HOVNANIAN ENTERPRISES INC
Form PRE 14A
January 12, 2018

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:

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Preliminary Copy

HOVNANIAN ENTERPRISES, INC.
110 West Front Street, Red Bank, N.J. 07701 (732) 747-7800

January , 2018

Dear Shareholder:

You are cordially invited to attend the 2018 Annual Meeting of Shareholders, which will be held on Tuesday, March 13, 2018 at Boca Beach Club, 900 South Ocean Boulevard, Boca Raton, Florida 33432. 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 2017) to those shareholders. 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. A request for a paper copy must be made by February 27, 2018 in order to facilitate a timely delivery.

We anticipate that the Notice will first be mailed to our shareholders on or about January , 2018. 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 2018 Annual Meeting of Shareholders. 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

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PROXY VOTING METHODS

If at the close of business on January 12, 2018, 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 of Shareholders. 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 12, 2018 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 and follow the instructions, 24 hours a day, seven days a week.

You will need the 16-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 16-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 12, 2018 to be counted for the 2018 Annual Meeting of Shareholders.

Additional Information for Shareholders 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 13, 2018.

YOUR VOTE IS IMPORTANT — THANK YOU FOR VOTING

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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 13, 2018, at Boca Beach Club, 900 South Ocean Boulevard, Boca Raton, Florida 33432 at 10:30 a.m., Eastern Time, 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, 2018;

3. To approve, in a non-binding, advisory vote, the compensation of the Company's named executive officers;

4. To approve an amendment to the Company's stockholder rights plan;

5. To approve an amendment to the Company's Restated Certificate of Incorporation; and

6. 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, FOR proposal 4 and FOR proposal 5.

Only shareholders of record at the close of business on January 12, 2018 are entitled to notice of, and to vote at, the Annual Meeting of Shareholders. 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, 2017.

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 13, 2018. 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

January , 2018

If you are a shareholder of record and you plan to attend the Annual Meeting of Shareholders, 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, 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 of Shareholders, you will need a form of personal identification (such as a driver's license) along with your Notice Regarding the Availability of Proxy Materials, 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 of Shareholders, 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.

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HOVNANIAN ENTERPRISES, INC.

110 WEST FRONT STREET

RED BANK, NEW JERSEY 07701

PROXY STATEMENT

GENERAL

The accompanying proxy is solicited on behalf of the Board of Directors (the "Board") of Hovnanian Enterprises, Inc. (the "Company", "we", "us" or "our") for use at the 2018 Annual Meeting of Shareholders (the "2018 Annual Meeting") referr 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 (1) for the Board of Directors' slate of directors, (2) 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, 2018, (3) for the approval, in a non-binding, advisory vote, of the compensation of the Company's named executive officers, (4) for the approval of an amendment to the Company's stockholder rights plan, (5) for the approval of an amendment to the Company's Restated Certificate of Incorporation and (6) 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 notice is received no later than March 12, 2018, (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 12, 2018, (3) submitting a properly signed proxy card with a later date that is received no later than March 12, 2018 or (4) revoking your proxy and voting in person at the 2018 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 2018 Annual Meeting if you obtain a signed proxy from the record holder (bank, broker or other nominee) giving you the right to vote the applicable shares. Please note that attendance at the 2018 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, the “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.

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VOTING RIGHTS AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Board of Directors has set January 12, 2018 as the record date for the 2018 Annual Meeting. As of the close of business on the record date, the outstanding voting securities of the Company consisted of shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 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 12, 2018, (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 Depositary 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 (the “named executive officers”) and all Directors and executive officers as a group.

	Class A Common Stock (1) Amount and Nature of Beneficial Ownership	**Percent of Class (2)**	**Class B Common Stock (1) Amount and Nature of Beneficial Ownership**	**Percent of Class (2)**	**Depositary Shares (1) (3) Amount and Nature of Beneficial Ownership**	**Percent of Class (2)**
Directors, Nominees for Director, Named Executive Officers and Directors and Executive Officers as a Group						
Ara K. Hovnanian (4)						
Robert B. Coutts						
Edward A. Kangas						
Joseph A. Marengi						
Brad G. O’Connor						
Vincent Pagano Jr.						
Lucian T. Smith III						
J. Larry Sorsby						

Stephen D. Weinroth
All Directors and executive officers as a group (9 persons)

Holders of More Than 5%
Sirwart Hovnanian (5)
Peter S. Reinhart as Trustee of the Sirwart Hovnanian 1994 Marital Trust (6)
Hovnanian Family 2012 L.L.C. (7)
Trusts for Kevork S. Hovnanian's Family (8)

