

HOVNANIAN ENTERPRISES INC  
Form DEF 14A  
February 01, 2016  
Table Of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. \_\_\_\_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to §240.14a-12.

**Hovnanian Enterprises, Inc.**

---

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

Table Of Contents

**HOVNANIAN ENTERPRISES, INC.**

**110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 (732) 747-7800**

February 1, 2016

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders, which will be held on Tuesday, March 15, 2016, at the offices of Bilzin Sumberg Baena Price & Axelrod LLP, 1450 Brickell Avenue, 23rd Floor, Miami, FL 33131. The meeting will start promptly at 10:30 a.m., Eastern Time.

In accordance with the Securities and Exchange Commission's rule allowing companies to furnish proxy materials to their shareholders over the Internet, the Company is primarily furnishing proxy materials to our shareholders of Class A Common Stock and registered shareholders of Class B Common Stock on the Internet, rather than mailing paper copies of the materials (including our Annual Report to Shareholders for fiscal 2015) to each of those shareholders. We believe that this e-proxy process will expedite our shareholders' receipt of proxy materials, lower costs and reduce the environmental impact of our Annual Meeting. If you received only a Notice Regarding the Availability of Proxy Materials (the "Notice") by mail or electronic mail, you will not receive a paper copy of the proxy materials unless you request one. Instead, the Notice will instruct you as to how you may access and review the proxy materials on the Internet. The Notice will also instruct you as to how you may access your proxy card to vote over the Internet, by telephone or by mail. If you received a Notice by mail or electronic mail and would like to receive a paper copy of our proxy materials, free of charge, please follow the instructions included in the Notice.

We anticipate that the Notice will first be mailed to our shareholders on or about February 1, 2016, and will be sent by electronic mail to our shareholders who have opted for such means of delivery on or about February 1, 2016. All shareholders of record of Class B Common Stock who hold in nominee name have been sent a full set of proxy materials, including a proxy card.

Attached to this letter are a Notice of Annual Meeting of Shareholders and Proxy Statement, which describe the business to be conducted at the meeting. We will also report on matters of current interest to our shareholders.

It is important that your shares be represented and voted at the meeting. Therefore, we urge you to complete, sign, date and return the enclosed proxy card or, if applicable, register your vote via the Internet or by telephone according

to the instructions on the proxy card. If you attend the meeting, you may still choose to vote your shares personally even though you have previously designated a proxy.

We sincerely hope you will be able to attend and participate in the Company's 2016 Annual Meeting. We welcome the opportunity to meet with many of you and give you a firsthand report on the progress of your Company.

Sincerely yours,

Ara K. Hovnanian

*Chairman of the Board*

---

Table Of Contents

**PROXY VOTING METHODS**

If at the close of business on January 15, 2016, you were a shareholder of record or held shares through a broker or bank, you may vote your shares as described below or you may vote in person at the Annual Meeting. To reduce our administrative and postage costs, we would appreciate if shareholders of Class A Common Stock and registered shareholders of Class B Common Stock would please vote through the Internet or by telephone, both of which are available 24 hours a day. You may revoke your proxies at the times and in the manners described on page 1 of the Proxy Statement. If you are a shareholder of record or hold shares through a broker or bank and are voting by proxy, your vote must be received by 11:59 p.m. (Eastern Time) on March 14, 2016 to be counted unless otherwise noted below.

**To vote by proxy:**

*Shareholders of Class A Common Stock and Shareholders of Class B Common Stock:*

---

**BY INTERNET**

Go to the website at [www.proxyvote.com](http://www.proxyvote.com) and follow the instructions, 24 hours a day, seven days a week.

You will need the 12-digit Control Number included on your Notice Regarding the Availability of Proxy Materials to obtain your records and to create an electronic voting instruction form.

**BY TELEPHONE**

From a touch-tone telephone, dial (800) 690-6903 and follow the recorded instructions, 24 hours a day, seven days a week.

You will need the 12-digit Control Number included on your Notice Regarding the Availability of Proxy Materials in order to vote by telephone.

**BY MAIL**

Request a proxy card from us by following the instructions on your Notice Regarding the Availability of Proxy Materials.

When you receive the proxy card, mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the postage-paid envelope that will be provided to you.

Mailed proxy cards must be received no later than March 14, 2016 to be counted for the Annual Meeting.

***Shareholders of Record of Class B Common Stock held in Nominee Name:***

---

Shares of Class B Common Stock held in nominee name will be entitled to ten votes per share only if the beneficial owner voting instruction card and the nominee proxy card relating to such shares are properly completed, mailed and received not less than three nor more than 20 business days prior to March 15, 2016.

**YOUR VOTE IS IMPORTANT — THANK YOU FOR VOTING**

---

Table Of Contents

**HOVNANIAN ENTERPRISES, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

---

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Hovnanian Enterprises, Inc. will be held on Tuesday, March 15, 2016, at the offices of Bilzin Sumberg Baena Price & Axelrod LLP, 1450 Brickell Avenue, 23rd Floor, Miami, FL 33131 at 10:30 a.m. for the following matters:

1. The election of directors of the Company for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified;
2. The ratification of the selection of Deloitte & Touche LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2016;
3. The approval of the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan;
4. To approve, in a non-binding, voluntary advisory vote, the compensation of the Company's named executive officers; and
5. The transaction of such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors recommends that you vote FOR each of the nominees listed in proposal 1, FOR proposal 2, FOR proposal 3 and FOR proposal 4.

Only shareholders of record at the close of business on January 15, 2016 are entitled to notice of, and to vote at, the Annual Meeting. Accompanying this Notice of Annual Meeting of Shareholders is a proxy statement, proxy card(s) and the Company's Annual Report for the fiscal year ended October 31, 2015.

To ensure your shares are voted, you may vote your shares over the Internet, by telephone or by requesting a paper proxy card to complete, sign and return by mail. Shares of Class B Common Stock held in nominee name will be

entitled to ten votes per share only if the beneficial owner voting instruction card and the nominee proxy card relating to such shares are properly completed, mailed and received not less than three nor more than 20 business days prior to March 15, 2016. These voting procedures are described on the preceding page and on the proxy card.

All shareholders are urged to attend the meeting in person or by proxy. Shareholders who do not expect to attend the meeting are requested to complete, sign and date the enclosed proxy card and return it promptly, or, if applicable, to register their vote via the Internet or by telephone according to the instructions on the preceding page and the proxy card.

By order of the Board of Directors,

**MICHAEL DISCAFANI**

*Secretary*

February 1, 2016

**If you are a shareholder of record and you plan to attend the Annual Meeting, please mark the appropriate box on your proxy card or, if applicable, so indicate when designating a proxy via the Internet or by telephone. If your shares are held by a bank, broker or other intermediary and you plan to attend, please send written notice to Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, Attention: Michael Discafani, Secretary, and enclose evidence of your ownership (such as a letter from the bank, broker or other intermediary confirming your ownership or a bank or brokerage firm account statement). The names of all those planning to attend will be placed on an admission list held at the registration desk at the entrance to the meeting. In order to be admitted to the Annual Meeting, you will need a form of personal identification (such as a driver's license) along with your Notice, proxy card or proof of Common Stock ownership. If your shares are held beneficially in the name of a bank, broker or other holder of record and you wish to be admitted to the Annual Meeting of Shareholders, you must present proof of your ownership of our Common Stock, such as a bank or brokerage account statement. If you do not plan to attend the Annual Meeting, please designate a proxy by mail or, if applicable, via the Internet or by telephone. If you choose to vote by mail, please complete, sign and date the enclosed proxy card(s) and return it promptly so that your shares will be voted. If you have received a hard copy of the proxy materials, the enclosed envelope requires no postage if mailed in the United States.**

---



Table Of Contents

**TABLE OF CONTENTS**

**Page**

|  |    |
|--|----|
| <u>GENERAL</u>   | 1  |
| <u>VOTING RIGHTS AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>  | 2  |
| <u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>   | 4  |
| <u>PROPOSAL 1 — ELECTION OF DIRECTORS</u>  | 5  |
| <u>MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS</u>   | 8  |
| <u>PROPOSAL 2 — RATIFICATION OF THE SELECTION OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>                          | 10 |
| <u>PROPOSAL 3 — APPROVAL OF THE 2012 HOVNANIAN ENTERPRISES, INC. AMENDED AND RESTATED STOCK INCENTIVE PLAN</u>                 | 11 |
| <u>PROPOSAL 4 — VOLUNTARY ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>  | 19 |
| <u>THE COMPENSATION COMMITTEE</u>  | 21 |
| <u>COMPENSATION DISCUSSION AND ANALYSIS</u>  | 24 |
| <u>Executive Summary</u>   | 24 |
| <u>Compensation Philosophy and Objectives</u>  | 28 |
| <u>Fiscal 2015 Compensation Elements and Compensation Mix</u>  | 30 |
| <u>Details of Compensation Elements</u>  | 31 |
| <u>Actions for Fiscal 2016</u>   | 44 |
| <u>Tax Deductibility and Accounting Implications</u>   | 44 |
| <u>Timing and Pricing of Stock Options and MSUs</u>  | 45 |
| <u>Stock Ownership Guidelines</u>  | 45 |
| <u>EXECUTIVE COMPENSATION</u>  | 46 |
| <u>Summary Compensation Table</u>  | 46 |
| <u>Grants of Plan-Based Awards in Fiscal 2015</u>  | 51 |
| <u>Outstanding Equity Awards at Fiscal 2015 Year-End</u>   | 55 |
| <u>Option Exercises and Stock Vested in Fiscal 2015</u>  | 59 |
| <u>Nonqualified Deferred Compensation for Fiscal 2015</u>  | 60 |
| <u>Potential Payments Upon Termination or Change-in-Control Table</u>  | 62 |
| <u>NON-EMPLOYEE DIRECTOR COMPENSATION</u>  | 65 |
| <u>THE AUDIT COMMITTEE</u>   | 69 |
| <u>THE AUDIT COMMITTEE REPORT</u>  | 70 |
| <u>FEES PAID TO PRINCIPAL ACCOUNTANT</u>   | 70 |
| <u>PRINCIPAL ACCOUNTANT INDEPENDENCE</u>   | 71 |
| <u>CORPORATE GOVERNANCE</u>  | 71 |
| <u>OVERSIGHT OF RISK MANAGEMENT</u>  | 72 |
| <u>LEADERSHIP STRUCTURE</u>  | 73 |
| <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>  | 73 |
| <u>IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MARCH 15, 2016</u> | 75 |
| <u>GENERAL</u>   | 75 |
| <u>SHAREHOLDER PROPOSALS FOR THE 2017 ANNUAL MEETING</u>   | 76 |

Appendix A – 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan

---

Table Of Contents

**HOVNANIAN ENTERPRISES, INC.**

**110 WEST FRONT STREET**

**P.O. BOX 500**

**RED BANK, NEW JERSEY 07701**

---

**PROXY STATEMENT**

---

**GENERAL**

The accompanying proxy is solicited on behalf of the Board of Directors of Hovnanian Enterprises, Inc. (the “Company”, “we”, “us” or “our”) for use at the Annual Meeting of Shareholders referred to in the foregoing Notice and at any adjournment thereof.

Shares represented by properly executed proxies that are received or executed in time and not revoked will be voted in accordance with the specifications thereon. If no specifications are made in an executed proxy, the persons named in the accompanying proxy card(s) will vote the shares represented by such proxies for the Board of Directors’ slate of directors, for the ratification of the selection of Deloitte & Touche LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the fiscal year ending October 31, 2016, for approval of the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan and for the approval, in a non-binding, voluntary advisory vote, of the compensation of the Company's named executive officers and on any other matters as recommended by the Board of Directors, unless contrary instructions are given.

Any person may revoke a previously designated proxy before it is exercised. If you voted by Internet, telephone or mail and are a shareholder of record, you may change your vote and revoke your proxy by (1) delivering written notice of revocation to Michael Discafani, Secretary, provided such statement is received no later than March 14, 2016, (2) voting again by Internet or telephone at a later time before the closing of voting facilities at 11:59 p.m. (Eastern Time) on March 14, 2016, (3) submitting a properly signed proxy card with a later date that is received no later than March 14, 2016 or (4) revoking your proxy and voting in person at the 2016 Annual Meeting. If you hold your shares in street name, you may submit new voting instructions by contacting your bank, broker or other nominee.

You may also change your vote or revoke your proxy in person at the 2016 Annual Meeting if you obtain a signed proxy from the record holder (broker or other nominee) giving you the right to vote the shares. Please note that attendance at the 2016 Annual Meeting will not by itself revoke a proxy.

We will bear the costs of soliciting proxies from the holders of our Class A Common Stock and Class B Common Stock (collectively, "Common Stock"). We are initially soliciting these proxies by mail and electronic mail, but solicitation may be made by our directors, officers and selected other employees telephonically, electronically or by other means of communication. Directors, officers and employees who help us in the solicitation will not be specially compensated for those services, but they may be reimbursed for their out-of-pocket expenses incurred in connection with the solicitation. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners and will be reimbursed for their reasonable out-of-pocket expenses incurred in sending proxy materials to beneficial owners.

Table Of Contents**VOTING RIGHTS AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The Board of Directors has set January 15, 2016 as the record date for the 2016 Annual Meeting of Shareholders. As of the close of business on the record date, the outstanding voting securities of the Company consisted of 131,802,150 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 15,317,979 shares of Class B Common Stock, each share entitling the holder thereof to ten votes if specified ownership criteria have been met. Other than as set forth in the table below, there are no persons known to the Company to be the beneficial owners of shares representing more than 5% of either the Company's Class A Common Stock or Class B Common Stock, which represent the classes of the Company's voting stock.

