIAN AT MILLVILLE I, L.L.C.	New Jersey
K. HOVNIANIAN AT MONROE II, INC.	New York
K. HOVNIANIAN AT MONROE III, L.L.C.	New Jersey
K. HOVNIANIAN AT MONTCLAIR NJ, INC.	New Jersey
K. HOVNIANIAN AT MONTCLAIR, INC.	Virginia
K. HOVNIANIAN AT MONTGOMERY I, INC.	Pennsylvania
K. HOVNIANIAN AT MONTVALE, L.L.C.	New Jersey
K. HOVNIANIAN AT MOSAIC, LLC	California
K. HOVNIANIAN AT MT. OLIVE TOWNSHIP, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH BERGEN II, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH BERGEN, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH BRUNSWICK VI, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH CALDWELL II, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH CALDWELL, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH HALEDON, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTH WILDWOOD, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTHAMPTON, L.L.C.	Pennsylvania
K. HOVNIANIAN AT NORTHERN WESTCHESTER, INC.	New Jersey
K. HOVNIANIAN AT NORTHFIELD, L.L.C.	New Jersey
K. HOVNIANIAN AT NORTHLAKE, INC.	California
K. HOVNIANIAN AT OCEAN TOWNSHIP, INC.	New Jersey
K. HOVNIANIAN AT OCEAN WALK, INC.	California
K. HOVNIANIAN AT OLD BRIDGE, L.L.C.	New Jersey
K. HOVNIANIAN AT OLDE ORCHARD, LLC	California
K. HOVNIANIAN AT P.C. PROPERTIES, INC.	Virginia
K. HOVNIANIAN AT PACIFIC BLUFFS, L.L.C.	California
K. HOVNIANIAN AT PARAMUS, L.L.C.	New Jersey
K. HOVNIANIAN AT PARK LANE, L.L.C.	California
K. HOVNIANIAN AT PARK RIDGE, INC.	Virginia