(1) *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 (the "SEC"), 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. 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 12, 2018, whether or not in-the-money, include the following: A. Hovnanian ( ), R. Coutts ( ), E. Kangas ( ), J. Marengi ( ), B. O'Connor ( ), V. Pagano ( ), L. Smith ( ), J. Sorsby ( ), S. Weinroth ( ) and all Directors and executive officers as a group ( ). Shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days of January 12, 2018, whether or not in-the-money, include the following: A. Hovnanian ( ).*

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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 Company's existing Stockholder 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 per share purchase price as specified in the Stockholder Rights Plan. 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 12, 2018, held by the applicable Director, nominee, named executive officer, group or other holder.

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

(4) Includes shares of Class A Common Stock and 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 shares of Class A Common Stock and shares of Class B Common Stock held by Mr. Hovnanian's wife and daughter. Ara Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential 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, and shares, respectively, have been pledged as collateral for a loan with Alex Brown, which remains outstanding. Also, of the Class A Common Stock beneficially held by Mr. Hovnanian, shares have been pledged as collateral for a loan with Morgan Stanley, which also remains outstanding.

(5) Represents shares of Class A Common Stock held by Sirwart Hovnanian, wife of the Company's deceased Chairman Kevork S. Hovnanian. The business address of Mrs. Hovnanian is 110 West Front Street, Red Bank, New Jersey 07701.

(6) Includes 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 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, Red Bank, New Jersey 07701.

(7) Represents shares of Class A Common Stock and 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 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, Red Bank, New Jersey 07701.

(8) *Represents shares of Class A Common Stock and 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 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, Red Bank, New Jersey 07701.*

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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 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, 2017, all the Reporting Persons complied with all applicable filing requirements.

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PROPOSAL 1 — ELECTION OF DIRECTORS

The Company's Amended and Restated By-laws (the "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 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, members of the family of Kevork S. Hovnanian (the "Hovnanian Family") and various trusts and entities established for the benefit of the Hovnanian Family 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 Restated 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 Restated Certificate of Incorporation and the NYSE rules. The Company's Restated Certificate of Incorporation may be found on the Company's website at www.khov.com under "Investor Relations", "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

Name	Age	Company Affiliation	Year First Became a Director
Ara K. Hovnanian	60	President, Chief Executive Officer, Chairman of the Board & Director	1981
Robert B. Coutts	67	Director	2006
Edward A. Kangas	73	Director	2002
Joseph A. Marengi	64	Director	2006
Vincent Pagano Jr.	67	Director	2013
J. Larry Sorsby	62	Executive Vice President, Chief Financial Officer & Director	1997
Stephen D. Weinroth	79	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 identified in connection with the self-assessments 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 non-employee Directors and 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.

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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 the Corporate Governance and Nominating Committee and the Board of Directors considered, with regard to:

Mr. Coutts, his strong background in the manufacturing sector and technology and program experience, 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, his significant experience, expertise and background in accounting matters, including the broad perspective brought by his experience in advising clients in many diverse industries;

Mr. Marengi, his strong background in the technology sector, because new technologies and their cost and benefit analyses and vigilance in the areas of cybersecurity and data protection are important to the Company;

Mr. Pagano, his significant experience, expertise and background in 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, 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, his more than thirty-five years of experience with the Company; and

Mr. Sorsby, our Chief Financial Officer, his more than twenty-five years of experience with the Company.

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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 serves on the Compensation Committee and as Chair of the Corporate Governance Committee 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; a member of the Board of the Baltimore Symphony Orchestra and 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 serves as the Lead Director on the Boards of Directors of United Technologies Corp. (NYSE) and Tenet Healthcare Corporation, Inc. (NYSE), and as Chairman of the Board of Deutsche Bank USA Corporation. Mr. Kangas has also served on the Board of Directors of IntelSat (NYSE) since 2012. He was on the Board of Directors of Intuit from 2007 to 2016 and AllScripts, Inc. (NASDAQ) from 2008 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, 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 Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

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 L3 Technologies, 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.

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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, 2017, the Board of Directors held five meetings. 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, 2017, each Director attended 100% of the meetings of the Board of Directors and at least 81% of the meetings of the committees on which such Director served. The Company's Corporate Governance Guidelines ("Governance 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 14, 2017.