The following table sets forth, as of January 15, 2016, (1) the Class A Common Stock and Class B Common Stock of the Company beneficially owned by holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company and (2) the Class A Common Stock, Class B Common Stock and Depository Shares of the Company beneficially owned by each Director, each nominee for Director, each executive officer named in the tables set forth under "Executive Compensation" below and all Directors and executive officers as a group.

|   | Class A                    |         | Class B                    |         | Depository Shares (1) |         |
|---|----------------------------|---------|----------------------------|---------|-----------------------|---------|
|   | Common Stock (1)<br>Amount | Percent | Common Stock (1)<br>Amount | Percent | (3)<br>Amount         | Percent |
| and   |                            |         | and                        |         | and                   |         |
| Nature of   |                            | of      | Nature of                  | of      | Nature of             | of      |
| Beneficial  |                            | Class   | Beneficial                 | Class   | Beneficial            | Class   |
| Ownership   |                            | (2)     | Ownership                  | (2)     | Ownership             | (2)     |
| <b>Directors, Nominees for Director, Named Executive Officers and Directors and Executive Officers as a Group</b> |                            |         |                            |         |                       |         |
| Ara K. Hovnanian (4)  | 3,467,455                  | 2.63%   | 4,508,034                  | 24.97%  | —                     | —       |
| Robert B. Coutts  | 215,941                    | 0.16%   | —                          | —       | —                     | —       |
| Edward A. Kangas  | 329,854                    | 0.25%   | —                          | —       | —                     | —       |
| Joseph A. Marengi   | 161,992                    | 0.12%   | —                          | —       | —                     | —       |
| Brad G. O'Connor  | 137,854                    | 0.10%   | —                          | —       | —                     | —       |
| Vincent Pagano Jr.  | 80,262                     | 0.06%   | —                          | —       | —                     | —       |
| Thomas J. Pellerito   | 1,306,309                  | 0.99%   | —                          | —       | —                     | —       |

Edgar Filing: HOVNANIAN ENTERPRISES INC - Form DEF 14A

|  |            |       |            |        |       |       |
|--|------------|-------|------------|--------|-------|-------|
| J. Larry Sorsby  | 877,342    | 0.66% | —          | —      | —     | —     |
| David G. Valiaveedan (5)                                     | 44,642     | 0.03% | —          | —      | 2,000 | 0.04% |
| Stephen D. Weinroth  | 313,389    | 0.24% | 4,500      | 0.03%  | —     | —     |
| All Directors and executive officers as a group (10 persons) | 12,686,286 | 9.53% | 11,651,180 | 64.53% | 2,000 | 0.04% |

**Holders of More Than 5%**

|  |           |       |           |        |   |   |
|--|-----------|-------|-----------|--------|---|---|
| Estate of Kevork S. Hovnanian (6)  | 3,521,405 | 2.67% | —         | —      | — | — |
| Peter S. Reinhart as Trustee of the Sirwart Hovnanian 1994 Marital Trust (7) | —         | —     | 5,210,091 | 34.01% | — | — |
| Hovnanian Family 2012 L.L.C. (8)   | 970,849   | 0.74% | 3,883,395 | 25.35% | — | — |
| Trusts for Kevork S. Hovnanian's Family (9)                                  | 3,075,138 | 2.33% | 3,255,251 | 21.25% | — | — |

*The figures in the table with respect to Class A Common Stock do not include the shares of Class B Common Stock beneficially owned by the specified persons. Shares of Class B Common Stock are convertible at any time on a share-for-share basis to Class A Common Stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which generally attribute ownership to persons who have or share voting or investment power with respect to the relevant securities. Shares of Common Stock that may be acquired within 60 days upon exercise of outstanding stock options are deemed to be beneficially owned. Securities not outstanding, but included in the beneficial ownership of each such person, are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.*

*(1) Except as indicated in these footnotes, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all securities shown as beneficially owned by them. Shares of Class A Common Stock subject to options currently exercisable or exercisable within 60 days of January 15, 2016, whether or not in-the-money, include the following: A. Hovnanian (0), R. Coutts (67,900), E. Kangas (106,700), J. Marengi (67,900), B. O'Connor (80,125), V. Pagano (13,072), T. Pellerito (260,000), J. Sorsby (547,500), D. Valiaveedan (0), S. Weinroth (168,273) and all Directors and executive officers as a group (1,311,470). Shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days of January 15, 2016, whether or not in-the-money, include the following: A. Hovnanian (2,737,500).*

Table Of Contents

*On July 29, 2008, the Company's Board of Directors declared a dividend of one Preferred Stock Purchase Right for each outstanding share of Class A Common Stock and Class B Common Stock. The dividend was paid to stockholders of record on August 15, 2008. Subject to the terms, provisions and conditions of the Rights Plan, if the Preferred Stock Purchase Rights become exercisable, each Preferred Stock Purchase Right would initially represent the right to purchase from the Company 1/10,000th of a share of Series B Junior Preferred Stock for a purchase price of \$35.00 per share. However, prior to exercise, a Preferred Stock Purchase Right does not give its holder any rights as a stockholder, including without limitation, any dividend, voting or liquidation rights.*

(2) *Based upon the number of shares outstanding plus options currently exercisable or exercisable within 60 days of January 15, 2016, held by the applicable Director, nominee, executive officer, group or other holder.*

(3) *Each Depositary Share represents 1/1,000th of a share of 7.625% Series A Preferred Stock.*

*Includes 372,116 shares of Class A Common Stock and 431,394 shares of Class B Common Stock held in family-related trusts as to which Ara Hovnanian has shared voting power and shared investment power and 37,374 shares of Class A Common Stock and 245,274 shares of Class B Common Stock held by Mr. Hovnanian's wife and children. Ara Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential*  
(4) *pecuniary interest in such other accounts and trusts. Of the shares of Class A Common Stock and Class B Common Stock beneficially held by Mr. Hovnanian, 1,680,460 and 314,937 shares, respectively, have been pledged as collateral for a loan with Deutsche Bank, which remains outstanding. Also, of the Class A Common Stock beneficially held by Mr. Hovnanian, 1,377,505 shares have been pledged as collateral for a loan with Morgan Stanley, which also remains outstanding.*

(5) *Includes 8,785 shares of Class A Common Stock that are held jointly with Mr. Valiaveedan's spouse. Mr. Valiaveedan and his spouse share voting and investment power with respect to such shares.*

*Includes 1,705,259 shares of Class A Common Stock held by the Executors of the Estate of Kevork S. Hovnanian, deceased (the "Estate of Kevork S. Hovnanian"). Ara Hovnanian is special purpose Executor with respect to investments in the Company, and accordingly, the shares held by the Estate of Kevork S. Hovnanian are included in "All Directors and executive officers as a group," but such shares are not also included in Mr. Hovnanian's separate figures of beneficial ownership. Also includes 1,816,146 shares held by Sirwart Hovnanian, wife of the*  
(6) *Company's deceased Chairman Kevork S. Hovnanian, consisting of 440,000 shares of Class A Common Stock and 1,376,146 shares of Class A Common Stock held in a grantor retained annuity trust (the "GRAT") for which Mrs. Hovnanian is a trustee. Mrs. Hovnanian disclaims beneficial ownership of the shares held in the GRAT, except to the extent of her pecuniary interest in the GRAT. The business address of each of the Executors and Mrs. Hovnanian is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.*

(7) *Includes 4,833,826 shares of Class B Common Stock held by the Kevork S. Hovnanian Family Limited Partnership, a Connecticut limited partnership (the "Limited Partnership"). Peter S. Reinhart, as trustee of the Sirwart Hovnanian 1994 Marital Trust (the "Marital Trust"), is the managing general partner of the Limited Partnership*

*and, as such, has the sole power to vote and dispose of the shares of Class B Common Stock held by the Limited Partnership, as well as the 376,265 shares of Class B Common Stock held directly by the Marital Trust. Mr. Reinhart disclaims beneficial ownership of the shares held by the Limited Partnership and the Marital Trust. Mr. Reinhart's business address is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.*

*Represents 970,849 shares of Class A Common Stock and 3,883,395 shares of Class B Common Stock held by the Hovnanian Family 2012 L.L.C. (the "2012 LLC"). Ara Hovnanian is the special purpose manager with respect to (8) investments in the Company, and accordingly, the shares held by the 2012 LLC are included in "All Directors and executive officers as a group," but such shares are not also included in Mr. Hovnanian's separate figure of beneficial ownership. The business address of the 2012 LLC is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.*



Table Of Contents

*Represents 3,075,138 shares of Class A Common Stock and 3,255,251 shares of Class B Common Stock held by the various trusts for the benefit of members of the family of Kevork S. Hovnanian. Ara Hovnanian is the special purpose trustee with respect to investments in the Company and, accordingly, the shares held by these trusts are (9) included in "All Directors and executive officers as a group," but such shares are not also included in Mr. Hovnanian's separate figure of beneficial ownership. The business address of the trusts is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.*

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's officers, directors, persons who beneficially own more than 10% of a registered class of the Company's equity securities and certain entities associated with the foregoing ("Reporting Persons") to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission (the "SEC"). These Reporting Persons are required by SEC rules to furnish the Company with copies of all Forms 3, 4 and 5, and amendments thereto, that they file with the SEC.

Based solely on the Company's review of copies of the forms and amendments of forms it has received and written representations from the Company's officers and directors, the Company believes that, with respect to the fiscal year ended October 31, 2015, all the Reporting Persons complied with all applicable filing requirements.

Table Of Contents

**PROPOSAL 1 — ELECTION OF DIRECTORS**

The Company's Restated By-laws provide that the Board of Directors shall consist of up to eleven Directors who shall be elected annually by the shareholders. The Company's Restated Certificate of Incorporation ("Certificate of Incorporation") requires that, at any time when any shares of Class B Common Stock are outstanding, one-third of the Directors shall be independent, as defined therein.

Under the rules of the New York Stock Exchange (the "NYSE"), listed companies of which more than 50% of the voting power for the election of directors is held by an individual, group or other entity are not required to have a majority of independent directors, as defined by NYSE rules, or to comply with certain other requirements. Because Mr. A. Hovnanian, the Estate of Kevork S. Hovnanian, the Limited Partnership and the 2012 LLC established for members of his family and family trusts hold more than 50% of the voting power of the Company, the Company is a controlled company within the meaning of the rules of the NYSE. However, the Company does not currently avail itself of any of the exemptions afforded to controlled companies under the NYSE rules. This may change in the future at the Company's discretion.

The Board of Directors has determined that a Board of Directors consisting of the seven nominees listed below is the best composition in order to satisfy both the independence requirements of the Company's Certificate of Incorporation as well as the rules of the NYSE. The Board of Directors has also determined that Messrs. Coutts, Kangas, Marengi, Pagano and Weinroth are independent as defined under the Company's Certificate of Incorporation and the NYSE rules. The Company's Certificate of Incorporation may be found on the Company's website at [www.khov.com](http://www.khov.com) under the Investor Relations tab, "Corporate Governance."

The following individuals have been recommended to the Board of Directors by the Corporate Governance and Nominating Committee and approved by the Board of Directors to serve as Directors of the Company to hold office until the next Annual Meeting of Shareholders and until their respective successors have been duly elected and qualified.

In the event that any of the nominees for Director should become unavailable to serve as a Director, it is intended that the shares represented by proxies will be voted for such substitute nominees as may be nominated by the Board of Directors, unless the number of Directors constituting a full Board of Directors is reduced. The Company has no reason to believe, however, that any of the nominees is, or will be, unavailable to serve as a Director. Proxies cannot be voted for a greater number of persons than the number of nominees shown below.

**Board of Directors**

| <b>Name</b>         | <b>Age</b> | <b>Company Affiliation</b>   | <b>Year First Became a Director</b> |
|---------------------|------------|--|-------------------------------------|
| Ara K. Hovnanian    | 58         | President, Chief Executive Officer, Chairman of the Board & Director | 1981                                |
| Robert B. Coutts    | 65         | Director   | 2006                                |
| Edward A. Kangas    | 71         | Director   | 2002                                |
| Joseph A. Marengi   | 62         | Director   | 2006                                |
| Vincent Pagano Jr.  | 65         | Director   | 2013                                |
| J. Larry Sorsby     | 60         | Executive Vice President, Chief Financial Officer & Director         | 1997                                |
| Stephen D. Weinroth | 77         | Director   | 1982                                |

### **Board of Directors — Composition**

The Board of Directors seeks to ensure that the Board of Directors is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the Board of Directors to satisfy its oversight responsibilities effectively. As discussed below under “Corporate Governance and Nominating Committee” beginning on page 9, a slate of Directors to be nominated for election at the annual shareholders’ meeting each year is approved by the Board of Directors after recommendation by the Corporate Governance and Nominating Committee. In the case of a vacancy on the Board of Directors (other than one resulting from removal by shareholders), the Corporate Governance and Nominating Committee will identify individuals believed to be qualified candidates to serve on the Board of Directors and shall review the candidates who have met those qualifications with the Company’s Chairman who will determine if the candidate is eligible for recommendation by the Corporate Governance and Nominating Committee to the full Board of Directors. The Board of Directors will then approve a director nominee to fill the vacancy on the Board of Directors. In identifying candidates for Director, the Corporate Governance and Nominating Committee, the Chairman and the Board of Directors take into account (1) the comments and recommendations of members of the Board of Directors regarding the qualifications and effectiveness of the existing Board of Directors or additional qualifications that may be required when selecting new board members that may be made in connection with the self-examinations described below under “Corporate Governance and Nominating Committee” beginning on page 9, (2) the requisite expertise and sufficiently diverse backgrounds of the Board of Directors’ overall membership composition, (3) the independence of outside Directors and other possible conflicts of interest of existing and potential members of the Board of Directors and (4) all other factors such bodies and persons consider appropriate. Although the Company has no formal policy regarding diversity, the Corporate Governance and Nominating Committee and the Board of Directors include diversity as one of several criteria that they consider in connection with selecting candidates for the Board of Directors. The Board of Directors seeks to ensure that it is composed of members whose particular background, expertise, qualifications, attributes and skills, when taken together, allow the Board of Directors to satisfy its oversight responsibilities effectively.

Table Of Contents

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Corporate Governance and Nominating Committee and the Board of Directors focused primarily on the information discussed in each of the Directors' individual biographies set forth below on pages 7 to 8. In particular, with regard to:

Mr. Coutts, the Corporate Governance and Nominating Committee and the Board of Directors considered his strong background in the manufacturing sector, believing that his experience with a large multinational corporation engaged in the manufacture of complicated products is invaluable in evaluating the multiple integrated processes in the homebuilding business and also valuable in performance management and other aspects of the Company;

Mr. Kangas, the Corporate Governance and Nominating Committee and the Board of Directors considered his significant experience, expertise and background with regard to accounting matters, including the broad perspective brought by his experience in consulting with clients in many diverse industries;

Mr. Marengi, the Corporate Governance and Nominating Committee and the Board of Directors considered his strong background in the technology sector because new technologies and their cost and benefit analyses are important factors in the success of the Company;

Mr. Pagano, the Corporate Governance and Nominating Committee and the Board of Directors considered his significant experience, expertise and background with regard to legal and capital markets matters, including the broad perspective brought by his experience in advising clients in the homebuilding industry and many other diverse industries;

Mr. Weinroth, the Corporate Governance and Nominating Committee and the Board of Directors considered his many years of experience in the investment banking field, which is particularly valuable to the Company as it continues to evaluate its debt profile and capital structure and various financing and refinancing alternatives;

Mr. Hovnanian, our Chief Executive Officer and Chairman of the Board, the Corporate Governance and Nominating Committee and the Board of Directors considered his more than thirty-five years of experience with the Company; and

Mr. Sorsby, our Chief Financial Officer, the Corporate Governance and Nominating Committee and the Board of Directors considered his more than twenty-five years of experience with the Company.

Table Of Contents

**Board of Directors — Nominees' Biographies**

Mr. Hovnanian has been Chief Executive Officer since July 1997 after being appointed President in 1988 and Executive Vice President in 1983. Mr. Hovnanian joined the Company in 1979, has been a Director of the Company since 1981 and was Vice Chairman from 1998 through November 2009. In November 2009, he was elected Chairman of the Board following the death of Kevork S. Hovnanian, the chairman and founder of the Company and the father of Mr. Hovnanian.

Mr. Coutts retired from the position of Executive Vice President of Lockheed Martin Corporation (NYSE), which he held from 2000 to 2008. Mr. Coutts was President and Chief Operating Officer of the former Electronics Sector of Lockheed Martin. He was elected an officer by the Board of Directors of Lockheed Martin in December 1996. Mr. Coutts held management positions with General Electric Corporation (NYSE) from 1972 to 1993 and was with GE Aerospace when it became part of Lockheed Martin in 1993. Mr. Coutts is the retired Chairman of Sandia Corporation, a subsidiary of Lockheed Martin Corporation, and is on the Board of Directors of Stanley Black and Decker (NYSE). Mr. Coutts is a member of the Board of Overseers, College of Engineering, Tufts University; a member of the Board of Wesley Theological Seminary; and is a member of the Chapter of the National Cathedral. He was elected as a Director of Hovnanian Enterprises, Inc. in March 2006 and is a member of the Company's Audit Committee and Compensation Committee.