K. HOVNIANIAN AT PERKIOMEN I, INC.	Pennsylvania
K. HOVNIANIAN AT PERKIOMEN II, INC.	Pennsylvania
K. HOVNIANIAN AT PHILADELPHIA I, L.L.C.	Pennsylvania
K. HOVNIANIAN AT PHILADELPHIA INVESTMENTS I, L.L.C.	Pennsylvania
K. HOVNIANIAN AT PITTSBORO, L.L.C.	New Jersey
K. HOVNIANIAN AT PLAINSBORO III, INC.	New Jersey
K. HOVNIANIAN AT PORT IMPERIAL URBAN RENEWAL II, L.L.C.	New Jersey
K. HOVNIANIAN AT PORT IMPERIAL URBAN RENEWAL III, L.L.C.	New Jersey
K. HOVNIANIAN AT PRINCETON, INC.	New Jersey
K. HOVNIANIAN AT RANCHO CRISTIANITOS, INC.	California
K. HOVNIANIAN AT RANCHO SANTA MARGARITA, L.L.C.	California
K. HOVNIANIAN AT RANDOLPH I, L.L.C.	New Jersey
K. HOVNIANIAN AT READINGTON II, L.L.C.	New Jersey
K. HOVNIANIAN AT RESERVOIR RIDGE, INC.	New Jersey
K. HOVNIANIAN AT RIVER OAKS, INC.	Virginia
K. HOVNIANIAN AT RIVERBEND II, L.L.C.	California
K. HOVNIANIAN AT RIVERBEND, L.L.C.	California
K. HOVNIANIAN AT RODERUCK, L.L.C.	Maryland
K. HOVNIANIAN AT ROWLAND HEIGHTS, L.L.C.	California
K. HOVNIANIAN AT SAN SEVAINE, INC.	California
K. HOVNIANIAN AT SARATOGA, INC.	California
K. HOVNIANIAN AT SAYREVILLE, L.L.C.	New Jersey
K. HOVNIANIAN AT SCOTCH PLAINS II, INC.	New Jersey
K. HOVNIANIAN AT SCOTCH PLAINS, INC.	New Jersey
K. HOVNIANIAN AT SCOTCH PLAINS, L.L.C.	New Jersey
K. HOVNIANIAN AT SHELF COMPANY, L.L.C.	California
K. HOVNIANIAN AT SKYE ISLE, L.L.C.	California
K. HOVNIANIAN AT SMITHVILLE III, L.L.C.	New Jersey
K. HOVNIANIAN AT SMITHVILLE, INC.	New Jersey
K. HOVNIANIAN AT SOMERS POINT, LLC	New Jersey
K. HOVNIANIAN AT SOUTH AMBOY, L.L.C.	New Jersey
K. HOVNIANIAN AT SOUTH BANK, L.L.C.	Maryland
K. HOVNIANIAN AT SOUTH BRUNSWICK III, INC.	New Jersey
K. HOVNIANIAN AT SOUTH BRUNSWICK V, INC.	New Jersey
K. HOVNIANIAN AT SOUTH BRUNSWICK, L.L.C.	New Jersey
K. HOVNIANIAN AT SPRING HILL ROAD, L.L.C.	Maryland
K. HOVNIANIAN AT STONE CANYON, INC.	California
K. HOVNIANIAN AT STONY POINT, INC.	New Jersey
K. HOVNIANIAN AT STUART ROAD, INC.	Virginia
K. HOVNIANIAN AT SULLY STATION, INC.	Virginia
K. HOVNIANIAN AT SUMMERWOOD, INC.	Virginia
K. HOVNIANIAN AT SUNSETS, L.L.C.	California
K. HOVNIANIAN AT SYCAMORE, INC.	California
K. HOVNIANIAN AT TANNERY HILL, INC.	New Jersey
K. HOVNIANIAN AT TEANECK, L.L.C.	New Jersey
K. HOVNIANIAN AT THE BLUFF, INC.	New Jersey
K. HOVNIANIAN AT THE CEDARS, INC.	New Jersey
K. HOVNIANIAN AT THE CROSBY, L.L.C.	California
K. HOVNIANIAN AT THE GABLES, L.L.C.	California
K. HOVNIANIAN AT THE GLEN, INC.	Virginia
K. HOVNIANIAN AT THE PRESERVE, L.L.C.	California
K. HOVNIANIAN AT THOMPSON RANCH, L.L.C.	California
K. HOVNIANIAN AT THORNBURY, INC.	Pennsylvania
K. HOVNIANIAN AT TIERRASANTA, INC.	California
K. HOVNIANIAN AT TRAIL RIDGE, L.L.C.	California
K. HOVNIANIAN AT TUXEDO, INC.	New Jersey
K. HOVNIANIAN AT UNION TOWNSHIP I, INC.	New Jersey
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP I, INC.	New Jersey
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP II, L.L.C.	New Jersey
K. HOVNIANIAN AT UPPER FREEHOLD TOWNSHIP III, L.L.C.	New Jersey
K. HOVNIANIAN AT UPPER MAKEFIELD I, INC.	Pennsylvania
K. HOVNIANIAN AT UPPER UWCHLAN II, L.L.C.	Pennsylvania
K. HOVNIANIAN AT UPPER UWCHLAN, L.L.C.	Pennsylvania
K. HOVNIANIAN AT VAIL RANCH, INC.	California
K. HOVNIANIAN AT WALL TOWNSHIP VI, INC.	New Jersey
K. HOVNIANIAN AT WALL TOWNSHIP VIII, INC.	New Jersey
K. HOVNIANIAN AT WANAQUE, L.L.C.	New Jersey
K. HOVNIANIAN AT WASHINGTON, L.L.C.	New Jersey
K. HOVNIANIAN AT WASHINGTONVILLE, INC.	New York
K. HOVNIANIAN AT WAYNE III, INC.	New Jersey