Audit Committee

The members of the Audit Committee of the Board of Directors are Messrs. Kangas, Coutts, Marengi, 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 Restated Certificate of Incorporation, which are available on the Company's website at www.khov.com under "Investor Relations", "Corporate Governance," and the independence requirements mandated by the NYSE listing standards. During the fiscal year ended October 31, 2017, the Audit Committee met on twelve occasions.

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 under "Investor Relations", "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 Restated 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"), although in light of recent tax legislation amending Section 162(m), the Company may in the future determine to forgo having its Compensation Committee members qualify as "outside directors" for Section 162(m) purposes. The duties and responsibilities of the Compensation Committee are set forth in its charter, which is available at www.khov.com under "Investor Relations", "Corporate Governance." During the fiscal year ended October 31, 2017, the Compensation Committee met on four occasions.

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The Compensation Committee is currently chaired by Mr. Weinroth and is responsible for reviewing salaries, bonuses and other forms of 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 Restated Certificate of Incorporation and the independence requirements mandated by the NYSE listing standards. During the fiscal year ended October 31, 2017, the Corporate Governance and Nominating Committee met on three occasions.

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 Governance Guidelines and compliance with the Company's Related Person Transaction Policy.

The Governance 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 under "Investor Relations", "Corporate Governance," and the Governance Guidelines are available at the same website address under "Investor Relations", "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 non-employee directors and possible conflicts of interest of existing and potential members of the Board of Directors, as more fully described under "Proposal 1 – 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 2019 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.

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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 are 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 2018 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 Hovnanian Family and various trusts and entities established for the benefit of the Hovnanian Family 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, 2018 is submitted to this 2018 Annual Meeting 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 2018 Annual Meeting 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, 2018 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 2018 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 Hovnanian Family and various trusts and entities established for the benefit of the Hovnanian Family 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 the ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending October 31, 2018.

PROPOSAL 3 — 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 the ("Dodd-Frank 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 advisory vote, the compensation of our named executive officers, as disclosed on pages 19 to 58.

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 19 to 41, as well as the discussion regarding the Compensation Committee on pages 16 to 18.

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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 to the achievement of key performance factors the Board of Directors believes are critical to the Company's success during that period. For fiscal 2017, the CEO's total compensation as reported in the Summary Compensation Table was 27.1% lower than in fiscal 2016 and the lowest it has been since fiscal 2012. The CEO's total direct compensation was in the bottom quartile when ranked against the Peer Group for fiscal year 2016 and 30.74% below the Peer Group median.

As context for setting the Company's compensation programs, the Committee considered that at the point at which housing starts were at the lowest levels during the great housing recession in 2009, the Company had written off over $2.5 billion of asset value and as a result was significantly overleveraged. During this period, many homebuilders declared bankruptcy and certain others significantly diluted shareholders via new equity issuances or by selling their companies at extremely low valuations. Hovnanian's management chose to preserve shareholder value by managing the Company for growth and taking creative steps to refinance and pay down its heavy debt load. From the beginning of 2009, the Company has reduced its debt by almost $900 million. Despite this reduction, the Company is still overleveraged and as a result has a large interest expense burden which causes profitability to be extremely difficult to achieve until such time as the Company grows or is able to further reduce its debt position. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top quartile of its peer group for its last two fiscal years. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company can achieve sufficient profitability to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. Given these challenges and the Company's debt burden, the Company's variable compensation programs are weighted toward metrics such as liquidity, shareholder value preservation, debt reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin.

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.

- Focus on increasing profitability and lowering or refinancing debt or reducing interest expense 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 2017, 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") which are tied to stock price performance. Half of these MSUs are also subject to financial performance conditions – gross margin improvement and pre-tax profit – 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 13, 2018, 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.

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PROPOSAL 4 — APPROVAL OF AN AMENDMENT TO THE COMPANY'S STOCKHOLDER RIGHTS PLAN

We are seeking the approval by our stockholders of an amendment to the Company's Rights Agreement with Computershare Trust Company, N.A., as successor rights agent, effective August 14, 2008 (the "Stockholder Rights Plan"). On January 8, 2018, the Board approved an amendment, effective January 11, 2018, to the Stockholder Rights Plan (the "Stockholder Rights Plan Amendment" and the Stockholder Rights Plan, as amended by the Stockholder Rights Plan Amendment, the "Amended Stockholder Rights Plan") as further described below. Stockholder approval of the Stockholder Rights Plan Amendment is required by August 14, 2019 or the Amended Stockholder Rights Plan will automatically expire on that date.