Mr. Kangas was the Global Chairman and Chief Executive Officer of Deloitte from December 1989 to May 2000, when he retired. He also serves on the Boards of Directors of United Technologies Corp. (NYSE), Tenet Healthcare Corporation, Inc. (NYSE), Intuit, Inc. (NASDAQ) and Intelsat (NYSE). He was on the Board of Directors of AllScripts, Inc. (NASDAQ) (and, prior to its merger with AllScripts, Inc., Eclipsys Corporation (NASDAQ)) from 2004 to 2012. Mr. Kangas is a former Chairman of the Board of the National Multiple Sclerosis Society. Mr. Kangas was elected as a Director of Hovnanian Enterprises, Inc. in September 2002, is Chairman of the Company's Audit Committee and a member of the Company's Compensation Committee and Corporate Governance and Nominating Committee.

Mr. Marengi, from July 2007 to March 2012, served as a Venture Partner for Austin Ventures. Prior to that date, Mr. Marengi served as senior vice president for the Commercial Business Group of Dell Inc. (NASDAQ). In this role, Mr. Marengi was responsible for the Dell units serving medium business, large corporate, government, education and healthcare customers in the United States. Mr. Marengi joined Dell in July 1997 from Novell Inc. (NASDAQ), where he was president and chief operating officer. He joined Novell in 1989 and moved through successive promotions to become executive vice president of worldwide sales and field operations. Mr. Marengi also served on the Boards of Directors of Quantum Corporation (NYSE) from 2008 to 2013 and Entorian Technologies, Inc. (formerly, the OTC Markets) from 2008 to 2012. Mr. Marengi was elected to the Board of Directors of Hovnanian Enterprises, Inc. in March 2006 and is a member of the Company's Compensation Committee and Corporate Governance and Nominating Committee.

Table Of Contents

Mr. Pagano was a partner at the law firm of Simpson Thacher & Bartlett LLP until his retirement at the end of 2012. He was the head of the firm's capital markets practice from 1999 to 2012 and, before that, administrative partner of the firm from 1996 to 1999. He was a member of the firm's executive committee during nearly all of the 1996 - 2012 period. He also serves on the Boards of Directors of Cheniere Energy Partners GP, LLC, the general partner of Cheniere Energy Partners (NYSE MKT), and L-3 Communications Holdings, Inc. (NYSE). Mr. Pagano serves on the Engineering Advisory Council of Lehigh University. Mr. Pagano was elected to the Board of Directors of Hovnanian Enterprises, Inc. in March 2013, is the Chairman of the Company's Corporate Governance and Nominating Committee and is a member of the Company's Audit Committee.

Mr. Sorsby has been Chief Financial Officer of Hovnanian Enterprises, Inc. since 1996 and Executive Vice President since November 2000. Mr. Sorsby was also Senior Vice President from March 1991 to November 2000 and was elected as a Director of the Company in 1997. He is Chairman of the Board of Visitors for Urology at The Children's Hospital of Philadelphia ("CHOP") and also serves on the Foundation Board of Overseers at CHOP.

Mr. Weinroth was, from 2003 to mid-2008, a Managing Member of Hudson Capital Advisors, LLC and since then he has been an advisor to Coral Reef Capital Partners, a successor firm formed by some of the Hudson Capital employees. He is Chairman of the Board (Emeritus) of Core Laboratories, N.V. (NYSE), a global oil field service company, where he had previously been Chairman from 1994 through 2001. From 1989 to 2003, he served as Co-Chairman and head of the Investment Committee of First Britannia Mezzanine, N.V., a European private investment firm. He is presently Chairman of the U.S. Central Asia Education Foundation, a successor to the Central Asian-American Enterprise Fund, to which he was appointed by the President of the United States. Mr. Weinroth has been Chairman of four NYSE-listed companies and Chief Executive of three of them. He is also a Trustee and the immediate past Chairman of The Joyce Theatre Foundation, Inc. and Vice Chairman and a Trustee of the Paul Taylor Dance Foundation as well as a Board member of the Flea Theater. Mr. Weinroth has been a Director of Hovnanian Enterprises, Inc. since 1982, is Chairman of the Company's Compensation Committee and is a member of its Audit Committee.

**MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS**

During the year ended October 31, 2015, the Board of Directors held four regularly scheduled meetings and one telephonic meeting. In addition, Directors considered Company matters and had communications with the Chairman of the Board of Directors and others outside of formal meetings. During the fiscal year ended October 31, 2015, each Director attended at least 96% of the meetings of the Board of Directors and at least 96% of the meetings of its Committees on which such Director served. The Company's Corporate Governance Guidelines ("Guidelines") provide that directors are expected to attend the Annual Meeting of Shareholders. All of the members of the Board of Directors attended the Annual Meeting of Shareholders held on March 10, 2015.

**Audit Committee**

The members of the Audit Committee of the Board of Directors are Messrs. Kangas, Coutts, Pagano and Weinroth. The Board of Directors has determined that all of the members of the Audit Committee meet the standards for independence in our Certificate of Incorporation, which is available on the Company's website at [www.khov.com](http://www.khov.com) under the Investor Relations tab, "Corporate Governance," and the independence requirements mandated by the NYSE listing standards. During the fiscal year ended October 31, 2015, the Audit Committee met on four occasions and held eight telephonic meetings.

The Audit Committee is currently chaired by Mr. Kangas and is responsible for reviewing and approving the scope of the annual audit undertaken by the Company's independent registered public accounting firm and meeting with them to review the results of their work as well as their recommendations. The Audit Committee selects the Company's independent registered public accounting firm and also approves and reviews their fees. The duties and responsibilities of the Audit Committee are set forth in its charter, which is available at [www.khov.com](http://www.khov.com) under the Investor Relations tab, "Corporate Governance." The Audit Committee is also responsible for the oversight of the Company's Internal Audit Department. The Vice President of Internal Audit for the Company reports directly to the Audit Committee on, among other things, the Company's compliance with certain Company procedures which are designed to enhance management's understanding of operating issues and the results of the Audit Department's annual audits of the various aspects of the Company's business. For additional information related to the Audit Committee, see "The Audit Committee" below.

### **Compensation Committee**

The Company has a Compensation Committee, although it is not required to have such a committee because it is a controlled company under the rules of the NYSE. The members of the Compensation Committee of the Board of Directors are Messrs. Weinroth, Coutts, Kangas and Marengi. The Board of Directors has determined that all of the members of the Compensation Committee meet the standards for independence in our Certificate of Incorporation and the independence requirements mandated by the rules of the NYSE and SEC. In addition, all members of the Compensation Committee qualify as "Non-Employee Directors" for purposes of Rule 16b-3 under the Exchange Act and as "outside directors" for purposes of Section 162(m) ("Section 162(m)") of the Internal Revenue Code of 1986, as amended (the "Code"). The duties and responsibilities of the Compensation Committee are set forth in its charter, which is available at [www.khov.com](http://www.khov.com) under the Investor Relations tab, "Corporate Governance." During the fiscal year ended October 31, 2015, the Compensation Committee met on four occasions and held no telephonic meetings.

Table Of Contents

The Compensation Committee is currently chaired by Mr. Weinroth and is responsible for reviewing salaries, bonuses and other forms of executive compensation for the Company's senior executives, key management employees and non-employee Directors and is active in other compensation and personnel areas as the Board of Directors from time to time may request. For a discussion of the criteria used and factors considered by the Compensation Committee in reviewing and determining executive compensation, see "The Compensation Committee" and "Compensation Discussion and Analysis" below.

**Corporate Governance and Nominating Committee**

The Company has a Corporate Governance and Nominating Committee, although the Company is not required to have such committee because it is a controlled company under the rules of the NYSE. The members of the Corporate Governance and Nominating Committee of the Board of Directors are Messrs. Pagano, Kangas and Marengi. The Board of Directors has determined that all of the members of the Corporate Governance and Nominating Committee meet the standards for independence in our Certificate of Incorporation and the independence requirements mandated by the NYSE listing standards. During the fiscal year ended October 31, 2015, the Corporate Governance and Nominating Committee met on three occasions and held no telephonic meetings.

The Corporate Governance and Nominating Committee is currently chaired by Mr. Pagano. The Corporate Governance and Nominating Committee is responsible for corporate governance matters, reviewing and recommending nominees for the Board of Directors, succession planning and other Board-related policies. The Corporate Governance and Nominating Committee also oversees the annual performance evaluation of the Board of Directors and its Committees, the Board of Directors' periodic review of the Guidelines and compliance with the Company's Related Person Transaction Policy.

The Guidelines require that each Director annually prepares an assessment of each Board committee on which such Director serves as well as of the full Board of Directors as to the effectiveness of each committee and the full Board of Directors and any recommendations for improvement. The duties and responsibilities of the Corporate Governance and Nominating Committee are set forth in its charter, which is available at [www.khov.com](http://www.khov.com) under the Investor Relations tab, "Corporate Governance," and the Guidelines are available at the same website address under the Investor Relations tab, "Corporate Governance/Guidelines."

In conducting its nomination function, among other factors, the Corporate Governance and Nominating Committee generally considers the size of the Board of Directors best suited to fulfill its responsibilities, the Board of Directors' overall membership composition to ensure the Board of Directors has the requisite expertise and consists of persons with sufficiently diverse backgrounds, the independence of outside directors and other possible conflicts of interest of existing and potential members of the Board of Directors, as more fully described under "Election of Directors – Board of Directors – Composition" above.



The Company does not have a specific policy regarding shareholder nominations of potential directors to the Board of Directors, other than through the process described under “Shareholder Proposals for the 2017 Annual Meeting” below. The Corporate Governance and Nominating Committee will consider director candidates recommended by shareholders in the same manner as it considers candidates recommended by others. Possible nominees to the Board of Directors may be suggested by any Director and given to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee may seek potential nominees and engage search consultants to assist it in identifying potential nominees. The Corporate Governance and Nominating Committee’s charter contains a provision stating that it shall consider all factors it considers appropriate, including the benefits of racial and gender diversity. The Corporate Governance and Nominating Committee recommends to the Board of Directors a slate of nominees for the Board of Directors for inclusion in the matters to be voted upon at each Annual Meeting. The Company’s Restated By-laws provide that Directors need not be shareholders. Vacancies on the Board of Directors, other than those resulting from removal by shareholders, may be filled by action of the Board of Directors.

Table Of Contents

As of the 120th calendar day prior to March 10, 2016, the Board of Directors had not received any recommendation for the nomination of a candidate to the Board of Directors by any eligible shareholder or group of shareholders.

**VOTE REQUIRED**

The election of the nominees to the Company's Board of Directors for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified, requires that each director be elected by the affirmative vote of a majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, represented in person or by proxy at the 2016 Annual Meeting. In determining whether each director has received the requisite number of affirmative votes, abstentions and broker non-votes will have no impact on such matter because such shares are not considered votes cast.

Mr. Hovnanian and others with voting power over the shares held by the Estate of Kevork S. Hovnanian, the Limited Partnership, the 2012 LLC and certain family trusts have informed the Company that they intend to vote in favor of the nominees named in this proposal. Because of their collective voting power, this proposal is assured passage.

**Our Board of Directors recommends that shareholders vote FOR the election of the nominees named in this proposal to the Company's Board of Directors.**

**PROPOSAL 2 — RATIFICATION OF THE SELECTION OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The selection of an independent registered public accounting firm to examine financial statements of the Company to be made available or transmitted to shareholders and to be filed with the SEC for the fiscal year ending October 31, 2016 is submitted to this Annual Meeting of Shareholders for ratification. Deloitte & Touche LLP has been selected by the Audit Committee of the Company to examine such financial statements. In the event that the shareholders fail to ratify the appointment, the Audit Committee will consider the view of the shareholders in determining its selection of the Company's independent registered public accounting firm for the subsequent fiscal year. Even if the selection is ratified, the Audit Committee may, in its discretion, direct the appointment of a new independent registered public accounting firm at any time if the Audit Committee determines that such a change would be in the best interests of the Company and its shareholders.

The Company has been advised that representatives of Deloitte & Touche LLP will attend the Annual Meeting of Shareholders to respond to appropriate questions and will be afforded the opportunity to make a statement if the representatives so desire.

## **VOTE REQUIRED**

Ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm to examine financial statements of the Company for the year ending October 31, 2016 requires the affirmative vote of a majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, represented in person or by proxy at the 2016 Annual Meeting. In determining whether the proposal has received the requisite number of affirmative votes, abstentions will have no impact on such matter because such shares are not considered votes cast.

Mr. Hovnanian and others with voting power over the shares held by the Estate of Kevork S. Hovnanian, the Limited Partnership, the 2012 LLC and certain family trusts have informed the Company that they intend to vote in favor of this proposal. Because of their collective voting power, this proposal is assured passage.

**Our Board of Directors recommends that shareholders vote FOR ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending October 31, 2016.**

Table Of Contents

**PROPOSAL 3 — APPROVAL OF THE 2012 HOVNANIAN ENTERPRISES, INC. AMENDED AND RESTATED STOCK INCENTIVE PLAN**

Shareholders are being asked to consider and approve a proposal to further amend and restate the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as so amended and restated, the “Amended Plan”), which approval will also be deemed to constitute a re-approval of the material terms of the performance goals for certain performance-based awards that may be granted under the Amended Plan. The Amended Plan, if approved, will permit the Company to continue making equity-based and other incentive awards to its employees, directors and consultants in a manner intended to properly incentivize such individuals by aligning their interest with the interests of the Company’s shareholders. The Company has been granting equity-based incentive awards under the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as amended through January 2014) (the “Existing Plan”), however, the Company presently has insufficient shares remaining available for future grants under the Existing Plan to make equity grants at a level that would be commensurate with the Company’s past practices and performance. When the Existing Plan was approved as an amended and restated version of the Hovnanian Enterprises, Inc. Stock Incentive Plan (the “2012 Plan”), the Company had reserved 11,450,000 shares for issuance of awards under the Existing Plan (inclusive of the 5,000,000 shares that had been reserved for issuance under the 2012 plan). As of the January 15, 2016 record date for the 2016 Annual Meeting, approximately 1,024,296 shares remained available for future grants of awards under the Existing Plan. The proposed Amended Plan would add an additional 9,100,000 shares to the number of shares available for future grants under the Existing Plan. We expect that if the Amended Plan is approved by our shareholders, the additional shares should be sufficient to allow us to make equity-based awards in amounts we believe are necessary to attract, motivate and retain talented and experienced individuals for the next two to three years. No awards or contingent awards have been or will be granted utilizing the increased share reserve under the Amended Plan prior to obtaining shareholder approval for the Amended Plan.

The principal purpose of the proposed Amended Plan is to facilitate the ability to grant contemplated long-term performance awards to key employees, directors and consultants of the Company. As described below under “Compensation Discussion and Analysis,” equity-based awards have historically formed a significant portion of our total compensation in order to align key employees’ and directors’ interests with those of our shareholders. Our ability to make equity-based awards helps us attract, retain and motivate key employees and directors as well as foster long-term value-creation. These efforts have been particularly critical during a difficult homebuilding market.

The increased share reserve under the Amended Plan will also facilitate the Company’s ability to issue equity-based awards under the Amended Plan in satisfaction of short-term incentive awards that are earned under the Company’s Amended and Restated Senior Executive Short-Term Incentive Plan. The Company’s Amended and Restated Senior Executive Short-Term Incentive Plan does not have a separate share reserve but instead provides that equity-based award issuances thereunder will be made out of the Amended Plan’s share reserve.