K. HOVNIANIAN AT WAYNE IX, L.L.C.	New Jersey
K. HOVNIANIAN AT WAYNE V, INC.	New Jersey
K. HOVNIANIAN AT WAYNE VIII, L.L.C.	New Jersey
K. HOVNIANIAN AT WEST MILFORD, L.L.C.	New Jersey
K. HOVNIANIAN AT WEST WINDSOR, L.L.C.	New Jersey
K. HOVNIANIAN AT WILDROSE, INC.	California
K. HOVNIANIAN AT WILLOW BROOK, L.L.C.	Maryland
K. HOVNIANIAN AT WINCHESTER, L.L.C.	California
K. HOVNIANIAN AT WOODHILL ESTATES, L.L.C.	New Jersey
K. HOVNIANIAN AT WOODMONT, INC.	Virginia
K. HOVNIANIAN AT WOOLWICH I, L.L.C.	New Jersey
K. HOVNIANIAN AT YONKERS I, L.L.C.	New York
K. HOVNIANIAN AT YONKERS II, L.L.C.	New York
K. HOVNIANIAN AT YONKERS III, L.L.C.	New York
K. HOVNIANIAN CENTRAL ACQUISITIONS, L.L.C.	Delaware
K. HOVNIANIAN CHESTERFIELD INVESTMENT, L.L.C.	New Jersey
K. HOVNIANIAN COMPANIES NORTHEAST, INC.	New Jersey
K. HOVNIANIAN COMPANIES OF CALIFORNIA, INC.	California
K. HOVNIANIAN COMPANIES OF MARYLAND, INC.	Maryland
K. HOVNIANIAN COMPANIES OF METRO D.C. NORTH, L.L.C.	Maryland
K. HOVNIANIAN COMPANIES OF METRO WASHINGTON, INC.	Virginia
K. HOVNIANIAN COMPANIES OF NEW YORK, INC.	New York
K. HOVNIANIAN COMPANIES OF NORTH CAROLINA, INC.	North Carolina
K. HOVNIANIAN COMPANIES OF PENNSYLVANIA, INC.	Pennsylvania
K. HOVNIANIAN COMPANIES OF SOUTHERN CALIFORNIA, INC.	California
K. HOVNIANIAN COMPANIES, LLC	California
K. HOVNIANIAN CONSTRUCTION II, INC.	New Jersey
K. HOVNIANIAN CONSTRUCTION III, INC.	New Jersey
K. HOVNIANIAN CONSTRUCTION MANAGEMENT, INC.	New Jersey
K. HOVNIANIAN COOPERATIVE, INC.	Virginia
K. HOVNIANIAN DEVELOPMENTS OF ARIZONA, INC.	Arizona
K. HOVNIANIAN DEVELOPMENTS OF CALIFORNIA, INC.	California
K. HOVNIANIAN DEVELOPMENTS OF D.C., INC.	Maryland
K. HOVNIANIAN DEVELOPMENTS OF DELAWARE, INC.	Delaware
K. HOVNIANIAN DEVELOPMENTS OF MARYLAND, INC.	Maryland
K. HOVNIANIAN DEVELOPMENTS OF METRO WASHINGTON, INC.	Virginia