In 2008, the Company, with stockholder approval, took action designed to protect stockholder value by attempting to preserve the Company's ability to use its net operating losses and built-in losses ("NOLs") within the meaning of Section 382 of the Code. These actions included:

- adopting an amendment to the Company's Restated Certificate of Incorporation (the "NOL Protective Amendment") which limits direct or indirect transfers of Class A Common Stock (see Paragraph Eight of the Company's Restated Certificate of Incorporation, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 15, 2013). The transfer restrictions contained in the NOL Protective Amendment are intended to prevent "ownership changes" as defined in Section 382 of the Code which could jeopardize the Company's ability to use its NOLs; and

- entering into the Stockholder Rights Plan. Because the transfer restrictions of the NOL Protective Amendment may not be enforceable in all circumstances, the Board believed it was in the best interest of the Company and its stockholders to also adopt the Stockholder Rights Plan to further protect the Company's NOLs. The Stockholder Rights Plan was subsequently approved by the Company's stockholders at a special stockholders meeting on December 5, 2008.

By its terms, the Stockholder Rights Plan would have expired on August 14, 2018 unless action was taken to extend its term. The Board has concluded that it is still in the best interest of the Company and its stockholders to prevent limitations on the Company's ability to use its approximately $1.6 billion (pre-tax) federal net operating losses as of October 31, 2017 which expire between 2028 and 2037. Because the amount and timing of the Company's future taxable income, if any, cannot be accurately predicted, the Company cannot estimate the exact amount of the NOLs that it can ultimately use to reduce its income tax liability. Although the Company is unable to quantify an exact value, it believes the NOLs are a valuable asset. The Board believes that the provisions of the NOL Protective Amendment and the Stockholder Rights Plan are important tools in avoiding adverse impacts from Section 382 limitations and protecting stockholder value. Therefore, on January 8, 2018, the Board approved the Stockholder Rights Plan Amendment, which:

extends the expiration date of the Stockholder Rights Plan until the earliest of (1) August 14, 2021, (2) the time at which the rights are redeemed pursuant to the Amended Stockholder Rights Plan, (3) the time at which the rights are exchanged pursuant to the Amended Stockholder Rights Plan, (4) the Board's determination that the Amended Stockholder Rights Plan is no longer necessary for the preservation of the NOLs because of the repeal of Section 382 of the Code or any successor statute, (5) the beginning of a taxable year of the Company to which the Board determines that no tax benefits may be carried forward and (6) August 14, 2019 if stockholder approval of the Stockholder Rights Plan Amendment has not been obtained;

decreases the "Purchase Price" for each one ten-thousandth of a share of the Company's Series B Junior Preferred Stock as described below under "−Summary Description of Amended Stockholder Rights Plan" from $35.00 to $16.60 in light of the decrease in the trading price of the Company's Class A Common Stock since the adoption of the Stockholder Rights Plan; and

makes conforming changes to the exhibits of the Stockholder Rights Plan to incorporate the above amendments and to otherwise clarify that references to the Stockholder Rights Plan include any amendment to the Stockholder Rights Plan.

The Board has determined that it is advisable and in the Company's best interests, and in the best interests of the Company's stockholders, to approve the Stockholder Rights Plan Amendment which was adopted by the Board on January 8, 2018. Under the Amended Stockholder Rights Plan, stockholder approval of the Stockholder Rights Plan Amendment is required by August 14, 2019 or the Amended Stockholder Rights Plan will automatically expire on that date.

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Summary Description of Amended Stockholder Rights Plan

The Amended Stockholder Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Class A Common Stock (an "Acquiring Person") without the approval of the Board. Stockholders who owned 4.9% or more of the Company's outstanding Class A Common Stock as of the close of business on August 15, 2008 will not trigger the Amended Stockholder Rights Plan so long as they do not (1) acquire any additional shares of Class A Common Stock or (2) fall under 4.9% ownership of Class A Common Stock and then re-acquire 4.9% or more of the Class A Common Stock. The Amended Stockholder Rights Plan does not exempt any future acquisitions of Class A Common Stock by such persons. Any rights held by an Acquiring Person are void and may not be exercised. The Board may, in its sole discretion, exempt any person or group from being deemed an Acquiring Person for purposes of the Amended Stockholder Rights Plan.