Approval by shareholders of the Amended Plan will also satisfy the requirement to have the material terms of the permissible performance goals under which compensation may be paid that were initially included under the Existing

Plan for purposes of certain awards intended to qualify as “performance-based compensation” for purposes of Section 162(m) re-approved by shareholders at least once every five years. Under Section 162(m), the Company may not deduct certain compensation over \$1,000,000 in any year to the Chief Executive Officer or any of the three other most highly compensated executive officers of the Company, other than the Chief Financial Officer, unless, among other things, this compensation qualifies as “performance-based compensation” under Section 162(m), and the material terms of the plan for such compensation are approved by shareholders. For purposes of Section 162(m), the material terms include (1) the employees eligible to receive compensation, (2) a description of the business criteria on which the performance goals are based and (3) the maximum amount of compensation that can be paid to an employee during a specified period. Each of these aspects is discussed below.

We are not seeking to make any other changes to the terms of the plan document other than certain clarifications to better conform with current practices. Under the Amended Plan, when a stock option or stock appreciation right is granted, the number of shares subject to the stock option or stock appreciation right will be counted against the aggregate number of shares with respect to which awards may be granted under the Amended Plan as one share for every share subject to such stock option or stock appreciation right. No shares will be added back to the share reserve under the Amended Plan in the event that (i) a portion of the shares covered by an award are settled in cash, tendered to the Company or “net settled” to cover payment of the exercise price or any tax withholdings or (ii) the Company utilizes the proceeds received upon stock option exercise to repurchase shares on the open market or otherwise. If a share is granted subject to an award that is forfeited or does not vest, and the award lapses without payment of consideration to the award holder, however, the underlying shares will be available for new grants under the Amended Plan.

## Table Of Contents

The Company's Board of Directors has approved the adoption of the Amended Plan and, if the Amended Plan is approved by shareholders at the 2016 Annual Meeting, it will become immediately effective as of the date of the 2016 Annual Meeting. If shareholders do not approve the Amended Plan, the Existing Plan will continue to remain in effect according to its terms, and we may continue to make awards (subject to the authorized limit of 11,450,000 shares) under the Existing Plan.

In reaching our conclusion as to the appropriateness of the additional share proposal, we reviewed key metrics that are typically used to evaluate such proposals. One such metric many investors use is a calculation that quantifies how quickly a company uses its shareholder capital. The total number of shares issuable under awards we have granted under the Existing Plan, as a percentage of our annual weighted average common stock outstanding (commonly referred to as the "burn rate"), has been on average 1.2% over the last three completed fiscal years, which is consistent with the ISS unadjusted industry median of 1.2%. As applicable for the award, this calculation is based on the amount of shares issuable at the actual level of performance under awards as of the dates they were earned. In addition to burn rate, many investors look at the economic effect of dilution. Assuming all 9,100,000 shares of common stock of the Company being requested to be added to the share reserve pursuant to this proposal were fully dilutive as of January 15, 2016, the dilutive effect on all outstanding shares would be approximately 5%.

For a discussion of the Amended Plan, see "Material Features of the Amended Plan" below. The Amended Plan is set forth in Appendix A hereto.

The Company's Board of Directors recommends that shareholders vote for the approval of the Amended Plan.

### **Material Features of the Amended Plan**

The following is a brief summary of the material features of the Amended Plan. Because this is only a summary, it does not contain all the information about the Amended Plan that may be important to you and is qualified in its entirety by the full text of the Amended Plan as set forth in Appendix A hereto.

### **Purpose**

The purpose of the Amended Plan is to aid the Company and its affiliates in recruiting and retaining key employees, directors and consultants of outstanding ability and to motivate those employees, directors and consultants to exert their best efforts on behalf of the Company and its affiliates by providing incentives through the granting of "Awards",

which consist of options, stock appreciation rights or other stock-based Awards (including performance-based Awards) granted pursuant to the Amended Plan. All employees, directors and consultants of the Company and its affiliates are eligible to participate in the Amended Plan if they are selected by the Compensation Committee of the Board of Directors (the "Committee") to participate in the Amended Plan (any such individual, a "Participant"). For the fiscal year ended October 31, 2015, approximately 23 employees, 5 directors (includes non-employee directors only) and no consultants were selected by the Committee to participate in the Existing Plan. The Company anticipates that future participation by employees and directors under the Amended Plan will be at levels similar to their historical participation under the Existing Plan.

## **Administration**

The Amended Plan is generally administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each intended to be "Non-Employee Directors" within the meaning of Rule 16b-3 under the Exchange Act, "outside directors" within the meaning of Section 162(m) and "independent directors" within the meaning of the applicable rules, if any, of any national securities exchange on which shares of common stock of the Company are listed or admitted to trading; provided, however, that any action permitted to be taken by the Committee may be taken by the Board of Directors in its discretion. Additionally, if the Company's Chief Executive Officer is serving as a member of the Board of Directors, the Board of Directors may by specific resolution constitute the Chief Executive Officer as a "committee of one" with the authority to grant Awards covering up to 1,000,000 shares per fiscal year to certain non-executive officer Participants.

## Table Of Contents

### **Awards**

Awards are determined (“granted”) by the Committee and are subject to the terms and conditions stated in the Amended Plan and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine. Any stock options or stock appreciation rights granted must have a per share exercise price that is not less than 100% of the fair market value of the Company’s common stock underlying such awards on the date an award is granted (other than in the case of awards granted in substitution of previously granted awards). The maximum term for stock options and stock appreciation rights granted under the Amended Plan is ten years from the initial date of grant.

In the event a performance-based Award is granted under the Amended Plan, it may be granted in a manner that is intended to cause the Award to be deductible by the Company under Section 162(m), however, there can be no guarantee that a performance-based Award will be treated as “performance-based compensation” under Section 162(m). To that end, performance-based Awards intended to be deductible under Section 162(m) must be based on the attainment of written performance goals approved by the Committee. Within 90 days after the start of a designated performance period (or, if less, the number of days which is equal to 25% of such performance period), the Committee will establish the objective performance goals for each Participant. The performance goals will be based on one or more of the following criteria: (1) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (2) net income; (3) operating income; (4) earnings per share of common stock of the Company; (5) book value per share; (6) return on shareholders’ equity; (7) total shareholder return; (8) expense management; (9) return on investment before or after the cost of capital; (10) improvements in capital structure; (11) profitability of an identifiable business unit or product; (12) maintenance or improvements of profit margins; (13) stock price; (14) market share; (15) revenues or sales; (16) costs; (17) cash flow; (18) working capital; (19) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (20) return on assets. The Committee may also approve grants of Awards or other compensation that do not qualify for a deduction under Section 162(m) if it determines that it is appropriate to do so in light of other competing interests and goals.

Prior to the payment of any Award that is intended to qualify as performance-based compensation for purposes of Section 162(m), the Committee will certify that the applicable performance goals have been met. In connection with such certification, the Committee may decide to pay amounts, which are less than the Award otherwise payable for achievement of the applicable performance goals at the sole discretion of the Committee. Payment of such an Award to a Participant will occur only after such certification and will be made as determined by the Committee in its sole discretion after the end of such performance period.

### **Effect of Certain Events on Amended Plan and Awards**

In the event of any change in the outstanding shares of common stock by reason of any stock dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other corporate



exchange or change in capital structure, any distribution to shareholders of common stock other than regular cash dividends or any similar event, the Committee in its sole discretion and without liability to any person shall make such substitution or adjustment, if any, as it deems to be equitable, as to (1) the number or kind of common stock or other securities that may be issued as set forth in the Amended Plan or pursuant to outstanding Awards, (2) the exercise price relating to outstanding options or stock appreciation rights, (3) the maximum number or amount of Awards that may be granted to a Participant during a fiscal year and/or (4) any other affected terms of such Awards. Except as otherwise provided in an Award agreement, in the event of a Change in Control (as defined in the Amended Plan), the Committee in its sole discretion and without liability to any person may take such actions, if any, as it deems necessary or desirable with respect to any Award (including, without limitation, (1) the acceleration of an Award, (2) the payment of a cash amount in exchange for the cancellation of an Award which, in the case of options and stock appreciation rights, may equal the excess, if any, of value of the consideration to be paid in the Change in Control transaction to holders of the same number of shares of common stock of the Company subject to such options or stock appreciation rights (or, if no consideration is paid in any such transaction, the fair market value of the shares of common stock of the Company subject to such options or stock appreciation rights) over the aggregate exercise price of such options or stock appreciation rights and/or (3) the requiring of the issuance of substitute Awards that will substantially preserve the value, rights and benefits of any affected Awards previously granted under the Amended Plan) as of the date of the consummation of the Change in Control.

Table Of Contents

**Limitations**

The Amended Plan provides that the total number of shares of common stock of the Company that may be issued under the Amended Plan (inclusive of the 11,450,000 shares previously reserved under the Existing Plan and the additional 9,100,000 shares which are being requested under this proposal) is 20,550,000. The maximum amount that may be paid with respect to performance-based Awards (other than Awards denominated in shares) during a fiscal year to any Participant shall be equal to the greater of (x) \$15 million and (y) 2.5% of the Company's income before income taxes as reported in the Company's audited consolidated financial statements prepared for the year in respect of which the performance-based Award is to be paid or distributed, as applicable. The number of shares covered by Awards granted under the Amended Plan that terminate or lapse without the payment of consideration will be available for future grants under the Amended Plan. Additionally, the maximum number of shares of common stock of the Company for which options or stock appreciation rights may be granted during a fiscal year to any Participant is 2,000,000, and the maximum number of shares that may be subject to other share-denominated performance Awards granted during a fiscal year to any Participant is also 2,000,000. The Amended Plan also provides that the maximum number of shares subject to Awards granted during a calendar year to any non-employee director serving on the Board, taken together with any cash fees paid to such non-employee director during such calendar year, shall not exceed \$600,000 in total value (calculating the value of any such Awards based on the grant date fair value of such Awards for financial reporting purposes).

No Award may be granted under the Amended Plan after the tenth anniversary of January 10, 2012 (i.e., the date when the Board of Directors initially adopted the 2012 plan), but Awards theretofore granted may be extended beyond that date.

The Amended Plan generally prohibits the Company from taking actions that would constitute a "repricing" of stock options or stock appreciation rights (for example, lowering exercise prices for outstanding Awards). Additionally, the Amended Plan precludes the payment of dividends or dividend equivalent rights on performance-based Awards unless and until the corresponding performance-based Award has been earned in accordance with its terms.

**Amendment and Termination**

The Committee may amend, alter or discontinue the Amended Plan, but no amendment, alteration or discontinuation shall be made which, (a) without the approval of the shareholders of the Company, would (except as provided in the Amended Plan in connection with adjustments in certain corporate events), increase the total number of shares of common stock of the Company reserved for the purposes of the Amended Plan or change the maximum number of shares of common stock of the Company for which Awards may be granted to any Participant or amend the prohibitions on repricing set forth above or (b) without the consent of a Participant, would materially impair any of the rights or obligations under any Award theretofore granted to such Participant under the Amended Plan; provided,

however, that the Committee may amend the Amended Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. The Committee may not amend, alter or discontinue the provisions relating to a Change in Control (as defined in the Amended Plan) after the occurrence of a Change in Control.

### **Clawback/Forfeiture**

Any Awards granted under the Amended Plan may be subject to reduction, cancellation, forfeiture or recoupment to the extent required by applicable law or listed company rules, to the extent otherwise provided in an Award agreement at the time of grant or as determined pursuant to the Company's recoupment policy.

### **Nontransferability of Awards**

Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. Notwithstanding the foregoing, and subject to the conditions stated in the Amended Plan, a Participant may transfer an option (other than an option that is also an incentive stock option granted pursuant to the Amended Plan) or stock appreciation right in whole or in part by gift or domestic relations order to a family member of the Participant. Under no circumstances will the Committee permit the transfer of an Award for value.

Table Of Contents

**Certain United States Federal Income Tax Consequences**

***Stock Options***

An employee to whom an incentive stock option (“ISO”) that qualifies under Section 422 of the Code is granted will not recognize income at the time of grant or exercise of such option. No federal income tax deduction will be allowable to the Company upon the grant or exercise of such ISO. However, upon the exercise of an ISO, special alternative minimum tax rules apply for the employee.

When the employee sells shares acquired through the exercise of an ISO more than one year after the date of transfer of such shares and more than two years after the date of grant of such ISO, the employee will normally recognize a long-term capital gain or loss equal to the difference, if any, between the sale prices of such shares and the option price. If the employee does not hold such shares for this period, when the employee sells such shares, the employee will recognize ordinary compensation income and possibly capital gain or loss in such amounts as are prescribed by the Code and regulations thereunder, and the Company will generally be entitled to a federal income tax deduction in the amount of such ordinary compensation income.

An employee to whom an option that is not an ISO (a “non-qualified option”) is granted will not recognize income at the time of grant of such option. When such employee exercises a non-qualified option, the employee will recognize ordinary compensation income equal to the excess, if any, of the fair market value as of the date of a non-qualified option exercise of the shares the employee receives, over the option exercise price. The tax basis of such shares will be equal to the exercise price paid plus the amount includable in the employee’s gross income, and the employee’s holding period for such shares will commence on the day after which the employee recognized taxable income in respect of such shares. Any subsequent sale of the shares by the employee will result in long- or short-term capital gain or loss, depending on the applicable holding period. Subject to applicable provisions of the Code and regulations thereunder, the Company will generally be entitled to a federal income tax deduction in respect of the exercise of non-qualified options in an amount equal to the ordinary compensation income recognized by the employee. Any such compensation includable in the gross income of an employee in respect of a non-qualified option will be subject to appropriate federal, state, local and foreign income and employment taxes.

***Restricted Stock***

Unless an election is made by the Participant under Section 83(b) of the Code, the grant of an Award of restricted stock will have no immediate tax consequences to the Participant. Generally, upon the lapse of restrictions (as determined by the applicable restricted stock agreement between the Participant and the Company), a Participant will

recognize ordinary income in an amount equal to the product of (x) the fair market value of a share of common stock of the Company on the date on which the restrictions lapse, less any amount paid with respect to the Award of restricted stock, multiplied by (y) the number of shares of restricted stock with respect to which restrictions lapse on such date. The Participant's tax basis will be equal to the sum of the amount of ordinary income recognized upon the lapse of restrictions and any amount paid for such restricted stock. The Participant's holding period will commence on the date on which the restrictions lapse.

A Participant may make an election under Section 83(b) of the Code within 30 days after the date of transfer of an Award of restricted stock to recognize ordinary income on the date of award based on the fair market value of common stock of the Company on such date. An employee making such an election will have a tax basis in the shares of restricted stock equal to the sum of the amount the employee recognizes as ordinary income and any amount paid for such restricted stock, and the employee's holding period for such restricted stock for tax purposes will commence on the date after such date.

With respect to shares of restricted stock upon which restrictions have lapsed, when the employee sells such shares, the employee will recognize capital gain or loss consistent with the treatment of the sale of shares received upon the exercise of non-qualified options, as described above.

### *Stock Units*

A Participant to whom a restricted stock unit ("RSU") is granted generally will not recognize income at the time of grant (although the Participant may become subject to employment taxes when the right to receive shares becomes "vested" due to retirement eligibility or otherwise). Upon delivery of shares of common stock of the Company in respect of an RSU, a Participant will recognize ordinary income in an amount equal to the product of (x) the fair market value of a share of common stock of the Company on the date on which the common stock of the Company is delivered, multiplied by (y) the number of shares of common stock of the Company delivered.

Table Of Contents

*Other Stock-based Awards*

With respect to other stock-based Awards paid in cash or common stock, Participants will generally recognize income equal to the fair market value of the Award on the date on which the Award is delivered to the recipient.