K. HOVNIANIAN DEVELOPMENTS OF MICHIGAN, INC.	Michigan
K. HOVNIANIAN DEVELOPMENTS OF MINNESOTA, INC.	Minnesota
K. HOVNIANIAN DEVELOPMENTS OF NEW JERSEY II, INC.	California
K. HOVNIANIAN DEVELOPMENTS OF NEW JERSEY, INC.	California
K. HOVNIANIAN DEVELOPMENTS OF NEW YORK, INC.	New York
K. HOVNIANIAN DEVELOPMENTS OF OHIO, INC.	Ohio
K. HOVNIANIAN DEVELOPMENTS OF PENNSYLVANIA, INC.	Pennsylvania
K. HOVNIANIAN DEVELOPMENTS OF SOUTH CAROLINA, INC.	South Carolina
K. HOVNIANIAN DEVELOPMENTS OF TEXAS, INC.	Texas
K. HOVNIANIAN DEVELOPMENTS OF WEST VIRGINIA, INC.	West Virginia
K. HOVNIANIAN EASTERN PENNSYLVANIA, L.L.C.	Pennsylvania
K. HOVNIANIAN ENTERPRISES, INC.	California
K. HOVNIANIAN EQUITIES, INC.	New Jersey
K. HOVNIANIAN FORECAST HOMES, INC.	California
K. HOVNIANIAN FOUR SEASONS @ HISTORIC VIRGINIA, L.L.C.	Virginia
K. HOVNIANIAN FOUR SEASONS AT GOLD HILL, L.L.C.	South Carolina
K. HOVNIANIAN GREAT WESTERN BUILDING COMPANY, LLC	Arizona
K. HOVNIANIAN GREAT WESTERN HOMES, L.L.C.	Arizona
K. HOVNIANIAN HOLDINGS NJ, LLC	New Jersey
K. HOVNIANIAN HOMES AT CAMERON STATION, L.L.C.	Virginia
K. HOVNIANIAN HOMES AT FAIRWOOD, L.L.C.	Maryland
K. HOVNIANIAN HOMES AT LAUREL HIGHLANDS, L.L.C.	Virginia
K. HOVNIANIAN HOMES OF D.C., L.L.C.	Maryland
K. HOVNIANIAN HOMES OF DELAWARE, L.L.C.	Delaware
K. HOVNIANIAN HOMES OF MARYLAND, L.L.C.	Maryland
K. HOVNIANIAN HOMES OF MINNESOTA, L.L.C.	Minnesota
K. HOVNIANIAN HOMES OF NORTH CAROLINA, INC.	North Carolina
K. HOVNIANIAN HOMES OF PENNSYLVANIA, L.L.C.	Maryland
K. HOVNIANIAN HOMES OF SOUTH CAROLINA, L.L.C.	South Carolina
K. HOVNIANIAN HOMES OF VIRGINIA, INC.	Virginia
K. HOVNIANIAN HOMES OF WEST VIRGINIA, LLC.	West Virginia
K. HOVNIANIAN INVESTMENT PROPERTIES OF NEW JERSEY, INC.	New Jersey
K. HOVNIANIAN INVESTMENT PROPERTIES, INC.	New Jersey
K. HOVNIANIAN INVESTMENTS, L.L.C.	New Jersey