The Rights. The Board authorized the issuance of one right per each outstanding share of Class A Common Stock and Class B Common Stock payable to the Company's stockholders of record as of August 15, 2008. Subject to the terms, provisions and conditions of the Amended Stockholder Rights Plan, if the rights become exercisable, each right would initially represent the right to purchase from us one ten-thousandth of a share of our Series B Junior Preferred Stock for a purchase price of $16.60 (the "Purchase Price"). If issued, each one ten-thousandth of a share of Series B Junior Preferred Stock would give the stockholder approximately the same dividend, voting and liquidation rights as does one share of Class A Common Stock. However, prior to exercise, a right does not give its holder any rights as a stockholder, including without limitation any dividend, voting or liquidation rights.

Exercisability. The rights will not be exercisable until the earlier of (1) 10 business days after a public announcement by us that a person or group has become an Acquiring Person and (2) 10 business days after the commencement of a tender or exchange offer by a person or group for 4.9% of the Class A Common Stock.

We refer to the date that the rights become exercisable as the "Distribution Date." Until the Distribution Date, Class A Common Stock and Class B Common Stock certificates will evidence the rights and may contain a notation to that effect. Any transfer of shares of Class A Common Stock and/or Class B Common Stock prior to the Distribution Date will constitute a transfer of the associated rights. After the Distribution Date, the rights may be transferred other than in connection with the transfer of the underlying shares of Class A Common Stock or Class B Common Stock.

After the Distribution Date, each holder of a right, other than rights beneficially owned by any Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and payment of the Purchase Price, that number of shares of Class A Common Stock or Class B Common Stock, as the case may be, having a market value of two times the Purchase Price.

Exchange. After the Distribution Date, the Board may exchange the rights (other than rights owned by an Acquiring Person which will have become void), in whole or in part, at an exchange ratio of one share of Class A Common Stock or Class B Common Stock, as the case may be, or a fractional share of Series B Preferred Stock (or of a share of a similar class or series of the Company's preferred stock having similar rights, preferences and privileges) of equivalent value, per right (subject to adjustment).

Expiration. The rights and the Amended Stockholder Rights Plan will expire on the earliest of (1) August 14, 2021, (2) the time at which the rights are redeemed pursuant to the Amended Stockholder Rights Plan, (3) the time at which the rights are exchanged pursuant to the Amended Stockholder Rights Plan, (4) the Board's determination that the Amended Stockholder Rights Plan is no longer necessary for the preservation of the NOLs because of the repeal of Section 382 of the Code or any successor statute, (5) the beginning of a taxable year of the Company to which the Board determines that no tax benefits may be carried forward and (6) August 14, 2019 if stockholder approval of the Stockholder Rights Plan Amendment has not been obtained.

Redemption. At any time prior to the time an Acquiring Person becomes such, the Board may redeem the rights in whole, but not in part, at a price of $0.01 per right (the "Redemption Price"). The redemption of the rights may be made effective at such time, on such basis and with such conditions as the Board in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the Redemption Price.

Anti-Dilution Provisions. The purchase price of the preferred shares, the number of preferred shares issuable and the number of outstanding rights are subject to adjustment to prevent dilution that may occur as a result of certain events, including among others, a stock dividend, a stock split or a reclassification of the preferred shares or Class A Common Stock or Class B Common Stock. No adjustments to the purchase price of less than 1% will be made.

Amendments. Before the Distribution Date, the Board may amend or supplement the Amended Stockholder Rights Plan without the consent of the holders of the rights. After the time that the rights have become no longer redeemable, the Board may amend or supplement the Amended Stockholder Rights Plan only to cure an ambiguity, to alter time period provisions, to correct inconsistent provisions, or to make any additional changes to the Amended Stockholder Rights Plan, but only to the extent that those changes do not impair or adversely affect any rights holder, and no such amendment may cause the rights to again become redeemable or cause the Amended Rights Agreement to become amendable other than in accordance with this sentence.

The above description of the Amended Stockholder Rights Plan is qualified in its entirety by reference to the text of the Stockholder Rights Plan Amendment and the Stockholder Rights Plan, which are attached hereto as Annex A-1 and Annex A-2, respectively. **You are urged to read carefully each of the Stockholder Rights Plan Amendment and the Stockholder Rights Plan in its entirety.**

VOTE REQUIRED

Approval of the Stockholder Rights Plan Amendment 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 2018 Annual Meeting. In determining whether the proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have no impact on such proposal because such shares are not considered votes cast. Mr. Hovnanian and others with voting power over the shares held by the Hovnanian Family and various trusts and entities established for the benefit of the Hovnanian Family have informed the Company that they intend to vote in favor of the proposal. Because of their collective voting power, this proposal is assured passage.

Our Board of Directors recommends that stockholders vote FOR the approval of the Stockholder Rights Plan Amendment.

PROPOSAL 5 — APPROVAL OF AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION

We are seeking the approval by our stockholders of an amendment to Paragraph (5) of Section (a) of Article Fourth of the Company's Restated Certificate of Incorporation (the "Charter Amendment"), in the form attached to this proxy statement as Annex B.

Our Board is seeking the approval by our stockholders of the Charter Amendment in connection with the settlement agreement (the "Settlement Agreement") the Company entered into on December 18, 2017 to resolve a derivative and class action lawsuit filed in the Delaware Court of Chancery on December 21, 2016 by plaintiff Mr. Joseph Hong relating to the Board's decisions to grant Mr. Ara K. Hovnanian equity awards in the form of Class B Common Stock. Pursuant to the Settlement Agreement, which remains subject to approval by the Delaware Court of Chancery, the Company agreed, among other things, to submit for stockholder approval at the 2018 Annual Meeting a resolution to amend the Company's Restated Certificate of Incorporation as provided in the Charter Amendment in order to affirm that in the event of a merger, consolidation, acquisition, tender offer, recapitalization, reorganization or other business combination, the same consideration will be provided for shares of Class A Common Stock and Class B Common Stock unless different treatment of the shares of each such class is approved separately by a majority of each class.

The Charter Amendment would revise Paragraph (5) of Section (a) of Article Fourth of the Restated Certificate of Incorporation as follows (new text is underlined with references to the "Corporation", meaning the Company):

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Merger, Consolidation, Etc.

In the event of a merger or, consolidation, acquisition, tender offer, recapitalization, reorganization or other business combination to which the Corporation is a party (whether or not the Corporation is the surviving corporation), in which shares of Class A Common Stock and Class B Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then, and in such event, each share of Class A Common Stock and Class B Common Stock shall be entitled to receive the same per share consideration pursuant to such merger or, consolidation, acquisition, tender offer, recapitalization, reorganization or other business combination unless different treatment of the shares of each such class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, each voting separately as a class. Nothing contained in this Paragraph (5) shall limit or restrict any conversion of shares of Class B Common Stock into shares of Class A Common Stock permitted by Section 43 above.

Our Board has determined that it is advisable and in our best interests, and in the best interests of our stockholders, to approve the Charter Amendment to affirm the equal treatment of shares of the Company's Class A Common Stock and Class B Common Stock in connection with the transactions described therein. If the Charter Amendment is adopted by the required vote of our stockholders, we intend to file a certificate of amendment setting forth the Charter Amendment with the Secretary of State of the State of Delaware (such filing is expected to occur promptly following the 2018 Annual Meeting). The Charter Amendment will be effective immediately upon acceptance of filing of the certificate of amendment by the Secretary of the State of Delaware.

This summary of the proposed Charter Amendment is qualified in its entirety by reference to the form of the Charter Amendment in Annex B.

VOTE REQUIRED

Approval of the Charter Amendment requires (1) the affirmative vote of the holders of a majority in voting power of the outstanding Class A Common Stock and Class B Common Stock entitled to vote, voting together, and (2) the affirmative vote of the holders of a majority in voting power of the outstanding Class B Common Stock entitled to vote, voting separately as a class. In determining whether the proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes against the proposal. Mr. Hovnanian and others with voting power over the shares held by the Hovnanian Family and various trusts and entities established for the benefit of the Hovnanian Family 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 stockholders vote FOR the approval of the Charter Amendment.

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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 under "Investor Relations", "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, the CFO, the COO and the Vice President — Chief Accounting Officer and Corporate Controller (the "CAO");

- 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.

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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 2017, the Committee engaged Frederic W. Cook & Co., Inc. ("FW Cook") as the Committee's outside compensation consultant to provide certain services related to executive and non-employee Director compensation. In fiscal 2017, FW 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. FW Cook does not provide any other services to the Company unless approved by the Committee, and no such services were provided in fiscal 2017. After considering the relevant factors, the Company determined that no conflicts of interest have been raised in connection with the services FW Cook performed for the Committee in fiscal 2017.

The Committee's primary objective in engaging FW 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. FW 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, 2017.

COMPENSATION COMMITTEE

Stephen D. Weinroth, Chair

Robert B. Coutts

Edward A. Kangas

Joseph A. Marengi

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Compensation Committee Interlocks and Insider Participation

During the fiscal year ended October 31, 2017, 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 2017.