*Code Section 409A*

Section 409A (“Section 409A”) of the Code generally sets forth rules that must be followed with respect to covered deferred compensation arrangements in order to avoid the imposition of an additional 20% tax (plus interest) upon the service provider who is entitled to receive the deferred compensation. Certain Awards that may be granted under the Amended Plan may constitute “deferred compensation” within the meaning of and subject to Section 409A. While the Committee intends to administer and operate the Amended Plan and establish terms (or make required amendments) with respect to Awards subject to Section 409A in a manner that will avoid the imposition of additional taxation under Section 409A upon a Participant, there can be no assurance that additional taxation under Section 409A will be avoided in all cases. In the event the Company is required to delay delivery of shares or any other payment under an Award in order to avoid the imposition of an additional tax under Section 409A, the Company will deliver such shares (or make such payment) on the first day that would not result in the Participant incurring any tax liability under Section 409A. The Committee may amend the Amended Plan and outstanding Awards to preserve the intended benefits of Awards granted under the Amended Plan and to avoid the imposition of an additional tax under Section 409A.

*General*

Ordinary income recognized by virtue of the exercise of non-qualified options, the lapse of restrictions on restricted stock or RSUs or payments made in cash or shares of common stock of the Company is subject to applicable tax withholding as required by law.

The Company generally will be entitled to a federal tax deduction to the extent permitted by the Code at the time and in the amount that ordinary income is recognized by Participants.

The discussion set forth above does not purport to be a complete analysis of all potential tax consequences relevant to recipients of options or other Awards or to their employers or to describe tax consequences based on particular circumstances. It is based on federal income tax law and interpretational authorities as of the date of this proxy

statement, which are subject to change at any time.

Table Of Contents**Stock Awards Previously Granted Under the Existing Plan**

The following table sets forth information on awards granted under the Existing Plan since its adoption and after giving effect to shares forfeited and reincluded in the Existing Plan pool. The closing price of the Class A Common Stock on the NYSE on January 15, 2016 (the record date for the 2016 Annual Meeting) was \$1.46 per share (shares of Class B Common Stock convert on a one-for-one basis to shares of Class A Common Stock).

| Name & Position  | Stock Option | Restricted  | Total of All |
|--|--------------|-------------|--------------|
|  | Grants       | Stock Unit  | Columns in   |
|  | # of Shares  | Grants      | Table        |
|  | Covered      | # of Shares | # of Shares  |
|  |              | Covered (1) | Covered      |
| Ara K. Hovnanian, President, Chief Executive Officer and Chairman of the Board           | 1,200,000    | 3,480,084   | 4,680,084    |
| J. Larry Sorsby, Executive Vice President, Chief Financial Officer and Director          | 240,000      | 937,129     | 1,177,129    |
| Thomas J. Pellerito, Chief Operating Officer   | 160,000      | 797,129     | 957,129      |
| Brad G. O'Connor, Vice President, Chief Accounting Officer and Corporate Controller      | 80,000       | 164,744     | 244,744      |
| David G. Valiaveedan, Vice President — Finance and Treasurer                             | 0            | 0           | 0            |
| Current Executive Officers as a Group  | 1,680,000    | 5,379,086   | 7,059,086    |
| Robert B. Coutts, Director   | 0            | 144,885     | 144,885      |
| Edward A. Kangas, Director   | 0            | 178,199     | 178,199      |
| Joseph A. Marengi, Director  | 0            | 90,936      | 90,936       |
| Vincent Pagano Jr., Director   | 13,072       | 86,829      | 99,901       |
| Stephen D. Weinroth, Director  | 61,573       | 64,043      | 125,616      |
| Current Non-Executive Directors as a Group   | 74,645       | 564,892     | 639,537      |
| All Employees, including All Current Officers who are not Executive Officers, as a Group | 716,380      | 2,010,701   | 2,727,081    |

*Includes all full value shares granted under the Existing Plan, which consist of restricted stock units (RSUs), shares issued to non-employee Directors as part of their annual retainer and equity awards, the maximum number (1) of shares that are potentially issuable under the Market Share Units granted in fiscal 2014 and fiscal 2015 (the "MSUs") and the maximum number of shares that are potentially issuable under the 2016 Long-Term Incentive Program.*





Table Of Contents**Equity Compensation Plan Information**

The following table provides information as of October 31, 2015 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

| <b>Plan Category</b>  | <b>Number of Class A Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (2)(5) (a)</b> | <b>Number of Class B Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (2)(5) (a)</b> | <b>Weighted average exercise price of outstanding Class A Common Stock options, warrants and rights (3) (b)</b> | <b>Weighted average exercise price of outstanding Class B Common Stock options, warrants and rights (4) (b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a) (1) (c)</b> |
|---|--|--|---|---|--|
| Equity compensation plans approved by security holders:     | 6,251,089  | 5,996,134  | \$5.46  | \$4.03  | 3,924,508  |
| Equity compensation plans not approved by security holders: | —  | —  | —   | —   | —  |
| <b>Total</b>  | <b>6,251,089</b>   | <b>5,996,134</b>   | <b>\$5.46</b>   | <b>\$4.03</b>   | <b>3,924,508</b>   |

(1) *Under the Company's equity compensation plans, securities may be issued in either Class A Common Stock or Class B Common Stock.*

(2) *Includes the maximum number of shares that are potentially issuable under the Market Share Units granted in fiscal 2014 and fiscal 2015 (the "MSUs") under the Existing Plan, the actual number of shares that are issuable under the 2010 Long-Term Incentive Program under the Existing Plan and the actual number of shares that are issuable under the 2013 Long-Term Incentive Program under the Existing Plan, subject to vesting.*

(3) *Does not take into account 2,697,562 shares that may be issued upon the vesting of restricted stock and performance-based awards discussed in (2) above, or 197,151 shares of restricted stock vested and deferred at the associates' election, because they have no exercise price.*

- Does not take into account 2,616,893 shares that may be issued upon the vesting of the*
- (4) *performance-based awards discussed in (2) above, or 341,741 shares of restricted stock vested and deferred at the associates' election, because they have no exercise price.*

- These shares include 2,800,000 shares that would be issued in full only if the maximum level of financial and stock price performance is achieved for the MSUs, which is not currently expected. These shares*
- (5) *also include 267,125 shares that may be issued upon exercise of outstanding options with exercise prices greater than \$20.00 per share.*

### **Additional Equity Compensation Plan Information**

The following is the Company's overhang information, which measures the number of shares subject to equity-based awards outstanding but unexercised or unvested, as of January 15, 2016, for all of the Company's existing equity compensation plans, as well as certain other information relating to outstanding awards under the plans:

Stock options outstanding: 6,396,376

Weighted average exercise price of outstanding stock options: \$4.78

Weighted average remaining contractual term of outstanding stock options: 4.97 years

Nonvested RSUs (including RSU awards for performance-based long-term incentive plans based on achieving the actual outcome, where known, or the target outcome, where the performance period has not ended): 7,605,032

Vested but not yet issued RSUs: 216,379

Shares available for future grants of awards: 1,024,296

Total shares of Common Stock outstanding: 147,120,129

Table Of Contents

The following table sets forth the number of time-based stock options and time-based RSU awards granted by the Company in the years ended October 31, 2015, 2014 and 2013. In addition, the table provides the number of shares of common stock granted related to performance-based awards and the weighted average number of shares of common stock outstanding in the year indicated.

| Fiscal Year | Number of Time-Based Stock Options Granted | Number of Time-Based RSUs Granted | Number of Stock Options Earned Related to Performance-Based Awards | Number of Shares of Common Stock Earned Related to Performance-Based Awards (1) | Weighted Average Number of Shares of Common Stock Outstanding (2) |
|-------------|--|-----------------------------------|--|---|---|
| 2015        | 173,750                                    | 1,018,558                         | —  | 776,794   | 146,898,991   |
| 2014        | 376,822                                    | 168,161                           | —  | —   | 146,270,999   |
| 2013        | 487,500                                    | 104,944                           | —  | 2,153,971   | 145,087,291   |

(1) *Includes the actual number of shares that are issuable under the 2010 Long-Term Incentive Program and the 2013 Long-Term Incentive Program under the Existing Plan, subject to vesting.*

(2) *Weighted average number of shares of common stock outstanding is the amount used for calculating our basic earnings per share as presented in our audited consolidated financial statements.*

**VOTE REQUIRED**

Adoption of the Amended Plan requires approval by a majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, represented in person or by proxy at the 2016 Annual Meeting. In determining whether the proposal has received the requisite number of affirmative votes, abstentions are considered “votes cast” under NYSE rules and thus will have the same effect as a vote “against” the proposal. Broker non-votes will not count as votes cast “for” or “against” the proposal to adopt the Amended Plan and will have no effect on the outcome of the proposal.

Mr. Hovnanian and others with voting power over the shares held by the Estate of Kevork S. Hovnanian, the Limited Partnership, the 2012 LLC and certain family trusts have informed the Company that they intend to vote in favor of the Amended Plan. Because of their collective voting power, this proposal is assured passage.

**Our Board of Directors recommends that shareholders vote FOR approval of the Amended Plan.**

**PROPOSAL 4 — VOLUNTARY ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the SEC, we are including in these proxy materials a separate resolution subject to shareholder vote to approve, in a non-binding vote, the compensation of our named executive officers, as disclosed on pages 24 to 64.

In light of the voting results with respect to the frequency of shareholder votes on executive compensation at the 2011 Annual Meeting of Shareholders in which a substantial majority of our shareholders (96.3% of the votes cast by shareholders of Class A Common Stock and Class B Common Stock, voting together) voted for “say-on-pay” proposals to occur every three years, the Board of Directors initially decided that the Company would hold, in accordance with the vote of an overwhelming majority, a triennial advisory vote on the compensation of named executive officers. The next required “say-on-pay” vote will take place at the Company’s 2017 Annual Meeting of Shareholders; however, we have voluntarily elected to hold a “say-on-pay” vote at this 2016 Annual Meeting of Shareholders.

Table Of Contents

In considering their vote, shareholders may wish to review with care the information on the Company's compensation policies and decisions regarding the named executive officers ("NEOs") presented in "Compensation Discussion and Analysis" on pages 24 to 45, as well as the discussion regarding the Compensation Committee on pages 21 to 23.

As we discuss in the "Compensation Discussion and Analysis" section, the Board of Directors believes that the Company's long-term success depends in large measure on the talents of the Company's employees. The Company's compensation system plays a significant role in the Company's ability to attract, retain and motivate the highest quality associates in a difficult market. The principal underpinnings of the Company's compensation system are an acute focus on performance, shareholder alignment, sensitivity to the relevant market place and a long-term orientation.

The Compensation Committee ties increases or decreases in overall compensation with the overall financial performance of the Company. During fiscal years when the Company's profitability has been higher, total compensation has been higher. During years when the Company's performance has been lower, the Compensation Committee's policies and actions have significantly lowered overall compensation. The Compensation Committee's policies and actions have included the following.

Selection of bonus metrics that correspond to the financial and strategic operational needs of the Company during the relevant period. During periods of profitability, the bonus metrics have focused on profitability and return on shareholders' equity measures. During periods when the Company's performance has been lower, bonus metrics have focused on reducing the Company's debt obligations and improving cash flow and liquidity to enable the Company to return to greater levels of profitability.

Fiscal 2015 performance-based bonus amounts for NEOs were, on average, approximately 42% lower than the highest award for these NEOs during the preceding three years.

Focus on increasing profitability and lowering or refinancing debt over multi-year performance periods through periodic long-term incentive awards for all NEOs.

Practice of tying portions of equity awards to performance criteria. For example, in fiscal 2014 and 2015, the Chairman of the Board, President and Chief Executive Officer (the "CEO"), the Executive Vice President and Chief Financial Officer (the "CFO") and the Chief Operating Officer (the "COO") were granted Market Share Units ("MSUs"). This award type is tied to stock price performance. For the MSUs granted in fiscal 2015, 50% are subject to financial performance conditions, an increase in consolidated revenues, in addition to the stock price performance conditions applicable to all of the MSU awards. Additional details are described below under "Compensation Discussion and Analysis – Details of Compensation Elements – Stock Grants."

Active management of both equity award levels and the number of shares available for new equity-based awards.

The text of the resolution in respect of this proposal is as follows:

“Resolved, that the compensation paid to the Company’s named executive officers as disclosed pursuant to Item 402 of Regulation S-K in the Proxy Statement relating to the Company’s Annual Meeting of Shareholders to be held on March 15, 2016, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby approved.”

**Our Board of Directors recommends that shareholders vote FOR approval of this resolution.**

Table Of Contents

**THE COMPENSATION COMMITTEE**

The Compensation Committee of the Board of Directors (the “Committee”) is the principal overseer of the Company’s various policies and procedures related to executive compensation. The Committee meets at least four times a year to discuss industry trends with regard to overall compensation issues and consults with outside compensation consultants as needed. The Committee is governed by its Charter, which is available at [www.khov.com](http://www.khov.com) under the Investor Relations tab, “Corporate Governance.”

**Areas of Responsibility**

The Committee, in conjunction with the Board of Directors and with management’s input, shapes the Company’s executive compensation philosophy and objectives. In particular, the Committee is charged with:

Reviewing and approving, at least annually, the salaries, bonuses and other forms of compensation, including equity grants, for the Company’s senior executives (which include the CEO, CFO, COO and the other NEOs);

Reviewing, at least annually, compensation paid to the Company’s non-employee Directors;

Participating in the review of compensation of other designated key employees of the Company;

Periodically reviewing the Company’s policies and procedures pertaining to the Company’s equity award plans and forms of equity grants to all employees and non-employee Directors, employee benefit plans (for example, the 401(k) plan and deferred compensation plans), severance agreements and executive perquisites;

Fostering good corporate governance practices as they relate to executive compensation;

Reviewing, at least annually, as part of the Board of Directors’ oversight responsibilities, the Company’s compensation program and reports from management regarding its assessment of whether there are any compensation risks that are reasonably likely to result in a material adverse effect on the Company (see "Oversight of Risk Management" below). In addition, the Committee regularly considers business and compensation risks as part of its process for establishing performance goals and determining incentive awards for each of the NEOs;



Reviewing and discussing with management the “Compensation Discussion and Analysis” (the “CD&A”) for inclusion in the Company’s annual proxy statement and, based on that review and discussion, determining whether or not to recommend to the Board of Directors that the CD&A be included in the Company’s annual proxy statement; and

Preparing the compensation committee report on executive compensation for inclusion in the Company’s annual proxy statement, in accordance with applicable rules and regulations of the NYSE, SEC and other applicable regulatory bodies.

The Committee’s actions and procedures are discussed in more detail next and further below under “Compensation Discussion and Analysis.”

### **Compensation Review Process for the Named Executive Officers**

The Committee, in conjunction with the Board of Directors and with management’s input, is responsible for making decisions related to the overall compensation of the NEOs.

At least annually, the Committee establishes objective financial measures for determining bonus awards to the NEOs. The Committee also considers salary, employee benefits and discretionary bonus awards, if any, for the NEOs.