K. HOVNIANIAN MORTGAGE, INC.	New Jersey
K. HOVNIANIAN NORTH CENTRAL ACQUISITIONS, L.L.C.	Delaware

K. HOVNIANIAN NORTH JERSEY ACQUISITIONS, L.L.C.	Delaware
K. HOVNIANIAN NORTHEAST SERVICES, L.L.C.	New Jersey
K. HOVNIANIAN OF HOUSTON II, L.P.	Texas
K. HOVNIANIAN OF HOUSTON, L.P.	Texas
K. HOVNIANIAN OHIO REALTY, L.L.C.	Ohio
K. HOVNIANIAN PA REAL ESTATE, INC.	Pennsylvania
K. HOVNIANIAN PENNSYLVANIA ACQUISITIONS, L.L.C.	Pennsylvania
K. HOVNIANIAN POLAND, SP .Z.O.O.	International
K. HOVNIANIAN PORT IMPERIAL URBAN RENEWAL, INC.	New Jersey
K. HOVNIANIAN PROPERTIES OF NEWARK URBAN RENEWAL CORPORATION, INC.	New Jersey
K. HOVNIANIAN PROPERTIES OF NORTH BRUNSWICK V, INC.	New Jersey
K. HOVNIANIAN PROPERTIES OF PISCATAWAY, INC.	New Jersey
K. HOVNIANIAN PROPERTIES OF RED BANK, INC.	New Jersey
K. HOVNIANIAN PROPERTIES OF WALL, INC.	New Jersey
K. HOVNIANIAN SHORE ACQUISITIONS, L.L.C.	Delaware
K. HOVNIANIAN SOUTH JERSEY ACQUISITIONS, L.L.C.	Delaware
K. HOVNIANIAN SOUTHERN NEW JERSEY, L.L.C.	New Jersey
K. HOVNIANIAN SUMMIT HOLDINGS, L.L.C.	Virginia
K. HOVNIANIAN SUMMIT HOMES OF MICHIGAN, L.L.C	Michigan
K. HOVNIANIAN SUMMIT HOMES OF PENNSYLVANIA, L.L.C.	Pennsylvania
K. HOVNIANIAN SUMMIT HOMES OF WEST VIRGINIA, L.L.C.	West Virginia
K. HOVNIANIAN SUMMIT HOMES, L.L.C.	Ohio
K. HOVNIANIAN TITLE REINSURANCE, INC.	Vermont
K. HOVNIANIAN VENTURE I, L.L.C.	New Jersey
K. HOVNIANIAN WINDWARD HOMES, L.L.C.	Florida
K. HOVNIANIAN'S FOUR SEASONS AT ASHBURN VILLAGE, L.L.C.	Virginia
K. HOVNIANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.	California
K. HOVNIANIAN'S FOUR SEASONS AT BEAUMONT, L.L.C.	California
K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY CONDOMINIUM, L.L.C.	Virginia
K. HOVNIANIAN'S FOUR SEASONS AT DULLES DISCOVERY, L.L.C.	Virginia
K. HOVNIANIAN'S FOUR SEASONS AT HEMET, LLC	California
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND CONDOMINIUMS, L.L.C.	Maryland
K. HOVNIANIAN'S FOUR SEASONS AT KENT ISLAND, L.L.C.	Maryland
K. HOVNIANIAN'S FOUR SEASONS AT MENIFEE VALLEY, L.L.C.	California
K. HOVNIANIAN'S FOUR SEASONS AT PALM SPRINGS, L.L.C.	California
K. HOVNIANIAN'S FOUR SEASONS AT ST. MARGARETS LANDING, L.L.C.	Maryland
K. HOVNIANIAN'S FOUR SEASONS AT VINT HILL, L.L.C.	Virginia
K. HOVNIANIAN'S FOUR SEASONS, L.L.C.	California
K. HOVNIANIAN'S PRIVATE HOME PORTFOLIO, L.L.C.	New Jersey
KHC ACQUISITION, INC.	California
KHIP, LLC	New Jersey
KINGS COURT AT MONTGOMERY, L.L.C.	New Jersey
KINGS CROSSING AT MONTGOMERY, L.L.C.	New Jersey
LANDARAMA, INC.	New Jersey
LAUREL HIGHLANDS, LLC	Virginia
M&M AT APPLE RIDGE, L.L.C.	New Jersey
M&M AT BROOKHILL, L.L.C.	New Jersey
M&M AT CHESTERFIELD, LLC	New Jersey
M&M AT EAST MILL, L.L.C.	New Jersey

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-68528, Form S-3 No. 333-75939, Form S-3 No. 333-87861, Form S-3 No. 333-51991, Form S-3 No. 333-111231 and Form S-3 No. 333-106761) of Hovnanian Enterprises, Inc. and in the related Prospectuses and in the Registration Statements (Form S-8 No. 333-113758, Form S-8 No. 333-106756, Form S-8 No. 333-92977, Form S-8 No. 333-56972, Form S-8 No. 033-36098, Form S-8 No. 002-92773, and Form S-8 No. 333-56640) of our report dated December 10, 2004, with respect to the consolidated financial statements of Hovnanian Enterprises, Inc. included in this Annual Report (Form 10-K) for the year ended October 31, 2004.

Ernst & Young LLP

New York, New York
January 12, 2005

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 13, 2005

/S/ARA K. HOVNANIAN

Ara K. Hovnanian
President and Chief Executive Officer

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Hovnanian Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 13, 2005

/S/J. LARRY SORSBY

J. Larry Sorsby
Executive Vice President and Chief Financial Officer

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

In connection with the Annual Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-K for the period ended October 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: January 13, 2005

/S/ARA K. HOVNANIAN

Ara K. Hovnanian

President and Chief Executive Officer

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

In connection with the Annual Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-K for the period ended October 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: January 13, 2005

/S/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer