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COMPENSATION DISCUSSION AND ANALYSIS

1. EXECUTIVE SUMMARY

During fiscal 2016, we had approximately $260 million of bonds mature, which we were unable to refinance because financing was unavailable in the capital markets to companies with comparable credit ratings to ours. As a result, we shifted our focus from growth to gaining operating efficiencies and improving our bottom line, and in order to preserve and increase cash to fund our maturing debt, we decided to temporarily reduce the amount of cash we were spending on future land acquisitions and to exit from four underperforming markets during fiscal 2016. In addition, we increased our use of land banking and joint ventures in order to enhance our liquidity position. The net effect of these liquidity enhancing efforts was to temporarily reduce our ability to invest as aggressively in new land parcels as previously planned. This resulted in a reduction in our community count in fiscal 2016 and 2017, along with a decrease in net contracts during these periods, as compared to the prior year periods. However, in the fourth quarter of fiscal 2016, we were able to refinance certain of our debt maturities and had homebuilding cash of $339.8 million as of October 31, 2016. In addition, in July 2017, we successfully refinanced and extended the maturities of certain of our senior secured notes which were scheduled to mature in October 2018 and October and November 2020, with $440.0 million of new senior secured notes maturing in July 2022 and $400.0 million of new senior secured notes maturing in July 2024. While these transactions extended the maturities of a significant amount of debt giving us the ability to more fully invest in new communities again, they also resulted in a $42.3 million loss on early extinguishment of debt. When added to prior period results, this created a three-year cumulative loss, which led us to reconsider the realizability of our deferred tax assets in accordance with GAAP and record a $294.1 million non-cash increase in the valuation allowance for our deferred tax assets.

The above factors during fiscal 2016 led to a reduction in our land position and a 22.2% decline in our community count for fiscal 2017 as compared to fiscal 2016 and as a result, during fiscal 2017, we experienced mixed operating results compared to the prior year. Net contracts per average active selling community increased 12.1% to 35.1 for the year ended October 31, 2017 compared to 31.3 in the same period in the prior year. This improvement in net contracts per average active selling community demonstrates an increase in sales absorption, which allows us to be more efficient by permitting us to deliver more homes per community without any increase in fixed overheads in those communities. Active selling communities decreased from 167 at October 31, 2016 to 130 at October 31, 2017, and net contracts decreased 14.9% for the year ended October 31, 2017, compared to the same period of the prior year. For the year ended October 31, 2017, sale of homes revenues decreased 10.0% as compared to the same period of the prior year, as a result of the decreased community count.

Below are some key metrics of the Company’s performance during fiscal 2017. As noted above, the 22.2% reduction in community count in fiscal 2017 impacted a number of these metrics:

Total revenues for fiscal 2017 were $2.45 billion, down 10.9% from $2.75 billion for fiscal 2016;

Homebuilding revenues for unconsolidated joint ventures for fiscal 2017 increased 120.7% to $312.2 million compared with $141.4 million for fiscal 2016;
During fiscal 2017, the dollar value of net contracts, including unconsolidated joint ventures, decreased 5.7% to $2.52 billion compared with $2.67 billion for fiscal 2016, and the number of net contracts, including unconsolidated joint ventures, decreased 6.9% to 5,937 homes for fiscal 2017 compared to 6,380 homes for fiscal 2016;
During fiscal 2017, consolidated deliveries were 5,602 homes compared with 6,464 homes during fiscal 2016, representing a decrease of 13.3%;
Contract backlog, including unconsolidated joint ventures, as of October 31, 2017 was $1.1 billion for 2,437 homes, which was a decrease of 10.6% and 8.0%, respectively, compared to October 31, 2016;
Homebuilding gross margin percentage increased from 12.2% for the year ended October 31, 2016 to 13.2% for the year ended October 31, 2017. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, increased to 17.2% compared with 16.9% in fiscal 2016. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, is a non-GAAP measure. See page 43 of the Company's Annual Report on Form 10-K filed with the SEC on December 28, 2017 for a reconciliation of this measure to homebuilding gross margin percentage, the most directly comparable GAAP measure;
During fiscal 2017, total selling, general and administrative expenses were $255.7 million or 10.4% of total revenues, compared with $253.1 million, or 9.2% of total revenues, for fiscal 2016. For fiscal 2017, total selling, general and administrative expenses include a $12.5 million adjustment recorded during the fourth quarter of fiscal 2017 to our construction defect reserves related to litigation. Excluding this adjustment, selling, general and administrative costs decreased $9.9 million for the year ended October 31, 2017 as compared to the prior year;

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Pre-tax loss for fiscal 2017 was $45.2 million, which included a $34.9 million loss on extinguishment of debt and a $12.5 million adjustment recorded during the fourth quarter of fiscal 2017 to our construction defect reserves related to litigation, compared with pre-tax income of $2.4 million for fiscal 2016;
Total liquidity as of October 31, 2017 was $473.8 million, which was composed of $463.7 million of cash and cash equivalents, $1.7 million of restricted cash required to collateralize letters of credit and $8.4 million of availability under our unsecured revolving credit facility. As of October 31, 2016, total liquidity was $346.6 million, which was composed of $339.8 million of cash and cash equivalents, $1.7 million of restricted cash required to collateralize letters of credit and $5.1 million of availability under our unsecured revolving credit facility.