## Table Of Contents

In determining overall compensation for the NEOs, the Committee may consult with other members of the Board of Directors, including the CEO and the CFO, rather than relying solely on the Company's financial performance measures in determining their compensation. These individuals often provide the Committee with insight on the individual performance of executives (other than with respect to themselves), including the achievement of personal objectives, if any. The CEO and CFO are not present for the Committee's evaluation of their individual performance. The Committee also reviews and analyzes the compensation of the named executive officers of the Company's peer group of 11 publicly-traded homebuilding companies (the "Peer Group"), discussed further below. The Committee may engage outside compensation consultants in relation to various compensation issues. The Committee may also instruct a compensation consultant to provide assistance in fostering an overall compensation program that aligns with its compensation philosophy to guide, motivate, retain and reward its executives for the achievement of the Company's financial performance, strategic initiatives and individual goals, including increased long-term shareholder value during a challenging business environment. Notwithstanding any input from compensation consultants and management, the Committee has the sole discretion to make all final decisions related to NEO compensation.

### **Outside Compensation Consultant**

For fiscal 2015, the Committee engaged Frederic W. Cook & Co., Inc. ("F.W. Cook") as the Committee's outside compensation consultant to provide certain services related to executive and non-employee Director compensation. In fiscal 2015, F.W. Cook assisted the Committee with its review of the Company's annual bonus and long-term incentive plans for the NEOs as well as its review of the compensation program for the non-employee directors. F.W. Cook does not provide any other services to the Company unless approved by the Committee, and no such services were provided in fiscal 2015. After considering the relevant factors, the Company has determined that no conflicts of interest have been raised in connection with the services F.W. Cook performed for the Company in fiscal 2015.

The Committee's primary objective in engaging F.W. Cook has been to obtain advice and feedback related to maintaining programs that provide compensation opportunities for executives within the median range of the competitive homebuilder Peer Group for comparable financial performance. F.W. Cook also provided assistance to the Committee in fostering an overall compensation program as discussed above.

The Committee weighs the advice and feedback from its compensation consultant and the members of the Board of Directors, as well as the views of, and information gathered by, the members of management it has consulted in conjunction with its review of other information the Committee considers relevant, when making decisions or making recommendations to the full Board of Directors regarding executive compensation.

### **Board Communication**

The Company's Board of Directors is updated at least quarterly on any compensation decisions or recommendations made by the Committee, and the Committee requests feedback from the Board of Directors regarding specific compensation issues as it deems necessary.

### **Compensation Committee Report**

The Committee has reviewed and discussed the Compensation Discussion and Analysis provided below with the Company's management. Based on this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2015.

### **COMPENSATION COMMITTEE**

*Stephen D. Weinroth, Chair*

*Robert B. Coutts*

*Edward A. Kangas*

*Joseph A. Marengi*

Table Of Contents

**Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended October 31, 2015, the members of the Compensation Committee were Messrs. Weinroth, Coutts, Kangas and Marengi. Each of Messrs. Weinroth, Coutts, Kangas and Marengi is a non-employee Director, was never an officer or employee of the Company or any of its subsidiaries and did not have any relationships requiring disclosure under Item 404(a) of Regulation S-K in this Proxy Statement. None of our executive officers served on the board of directors or compensation committee of any other entity that has or had one or more executive officers who served on our Board of Directors or our Compensation Committee during fiscal 2015.

Table Of Contents

**COMPENSATION DISCUSSION AND ANALYSIS**

**1. EXECUTIVE SUMMARY**

During fiscal 2015, a number of our operating results were positive compared to the same period of the prior year. In fiscal 2015, the Company generated 4.1% growth in total revenues, as compared to fiscal 2014, but homebuilding gross margin percentage weakened from 19.9% in 2014 to 17.6% in 2015. As a result, the Company had a net loss of \$16.1 million after two consecutive years of profitability. On a positive note, net contracts for the latter half of fiscal 2015 were well in excess of fiscal 2014 net contracts, such that net contract dollars, including unconsolidated joint ventures, increased 18.7% for fiscal 2015 compared to fiscal 2014 and the dollar value of contract backlog, including unconsolidated joint ventures, as of October 31, 2015 was 49.0% greater than as of October 31, 2014. As a result, the Company believes it is well positioned for stronger results in fiscal 2016 compared to fiscal 2015. Below are some highlights of the Company's performance during fiscal 2015:

Total revenues for fiscal 2015 were \$2.15 billion, up 4.1% from \$2.06 billion during fiscal 2014;

During fiscal 2015, the dollar value of net contracts, including unconsolidated joint ventures, increased 18.7% to \$2.65 billion compared with \$2.23 billion for fiscal 2014, and the number of net contracts, including unconsolidated joint ventures, increased 11.3% to 6,547 homes for fiscal 2015 compared to 5,883 homes for fiscal 2014;

During fiscal 2015, consolidated deliveries were 5,507 homes compared with 5,497 homes during fiscal 2014, representing an increase of 0.2%;

Contract backlog, including unconsolidated joint ventures, as of October 31, 2015 was \$1.35 billion for 3,112 homes, which was an increase of 49.0% and 32.9%, respectively, compared to October 31, 2014;

During fiscal 2015, homebuilding gross margin percentage, before interest expense and land charges included in cost of sales, was 17.6% compared with 19.9% in fiscal 2014;

During fiscal 2015, total selling, general and administrative expenses were \$250.9 million, including a \$15.2 million benefit from the reduction of our construction defect reserves, or 11.7% of total revenues, compared with \$254.9 million, or 12.4% of total revenues, for fiscal 2014;

Pre-tax loss for fiscal 2015 was \$21.8 million compared with pre-tax profit of \$20.2 million for fiscal 2014;

Net loss for fiscal 2015 was \$16.1 million, or \$0.11 per common share, compared with net income, excluding the \$285.1 million tax benefit from the reduction of our deferred tax asset valuation allowance, of \$22.0 million, or \$0.14 per fully diluted common share for fiscal 2014; and

After paying off \$60.8 million of debt that matured on October 15, 2015, total liquidity as of October 31, 2015 was \$250.1 million compared to \$309.2 million as of October 31, 2014. Total liquidity is composed of \$245.4 million of cash and cash equivalents, \$2.6 million of restricted cash required to collateralize letters of credit and \$2.1 million of availability under our unsecured revolving credit facility as of October 31, 2015.

### **Best Practices**

**Pay-for-Performance:** The Committee ties increases or decreases in total compensation with the overall financial performance of the Company. During fiscal years when the Company's profitability has been higher, total compensation has been higher. During years when the Company's performance has been lower, the Compensation Committee's policies and actions have significantly lowered overall compensation. The Committee seeks to motivate management to achieve improved financial performance of the Company through bonus plans that reward higher performance with increased bonuses and holds management accountable for financial performance that falls below targeted levels by paying reduced bonuses. The metrics the Committee has selected to measure bonus achievement have corresponded to the financial and strategic operational needs of the Company during the relevant period. During periods of profitability, the bonus metrics have focused on profitability and return on shareholders' equity measures. During periods when the Company's performance has been lower, bonus metrics have also focused on reducing the Company's debt obligations and improving cash flow and liquidity to enable the Company to return to greater levels of profitability. In addition, the periodic long-term incentive programs adopted by the Company have conditioned payouts on the achievement of targets for increasing profitability and lowering or refinancing debt over multi-year performance periods. Moreover, in recent years, equity awards for the CEO, CFO and COO have been in the form of MSUs, which are tied to stock price performance, and a portion of the awards have been subject to financial performance conditions, an increase in consolidated revenues, in addition to the stock price performance conditions applicable to all of the MSU awards.

Table Of Contents

The following graph demonstrates the link between the CEO's annual realized pay and the Company's Total Shareholder Return ("TSR"). Annual realized pay includes: (1) base salary, annual bonus, perquisites and other compensation ("Annual Compensation") plus (2) long-term cash awards and stock awards vesting during the fiscal year and the realized value of options exercised during the year ("Realized Value of Long-Term Compensation").

*Hovnanian CEO Pay Alignment with TSR Performance (\$ `000)*

|                         | 2012    | 2013    | 2014    | 2015    | 2012 – 2015<br>Cumulative<br>Change | 2013 – 2015<br>Cumulative Change<br>(3) |
|-------------------------|---------|---------|---------|---------|-------------------------------------|---|
| CEO Annual Compensation | \$2,224 | \$2,778 | \$2,483 | \$2,500 |                                     |   |
| CEO Realized Value of   | \$0     | \$2,745 | \$1,231 | \$812   |                                     |   |

|                               |         |         |         |         |      |      |
|-------------------------------|---------|---------|---------|---------|------|------|
| Long-Term Compensation (1)    |         |         |         |         |      |      |
| Total CEO Annual Realized Pay | \$2,224 | \$5,524 | \$3,714 | \$3,312 |      |      |
| Total Annual % Change         |         | 148%    | -33%    | -11%    | 49%  | -40% |
| TSR Index (2)                 | 100.00  | 117.67  | 87.44   | 47.91   |      |      |
| Annual % Change               |         | 18%     | -26%    | -45%    | -52% | -59% |

*Represents the value of (1) amounts paid in connection with the 2010 Long-Term Incentive Program award based on performance during fiscal 2011, 2012 and 2013, which vested during fiscal 2013, 2014 and 2015, (2) the June 10, 2011 restricted stock unit award (the only restricted stock unit award vesting in these years) for performance (1) during fiscal 2012 through 2013, which vested during fiscal 2013 through 2015 and (3) amounts paid in connection with the 2013 Long-Term Incentive Program for the period covering fiscal 2013, 2014 and 2015, which was determined in fiscal 2015. The CEO did not exercise any stock options during the fiscal 2012 through 2015 period.*

*The TSR Index measures the change in the Company's stock price relative to fiscal 2012. The index for each fiscal (2) year is determined by comparing the fiscal year-ending stock price to the ending stock price in fiscal 2012 which is set at 100.*



Table Of Contents

*Long-term incentive program awards first began to be realized in fiscal 2013, contributing to a peak in the CEO's (3) annual realized pay. The annual realized value of the CEO's long-term incentive program awards has decreased since fiscal 2013.*

**Emphasis on Long-Term Value Creation and Retention:** The Committee seeks to align the interests of management with the long-term interests of the Company's shareholders by granting a significant portion of their total compensation in the form of equity awards that increase in value as the Company's financial performance improves. The Committee also seeks to retain management by using compensation methods that require executives to be employed through various performance periods in order to receive financial benefits of certain equity grants.

**Maintaining an Appropriate Peer Group:** In constructing the Peer Group described below, the Committee selected those companies that compete directly with the Company in the homebuilding industry, are of comparable size and complexity in operations to the Company and are generally in the markets in which the Company competes. The Committee reviews the composition of the Peer Group on an annual basis and makes adjustments, if needed. The Committee reviews the executive compensation of the Peer Group companies and seeks to award target total direct compensation (the sum of base salary, target annual bonus/incentive awards and long-term incentive awards (including the grant date fair value of equity awards and the annualized value of long-term incentive program awards at the target outcome for the performance criteria), but excluding all other compensation elements) opportunity for our NEOs near the median of the Peer Group, with variation in actual compensation earned both above and below the median, depending on performance.

**CEO Total Direct Compensation vs. Peer Group:** The following graph compares the CEO's total direct compensation to the Peer Group chief executive officer median data for fiscal 2012 through 2014. No comparison is shown for fiscal 2015 because complete Peer Group chief executive officer median data was not available at the time of filing this Proxy Statement. The CEO's total direct compensation was the third lowest, seventh lowest and fifth lowest out of 12 for fiscal years 2012, 2013 and 2014, respectively.

*Hovnanian CEO Total Direct Compensation vs.*

*Peer Group CEO Median Total Direct Compensation (1)(2)*

*Reflects the sum of base salary, actual annual bonus/incentive awards and long-term incentive awards (including (1) the grant date fair value of equity awards and the annualized value of long-term incentive program awards at the target outcome for performance criteria) but excludes all other compensation elements.*

Table Of Contents

(2) *Data shown is based on each Peer Group company's respective fiscal year, which varies among Peer Group companies and, consequently, may be different than the Company's fiscal year.*

**No Employment Agreements, Excise Tax Gross-Ups or Defined Benefit Plans:** The Company does not maintain employment or other agreements that provide contractual rights to employees upon termination of employment (other than upon death or disability) except for the change in control severance agreements the Company entered into with Messrs. O'Connor and Valiaveedan in January 2012 discussed in footnote (5) to the "Potential Payments Upon Termination or Change-In-Control Table" and the vesting of equity-based awards in the case of retirement or in connection with a qualifying termination in case of a change in control. The Company does not provide excise tax gross-ups or defined benefit pension plans for any NEOs.

**Maintenance and Monitoring of Stock Ownership Guidelines:** The Board of Directors has established stock ownership guidelines pursuant to which the CEO, CFO and COO are requested to achieve and maintain recommended minimum levels of stock ownership as set forth below under "Stock Ownership Guidelines."

**Perquisites:** The Committee has provided NEOs only a few perquisites in addition to typical medical, dental and life insurance benefits, such as an auto allowance, which recognizes their requirement to travel to various company locations. Personal use of Company automobiles and its fractional aircraft share, reimbursement for country club dues and personal income tax preparation services are limited to the CEO. There are no tax gross-ups on any of our perquisites.

**Clawback Policy:** Under Section 304 of the Sarbanes-Oxley Act of 2002, if we are required to restate our financial results due to material noncompliance with any financial reporting requirements as a result of misconduct, the CEO and CFO could be required to reimburse us for any bonus or other incentive-based or equity-based compensation received during the 12 months following the first public issuance of the non-complying document and any profits realized from the sale of our securities during those 12 months. In addition to this requirement, it is the Company's policy that, if we are required to restate our financial results due to material noncompliance by the Company with any financial reporting requirement under the securities laws as a result (directly or indirectly) of an executive officer's misconduct, the Board of Directors will require, at its discretion and approval, the reimbursement and/or cancellation of any incentive-based compensation (including stock options awarded as compensation) in excess of the amount that would have been awarded based on the restated financial results. This policy applies to incentive-based compensation awarded to the executive officer during the three-year period preceding the date on which the Company is required to prepare an accounting restatement based on erroneous data.

**Compensation Decisions for Fiscal 2015**

The Committee's compensation decisions for fiscal 2015 reflected a conservative approach to fixed pay elements (base salary), the achievement of pre-established goals (annual bonuses) and long-term awards.

**Base Salaries:** The Committee approved a 3% base salary increase, which was effective December 20, 2014, for each of Messrs. Hovnanian, Sorsby, Pellerito and O'Connor in consideration of their individual performance and in line with the Company's ordinary course merit-based salary and cost of living increase practices. The increase for Mr. Hovnanian was his first base salary increase in nine years. For Mr. Valiaveedan, the Committee approved a 7.3% increase, effective December 20, 2014, in consideration of internal pay relationships and in recognition of his efforts to improve the Company's capital structure. See "Details of Compensation Elements – Base Salaries" below for additional information on base salaries.

**Regular Annual Bonuses:** Consistent with the achievement of specified financial or personal objectives, fiscal 2015 annual bonuses were paid to all NEOs. Bonuses for all NEOs, however, were lower than in fiscal 2014. Mr. Valiaveedan did not receive a bonus in fiscal 2015 because he resigned effective July 31, 2015, which was prior to the end of the fiscal year, to pursue a residential investment career opportunity. Additional details are described under "Details of Compensation Elements – Annual Bonuses – Regular Bonuses" below.

Table Of Contents

**Discretionary Bonuses:** The Committee awarded a retention bonus to Mr. O'Connor for fiscal 2015. Also see "Details of Compensation Elements – 2013 Long-Term Incentive Program" below.

**Long-Term Awards, including stock options, market share units and participation in the Long-Term Incentive Program described below:** For fiscal 2015, the Committee granted the CEO, CFO and COO the same number of MSUs as in fiscal 2014. The Committee also determined that 50% of the MSUs would be subject to financial performance conditions in addition to the stock price performance conditions applicable to all of the MSU awards. These financial performance-based MSUs will not vest unless the specific financial performance conditions described below under "Details of Compensation Elements – Stock Grants" are met. Mr. O'Connor and Mr. Valiaveedan received the same number of stock options as in fiscal 2014 as discussed below under "Details of Compensation Elements – Stock Grants." The 2013 LTIP, described below under "Details of Compensation Elements – 2013 Long-Term Incentive Program," was implemented in fiscal 2013 as a multi-year award with a 31-month performance period, with payouts expected to occur over a three-year period.

## 2. COMPENSATION PHILOSOPHY AND OBJECTIVES

The Committee, in conjunction with the Board of Directors and with senior management, has been instrumental in shaping the Company's compensation philosophy and objectives because of its responsibilities and oversight of the Company's various policies and procedures concerning executive compensation.

The six primary objectives that the Committee considers in making compensation decisions are discussed below, as are our other philosophies and mechanisms for determining compensation. In making compensation-related decisions, the Committee also considered its role in promoting good corporate governance practices.

### *Primary Objectives for the Compensation Program*

The Company's primary objectives for compensating its executives are as follows:

1. To fairly compensate its executives in a manner that is appropriate with respect to their performance, level of responsibilities, abilities and skills;
2. To offer compensation that guides, motivates, retains and rewards its executives for the achievement of the Company's financial performance, strategic initiatives and individual goals;

3. To align the executives' interests with the interests of our shareholders;

To maintain competitive pay opportunities for its executives so that it retains its talent pool and, at the same time,  
4. has the ability to attract new and highly-qualified individuals to join the organization as it grows or in the event of succession or replacement of an executive;

5. To appropriately design the reward system in the context of a challenging business environment; and

6. Not to incentivize a level of risk through its compensation plans that is reasonably likely to have a material adverse effect on the Company.

### **Tailored Compensation**

Consistent with these objectives, the Company's compensation philosophy also takes into consideration the unique roles played by each of the NEOs. The Committee seeks to individually tailor their compensation packages to align their pay mix and pay levels with their contributions to, and positions within, the Company. For example:

CEO, CFO and COO: The compensation packages of the CEO, Mr. Ara Hovnanian, the CFO, Mr. J. Larry Sorsby, and the COO, Mr. Thomas Pellerito, differ from that of the other NEOs due to their unique roles and elevated set of responsibilities. Because the CEO, CFO and COO make executive decisions that influence the direction, stability and profitability of the Company, their overall compensation is intended to strongly align with objective financial measures of the Company.

Table Of Contents

Other NEOs: The Company's Vice President — Chief Accounting Officer and Corporate Controller, Mr. Brad O'Connor, and former Vice President — Finance and Treasurer, Mr. David Valiaveedan, have, or had in the case of Mr. Valiaveedan, as a result of their respective positions, less direct influence on the Company's strategic and operational decisions. Therefore, overall compensation levels for these NEOs reflect both objective financial measures of the Company and the attainment of personal objectives (as determined by the Committee, which may consult with the CFO, CEO and other members of senior management regarding these determinations).

Variable Incentive Compensation

The Company's compensation philosophy emphasizes variable incentive compensation elements (bonus and long-term incentives), the value of which reflects the Company's financial and stock performance. For executives who reported to the CFO, including Messrs. O'Connor and Valiaveedan, the variable compensation elements also include personal performance objectives.

For all executive officers, the Committee retains the flexibility to adjust incentive awards downward or to consider discretionary bonus awards in special circumstances as described below under "Discretionary Bonuses."

Peer Group Considerations

As context for setting the compensation levels for the CEO, CFO and COO in fiscal 2015, the Committee considered the compensation levels and practices of its Peer Group companies. The Company's Peer Group includes the following 11 publicly-traded homebuilding companies: (1) Beazer Homes USA, Inc.; (2) D.R. Horton, Inc.; (3) KB Home; (4) Lennar Corporation; (5) M.D.C. Holdings, Inc.; (6) Meritage Homes Corporation; (7) NVR, Inc.; (8) Pulte Group, Inc.; (9) Ryland Group, Inc.; (10) The Standard Pacific Corp.; and (11) Toll Brothers, Inc. The companies in the Peer Group are the same as in fiscal 2014 and were selected by the Committee, in consultation with the Committee's compensation consultant, F.W. Cook, and management, because of their comparable business profiles. In particular, the Company's revenue size relative to the companies in the Peer Group and the presence of the Peer Group companies in the Company's markets were considered the most relevant factors for selection of peer companies within the homebuilding industry. The Committee will continue to review the appropriateness of the Peer Group composition. For the other NEOs, the Committee places equal or greater weight on its consideration of internal pay equity, an evaluation of individual performance contributions and other factors described in detail below.

The Committee relies heavily on Peer Group comparisons for the CEO, CFO and COO. Because only six of the 11 Peer Group companies report data for a chief operating officer position, the Committee may also review broad-based compensation survey data for the COO, although it did not do so for fiscal 2015. The Committee periodically reviews the compensation for the other NEOs relative to the Peer Group and broad-based compensation survey data, with

consideration of internal pay relationships in years when market benchmarking is not conducted. The Committee does not consider the specific participants in broad-based compensation survey data to be a material factor in its reviews. The Committee believes that a review of market survey data periodically (but not necessarily every year) is sufficient for these positions based on their roles and historical compensation levels. The Committee reviewed broad-based survey data in fiscal 2015 to assess current market trends with respect to compensation for the positions held by the other NEOs.

**Consideration of Market Conditions**

In determining overall compensation for all the NEOs, the Committee also takes into account leadership abilities and risk management contributions, which are especially critical during difficult market conditions. In addition, in establishing compensation levels, the Committee takes into consideration market pressures, both within and outside of the homebuilding industry.

As an example of the Committee's consideration of market conditions at the time of setting bonus formulas, in 2015 the Committee sought to emphasize pre-tax profit, liquidity and revenue growth and, as a result, the fiscal 2015 bonus formulas for the CEO, CFO and COO included pre-tax profit and liquidity balances components and a new component, revenue growth. As another example of the consideration of market conditions, the Committee determined that 50% of the MSUs granted in June 2015 to the CEO, CFO and COO would be subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSU awards. These financial performance-based MSUs will not vest unless the Committee determines that the Company achieved specified consolidated revenue growth goals in fiscal 2017 compared to fiscal 2015, as discussed below.



Table Of Contents

**Say-on-Pay and Say-on-Frequency Votes**

In light of the voting results with respect to the frequency of shareholder votes on executive compensation at the 2011 Annual Meeting of Shareholders at which a substantial majority of our shareholders (96.3% of the votes cast by shareholders of Class A Common Stock and Class B Common Stock, voting together) voted for “say-on-pay” proposals to occur every three years, the Board of Directors initially decided that the Company would hold, in accordance with the vote of an overwhelming majority, an advisory vote on the compensation of named executive officers every three years. However, the Company voluntarily elected to hold a “say-on-pay” vote at its 2015 Annual Meeting of Shareholders in advance of the next required vote. Because the last scheduled “say-on-pay” vote was held at the 2014 Annual Meeting of Shareholders, the Company’s next advisory vote on the compensation of its named executive officers is required to be held at the Company’s 2017 Annual Meeting of Shareholders. Nonetheless, the Company has again voluntarily elected to hold a “say-on-pay” vote at its 2016 Annual Meeting of Shareholders.

The Board of Directors thoughtfully considers the opinions expressed by shareholders through their votes, periodic meetings and other communications, and believes that shareholder engagement leads to enhanced governance practices. During fiscal 2015, the Company conducted proactive investor outreach programs, including having its executives attend six investor conferences as well as other meetings with the investment community and meeting one-on-one or in small groups with more than 250 investors. Additionally, the Company periodically engages investors to discuss specific matters of importance to shareholders.

In addition, the Committee considered the result of the 2015 voluntary advisory, non-binding “say-on-pay” proposal in connection with the discharge of its responsibilities. A substantial majority of our shareholders (98.5% of the votes cast by shareholders of Class A Common Stock and Class B Common Stock, voting together) approved the compensation of our named executive officers for fiscal 2014 described in our proxy statement for the 2015 Annual Meeting of Shareholders. The Committee views this level of shareholder support as an affirmation of our current pay philosophy and, as a result, no substantive changes were made to the structure of our executive compensation pay programs for fiscal 2015. The Committee will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for the named executive officers.

**3. FISCAL 2015 COMPENSATION ELEMENTS AND COMPENSATION MIX**

**Compensation Elements at a Glance**

There are five main compensation elements that support the Company’s compensation objectives, each of which is discussed in detail below.

1. Base salaries;
2. Annual bonuses;
3. Stock grants (for example, stock options and MSU and restricted stock unit (“RSU”) awards);
4. Long-Term Incentive Programs (“LTIPs”) (described below) (payable in both cash and stock); and
5. Other employee benefits, including limited perquisites.

Table Of Contents

**Compensation Mix**

**Fixed vs. Variable Compensation.** A significant portion of executives' "Total Direct Compensation" (which includes base salary, annual bonuses, stock grants and LTIP awards) opportunity consists of variable compensation – that is, the compensation ultimately realized on an annualized basis is dependent on either Company or individual performance. Of the elements of Total Direct Compensation, base salary is fixed compensation, while annual bonuses, stock grants and LTIP awards are variable compensation. An important part of each NEO's compensation package consists of equity awards, the ultimate value of which is tied to the Company's stock performance. These variable elements are intended to align the executives' performance and interests with Company performance and long-term shareholder value.

The intent of the Committee for fiscal 2015 was to maintain variable compensation opportunity as a significant percentage of Total Direct Compensation opportunity for all NEOs. In addition, the Committee intends for Total Direct Compensation and the level of variable compensation realized to align with the median level of the Peer Group in years when the Company performs at median levels compared to the Peer Group. Fiscal 2015 performance-based bonus amounts for NEOs, on average, were approximately 42% lower than the highest award for these NEOs during the preceding three years. For fiscal 2015, the Committee granted the CEO, CFO and COO the same number of MSUs as in fiscal 2014. The Committee also determined that 50% of the MSUs would be subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSU awards. Mr. O'Connor and Mr. Valiaveedan received the same number of stock options as in fiscal 2014.

**Long-Term vs. Short-Term Compensation.** An important portion of each NEO's Total Direct Compensation is long-term compensation, which may include stock option, MSU, RSU and/or LTIP awards. Short-term compensation consists of base salary and the cash portion of annual bonus amounts. Long-term compensation is intended to foster long-term commitment by the executive, employee-shareholder alignment and improved long-term shareholder value. In fiscal 2013, the Committee adopted an LTIP for the NEOs and other key senior executives of the Company, as discussed below. No RSUs were granted to any NEOs in fiscal 2015.

The average long-term compensation amounts (including stock and option grants at their grant date fair value and the LTIP awards annualized at target) as a percent of Total Direct Compensation for fiscal years 2012 through 2015 for the CEO, CFO and COO were 62%, 48% and 43%, respectively. The average long-term compensation amounts (including stock and option grants at their grant date fair value and the LTIP awards annualized at target) as a percent of Total Direct Compensation for Messrs. O'Connor and Valiaveedan are lower than that of the CEO, CFO and COO because while the Committee believes it is important for these executives to be compensated in part based on the long-term performance of the Company, they have less direct influence on the long-term financial success of the Company as compared to the CEO, CFO and COO.

#### 4. DETAILS OF COMPENSATION ELEMENTS

##### Base Salaries

Base salaries are intended to reward executives for their day-to-day contributions to the Company. The Committee believes that base salaries within the competitive median range are necessary to retain the Company's executive talent pool, and it determined that the fiscal 2015 base salaries of the Company's executive officers were necessary to retain their services.

Base salaries of all the NEOs are reviewed annually by the Committee and are subject to adjustment based on factors that may include individual performance, change in responsibilities, average salary increases or decreases in the industry, compensation for similar positions in the Company's Peer Group or broad-based compensation survey data if comparable data were unavailable from the Peer Group companies, as well as other factors such as cost of living increases and internal pay relationships with other executives.

CEO: During fiscal 2007 through 2014, the CEO did not receive any adjustments in his annual base salary, which was reflective of the Company's budget cuts and downsizing due to industry conditions. In fiscal 2015, Mr. Hovnanian received a 3% salary increase in consideration of his individual performance and in line with the Company's ordinary course merit-based and cost of living salary increase practices. Based on discussions with F.W. Cook and Peer Group market data gathered by management, the Committee determined that, with the adjustment, the CEO's fiscal 2015 base salary was near the median base salary level of chief executive officers at Peer Group companies.

Table Of Contents

CFO: During fiscal 2011 through 2013, the CFO did not receive any adjustments in his annual base salary for the same reasons described above for the CEO. In each of fiscal 2014 and 2015, Mr. Sorsby received a 3% salary increase in consideration of his individual performance and in line with the Company’s ordinary course merit-based and cost of living salary increase practices.

COO and Other NEOs: During fiscal 2015, Messrs. Pellerito and O’Connor each received a 3% salary increase in consideration of their individual performance and in line with the Company’s ordinary course merit-based and cost of living salary increase practices. For Mr. Valiaveedan, the Committee approved a 7.3% increase during fiscal 2015, in consideration of internal pay relationships and in recognition of his efforts to improve the Company’s capital structure.

**Annual Bonuses**

***Regular Bonuses***

The Company provides each of the NEOs with an opportunity to earn annual bonuses, which are intended to reward executives for the attainment of short-term financial objectives and, in the case of some NEOs, individual performance objectives, and for which the relevant metrics and formulas are assessed annually. Fiscal 2015 annual bonus awards were made pursuant to the Company’s Amended and Restated Hovnanian Enterprises, Inc. Senior Executive Short-Term Incentive Plan (the “Short-Term Incentive Plan”), which is a shareholder-approved plan.

The Committee has discretion under the Short-Term Incentive Plan to reduce or eliminate the amount of any bonus amounts payable to any participant based on performance or any other factors the Committee deems appropriate. Bonus opportunities are intended to be competitive with industry-wide practices in order to retain and attract executive talent.

The regular annual bonus opportunities in fiscal 2015 for each of the NEOs are shown in the following table. The personal objectives for Messrs. O’Connor and Valiaveedan are discussed below.

|     |     |     |   |   |
|-----|-----|-----|---|---|
| CEO | CFO | COO | Vice<br>President —<br>Chief Accounting<br>Officer and<br>Corporate<br>Controller | Vice<br>President —<br>Finance and<br>Treasurer |
|-----|-----|-----|---|---|

|  |   |   |  |   |   |
|--|---|---|--|---|---|
| Return on Average Common Equity ("ROACE") (1)              | % of Pre-tax Profit based on ROACE  | \$ bonus based on ROACE   | N/A  | \$ bonus based on ROACE   | \$ bonus based on ROACE   |
| Pre-tax Profit plus Liquidity Balances plus Revenue Growth | \$ bonus based on Pre-tax Profit plus Liquidity Balances plus Revenue Growth  | \$ bonus based on Pre-tax Profit plus Liquidity Balances plus Revenue Growth  | \$ bonus based on Pre-tax Profit plus Liquidity Balances plus Revenue Growth                           | N/A   | N/A   |
| Tailored Personal Objectives                               | N/A   | N/A   | N/A  | \$ bonus based on achievement of specific goals   | \$ bonus based on achievement of specific goals   |
| Formula  | Total award is greater of (a) ROACE factor or (b) sum of Pre-tax Profit plus Liquidity Balances plus Revenue Growth factors | Total award is greater of (a) ROACE factor or (b) sum of Pre-tax Profit plus Liquidity Balances plus Revenue Growth factors | Total award is determined solely by Pre-tax Profit plus Liquidity Balances plus Revenue Growth factors | Total award is sum of ROACE and personal objectives factors, with maximum amount of 60% of base salary if the Company achieves positive Pre-tax Profit (otherwise the maximum is 30%) | Total award is sum of ROACE and personal objectives factors, with maximum amount of 50% of base salary if the Company achieves positive Pre-tax Profit (otherwise the maximum is 25%) |

(1)Based on fiscal 2015 results, payments under the ROACE award component were zero.

Table Of Contents

Historically, annual bonuses for the CEO and CFO have been linked to a measure of the Company's return on average equity (ROACE, as the current example), a common industry practice. For fiscal 2014, the bonus formula for the CEO, CFO and COO also included Pre-tax Profit and Liquidity Balances measures (each as described further below). The Committee determined that for fiscal 2015, the Pre-tax Profit component of the bonus formulas for the CEO, CFO and COO would remain the same as in fiscal 2014, except that the formulas would provide for increased bonus opportunities for greater levels of improvement in Pre-tax Profit in fiscal 2015 compared to fiscal 2014. To further emphasize liquidity and promote a strengthened balance sheet, the Committee also raised the minimum liquidity threshold under the Liquidity Balances component of the bonus formulas for the CEO, CFO and COO from \$170 million to \$200 million and increased the CEO, CFO and COO's bonus potential under that component of their respective bonus formulas. Finally, to incentivize the CEO, CFO and COO to further improve financial performance through actions that increase top line growth, the Committee added a total revenue growth component to their respective bonus formulas for fiscal 2015. The Revenue Growth component of the 2015 bonus formulas measured total consolidated revenues for fiscal 2015 as compared to total consolidated revenues for fiscal 2014. This differs from the fiscal 2014 financial performance-based MSU awards which are conditioned upon improvement in total consolidated revenues for fiscal 2016 as compared to fiscal 2014, a two-year measurement period, to avoid overlapping performance periods.

Specifically, the bonus formulas for the CEO and CFO for fiscal 2015 provided that annual bonuses would be equal to the greater of the executive's bonus formula based on the Company's (a) ROACE or (b) Pre-tax Profit plus ending Liquidity Balances (defined below) in each fiscal quarter plus total Revenue Growth between fiscal 2014 and fiscal 2015. Although the historical ROACE component of the bonus formula remained in place for these NEOs, and is anticipated to be relevant in future years, the Committee added the alternate calculation method of the bonus formula, currently Pre-tax Profit plus Liquidity Balances plus Revenue Growth, because it would have been impossible for the executives to realize a payment under the ROACE component of their respective bonus formulas until such time as the Company returned to positive net worth. The COO's bonus formula for fiscal 2015 was based solely on the sum of the Company's Pre-tax Profit plus ending Liquidity Balances plus total Revenue Growth factors. "ROACE" is defined as "net income" divided by "average common equity" (stockholders' equity less preferred stock at the beginning of the fiscal year and at the end of each fiscal quarter during the year divided by five). For all of the ROACE bonus formulas discussed below for the NEOs, "net income" used in calculating ROACE is after taxes and preferred dividends, if any (in each case, as reflected on the Company's financial statements), and excludes land charges. "Pre-tax Profit" is defined as earnings (losses) before income tax expense as reflected on the Company's audited financial statements, excluding the impact of any items deemed by the Committee to be extraordinary items (for example, losses from land impairments and losses from debt repurchases/debt retirements such as call premiums, above par purchase prices and related issuance costs or gains from debt repurchases). "Liquidity Balances" are defined as homebuilding cash and cash equivalents plus restricted cash that collateralizes letters of credit plus the available borrowing capacity under the Company's revolving credit facility. The Committee determined that the fiscal 2015 Pre-tax Profit component of the bonus formulas for the CEO, CFO and COO would be based on achieving targeted levels of the Company's Pre-tax Profit for fiscal 2015 (as shown below), which levels were set in reference to fiscal 2014 Pre-tax Profit, and that if the Company's financial performance exceeded the levels established under the Pre-tax Profit component of the CEO, CFO and COO's bonus formulas for fiscal 2015, the Committee may extrapolate the amount of the bonus above these levels. The Liquidity Balances component of the CEO, CFO and COO's bonus formulas was based on the number of fiscal 2015 quarter-ends in which Liquidity Balances were at or above \$200 million. The total Revenue Growth component of the CEO, CFO and COO's bonus formulas measured total consolidated revenues for fiscal 2015 as compared to total consolidated revenues for fiscal 2014.

For fiscal 2015, the bonus formulas for Messrs. O'Connor and Valiaveedan remained the same as their fiscal 2014 formulas. Specifically, these NEOs' fiscal 2015 bonus formulas provided that bonuses would be based on both (a) a formula based on the Company's ROACE and (b) the attainment of tailored personal objectives established for fiscal 2015, subject to caps as further described below.

Since fiscal 2007, the NEOs have also been offered the opportunity to earn a one-time retention bonus equal to 3% of such NEO's fiscal year-end 2007 base salary if the NEO remains employed with the Company through the end of the first fiscal year in which the Company's ROACE returns to 20%. At the end of fiscal 2015, the Company's ROACE did not meet this threshold, so no retention bonuses were earned for fiscal 2015.

The following description provides detail as to the determination of each NEO's fiscal 2015 annual bonus. Due to the reduced amount of the bonuses as compared to more profitable years, all bonuses for fiscal 2015 were paid 100% in cash.



Table Of Contents

CEO: The CEO's bonus formula for fiscal 2015 provided for a bonus award equal to the greater of (a) a fixed percentage of Pre-tax Profit based on the Company's ROACE or (b) a fixed dollar amount based on the Company's Pre-tax Profit plus a fixed dollar amount based on the Company's quarterly Liquidity Balances plus a fixed dollar amount based on the Company's total Revenue Growth. The ROACE portion of the formula was historically designed to yield an annual bonus that would result in a Total Direct Compensation opportunity that falls within the median range of the Peer Group for comparable financial performance as well as supporting the financial objectives of the Company.

**FOR THE CEO, THE BONUS FORMULA WAS THE GREATER OF:****(a) ROACE Calculation Method\*****ROACE percentage % Pre-tax Profit**

|     |       |
|-----|-------|
| 0%  | 0.00% |
| 5%  | 1.00% |
| 10% | 1.25% |
| 15% | 1.50% |
| 20% | 2.00% |

*The bonus is interpolated on a linear basis between the points shown in the table, and may be extrapolated beyond the maximum ROACE percentage shown at a rate of 0.10% of Pre-tax Profit per percentage point increase in \*ROACE, which is the rate applied between the last two tiers of the above chart, but is subject to the maximum bonus payable under the Short-Term Incentive Plan.*

**OR****(b) Pre-tax Profit plus Liquidity Balances plus Revenue Growth Calculation Method\*****Percentage Change in Pre-tax Profit Bonus****between Fiscal 2014 and Fiscal 2015 (thousands)**

|            |         |
|------------|---------|
| Below -40% | \$ 0    |
| -40%       | \$ 250  |
| -20%       | \$ 550  |
| 0%         | \$ 850  |
| 20%        | \$1,150 |

|      |         |
|------|---------|
| 40%  | \$1,350 |
| 60%  | \$1,550 |
| 80%  | \$1,750 |
| 100% | \$1,950 |
| 120% | \$2,150 |
| 140% | \$2,350 |
| 160% | \$2,550 |
| 180% | \$2,750 |
| 200% | \$2,950 |
| 220% | \$3,150 |
| 240% | \$3,350 |
| 260% | \$3,550 |

**PLUS**

| <b>Number of Fiscal 2015 Quarter-Ends</b>                | <b>Bonus</b>       |
|--|--------------------|
| <b>with Liquidity Balances At or Above \$200 Million</b> | <b>(thousands)</b> |
| Less than 2  | \$ 0               |
| 2  | \$300              |
| 3  | \$500              |
| 4  | \$700              |

Table Of Contents**PLUS**

| <b>Total Revenue Growth</b>                            | <b>Bonus</b> |
|--|--------------|
| <b>between Fiscal 2014 and Fiscal 2015 (thousands)</b> |              |
| 0% or less   | \$ 0         |
| 5%   | \$150        |
| 10%  | \$300        |
| 15% or greater   | \$550        |

*The bonus is interpolated on a linear basis between the points shown in the tables. If the percentage change in Pre-tax Profit between fiscal 2014 and fiscal 2015 exceeds 260%, the Pre-tax Profit bonus may be extrapolated at the Committee's discretion, but is subject to the maximum bonus payable under the Short-Term Incentive Plan.*

Based on the bonus formula above, because there was no payment under the ROACE component, the CEO's 2015 cash bonus was entirely attributed to the Pre-tax Profit plus Liquidity Balances plus Revenue Growth Calculation Method of his bonus formula. Fiscal 2015 Pre-tax Profit was \$(9.7) million, which represented a percentage change in pre-tax profit between fiscal 2014 and fiscal 2015 below the level at which a bonus would be paid for that component, the Liquidity Balances at the end of all four fiscal 2015 quarters were above \$200 million and total Revenue Growth between fiscal 2014 and fiscal 2015 was 4%. As a result, Mr. Hovnanian earned a cash bonus equal to \$823,729, which represented a 28% decrease from his fiscal 2014 bonus.

CFO: The CFO's bonus formula for fiscal 2015 provided for a bonus award equal to the greater of (a) a fixed dollar amount based on the Company's ROACE or (b) a fixed dollar amount based on the Company's Pre-tax Profit plus a fixed dollar amount based on the Company's quarterly Liquidity Balances plus a fixed dollar amount based on the Company's total Revenue Growth. The ROACE portion of the formula was historically designed to yield an annual bonus that would result in a Total Direct Compensation opportunity that falls within the median range of the Peer Group chief financial officers for comparable financial performance.

**FOR THE CFO, THE BONUS FORMULA WAS THE GREATER OF:****(a) ROACE Calculation Method\*****ROACE Bonus**

**percentage (thousands)**

|     |         |
|-----|---------|
| 0%  | \$ 0    |
| 5%  | \$ 375  |
| 10% | \$ 750  |
| 15% | \$1,250 |
| 20% | \$2,000 |
| 25% | \$2,500 |

*The bonus is interpolated on a linear basis between the points shown in the table, and may be extrapolated beyond \*the maximum ROACE percentage shown at a rate of \$100,000 per percentage point increase in ROACE, which is the rate applied between the last two tiers of the above chart, but is subject to the maximum payment under the Short-Term Incentive Plan.*

Table Of Contents**OR****(b) Pre-tax Profit plus Liquidity Balances plus Revenue Growth Calculation Method\*****Percentage Change in Pre-tax Profit Bonus****between Fiscal 2014 and Fiscal 2015 (thousands)**

|            |         |
|------------|---------|
| Below -40% | \$ 0    |
| -40%       | \$ 95   |
| -20%       | \$ 205  |
| 0%         | \$ 315  |
| 20%        | \$ 425  |
| 40%        | \$ 500  |
| 60%        | \$ 575  |
| 80%        | \$ 650  |
| 100%       | \$ 725  |
| 120%       | \$ 800  |
| 140%       | \$ 875  |
| 160%       | \$ 950  |
| 180%       | \$1,025 |
| 200%       | \$1,100 |
| 220%       | \$1,175 |
| 240%       | \$1,250 |
| 260%       | \$1,325 |

**PLUS**

| <b>Number of Fiscal 2015 Quarter-Ends</b>                            | <b>Bonus</b> |
|--|--------------|
| <b>with Liquidity Balances At or Above \$200 Million (thousands)</b> |              |
| Less than 2  | \$ 0         |
| 2  | \$ 150       |
| 3  | \$ 200       |
| 4  | \$ 300       |

**PLUS**

| <b>Total Revenue Growth</b>                            | <b>Bonus</b> |
|--|--------------|
| <b>between Fiscal 2014 and Fiscal 2015 (thousands)</b> |              |
| 0% or less   | \$ 0         |
| 5%   | \$ 75        |
| 10%  | \$ 120       |
| 15% or greater   | \$ 200       |

*The bonus is interpolated on a linear basis between the points shown in the tables. If the percentage change in \*Pre-tax Profit between fiscal 2014 and fiscal 2015 exceeds 260%, the Pre-tax Profit bonus may be extrapolated at the Committee's discretion, but is subject to the maximum bonus payable under the Short-Term Incentive Plan.*

Based on the bonus formula above and the ROACE and Pre-tax Profit plus Liquidity Balances plus Revenue Growth results as described above for the CEO, Mr. Sorsby earned a cash bonus equal to \$361,865, which represented an 18% decrease from his fiscal 2014 bonus. Mr. Sorsby's bonus was entirely attributed to the Pre-tax Profit plus Liquidity Balances plus Revenue Growth Calculation Method of his bonus formula.

COO: The COO's bonus formula for fiscal 2015 provided for a bonus award equal to a fixed dollar amount based on the Company's Pre-tax Profit plus a fixed dollar amount based on the Company's quarterly Liquidity Balances plus a fixed dollar amount based on the Company's total Revenue Growth.

Table Of Contents**FOR THE COO, the Pre-tax Profit plus Liquidity Balances plus Revenue Growth Calculation Method\*****Percentage Change in Pre-tax Profit Bonus****between Fiscal 2014 and Fiscal 2015 (thousands)**

|            |         |
|------------|---------|
| Below -40% | \$ 0    |
| -40%       | \$ 95   |
| -20%       | \$ 205  |
| 0%         | \$ 315  |
| 20%        | \$ 425  |
| 40%        | \$ 500  |
| 60%        | \$ 575  |
| 80%        | \$ 650  |
| 100%       | \$ 725  |
| 120%       | \$ 800  |
| 140%       | \$ 875  |
| 160%       | \$ 950  |
| 180%       | \$1,025 |
| 200%       | \$1,100 |
| 220%       | \$1,175 |
| 240%       | \$1,250 |
| 260%       | \$1,325 |

**PLUS**

| <b>Number of Fiscal 2015 Quarter-Ends</b>                            | <b>Bonus</b> |
|--|--------------|
| <b>with Liquidity Balances At or Above \$200 Million (thousands)</b> |              |
| Less than 2  | \$ 0         |
| 2  | \$ 150       |
| 3  | \$ 200       |
| 4  | \$ 300       |

**PLUS**

| <b>Total Revenue Growth</b>                            | <b>Bonus</b> |
|--|--------------|
| <b>between Fiscal 2014 and Fiscal 2015 (thousands)</b> |              |
| 0% or less   | \$ 0         |

|                |        |
|----------------|--------|
| 5%             | \$ 75  |
| 10%            | \$ 120 |
| 15% or greater | \$ 200 |

*The bonus is interpolated on a linear basis between the points shown in the tables. If the percentage change in \*Pre-tax Profit between fiscal 2014 and fiscal 2015 exceeds 260%, the Pre-tax Profit bonus may be extrapolated at the Committee's discretion, but is subject to the maximum bonus payable under the Short-Term Incentive Plan.*

Based on the bonus formula above and the Pre-tax Profit plus Liquidity Balances plus Revenue Growth results described above for the CEO, Mr. Pellerito earned a cash bonus equal to \$361,865, which represented an 18% decrease from his fiscal 2014 bonus.