Our cash position in fiscal 2017 has allowed us to spend $555.0 million on land purchases and land development during fiscal 2017 and still have $463.7 million of homebuilding cash and cash equivalents as of October 31, 2017. This cash and the July 2017 refinancing transaction, by extending our debt maturities, will enable us to allocate additional cash to further grow our business. We continue to see opportunities to purchase land at prices that make economic sense in light of our current sales prices and sales pace and plan to continue actively pursuing such land acquisitions. New land purchases at pricing that we believe will generate appropriate investment returns and drive greater operating efficiencies are needed to return to sustained profitability.

Best Practices

Pay-for-Performance: The Compensation Committee ties increases or decreases in overall compensation to the achievement of key performance factors the Board of Directors believes are critical to the Company’s success during that period. For fiscal 2017, the CEO’s total compensation as reported in the Summary Compensation Table was 27.1% lower than in fiscal 2016 and the lowest it has been since fiscal 2012. The CEO’s total direct compensation was in the bottom quartile when ranked against the Peer Group for fiscal year 2016 and 30.74% below the Peer Group median.

As context for setting the Company’s compensation programs, the Committee considered that at the point at which housing starts were at the lowest levels during the great housing recession in 2009, the Company had written off over $2.5 billion of asset value and as a result was significantly overleveraged. During this period, many homebuilders declared bankruptcy and certain others significantly diluted shareholders via new equity issuances or by selling their companies at extremely low valuations. Hovnanian’s management chose to preserve shareholder value by managing the Company for growth and taking creative steps to refinance and pay down its heavy debt load. From the beginning of 2009, the Company has reduced its debt by almost $900 million. Despite this reduction, the Company is still overleveraged and as a result has a large interest expense burden which causes profitability to be extremely difficult to achieve until such time as the Company grows or is able to further reduce its debt position. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top quartile of its peer group for its last two fiscal years. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company can achieve sufficient profitability to further reduce debt, the Committee continues to believe it is in its shareholders’ best interest to have management focus on preserving equity value. Given these challenges and the Company’s debt burden, the Company’s variable compensation programs are weighted toward metrics such as liquidity, shareholder value preservation, debt

reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin.

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 hold management accountable for financial performance that falls below targeted levels by paying reduced bonuses. 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 or reducing interest expense 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 half of the awards have been subject to financial performance conditions (for awards made in fiscal 2017, gross margin improvement and pre-tax profit) in addition to the stock price performance conditions applicable to all of the MSU awards.

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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, actual annual bonus/incentive awards and other direct compensation elements (such as perquisites and personal benefits) but excludes indirect compensation elements (such as life insurance premiums, Company contributions to 401(k) and non-qualified deferred compensation accounts and unrealized above-market earnings on deferred compensation) ("Annual Compensation") plus (2) long-term cash awards and stock awards vesting under the terms of the award during the fiscal year and the realized value of options exercised during the year based on the closing price of the Class A Common Stock on the vesting date or exercise date, as applicable.

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

(1) The TSR Index measures the change in the Company's stock price relative to fiscal 2014. The index is determined by comparing the fiscal year-ending stock price, or in the case of the record date, the stock price on January 12, 2018, to the ending stock price in fiscal 2014 which is set at 100.

(2) As discussed further below, the CEO's total direct compensation was in the bottom quartile when ranked against the Peer Group for fiscal year 2016 and 30.74% below the Peer Group median.

(3) As reported in the Summary Compensation Table, the CEO received a 16.4% lower bonus and equity awards with a 47.5% lower grant date fair value for fiscal 2017 relative to fiscal 2016. The amount of the CEO's realized equity compensation increased in 2017 compared to 2016 primarily due to the increase in the Company's stock price over the past year and the deferred 2013 LTIP stock compensation for performance during fiscal 2013, 2014 and 2015 which vested in the current year under the terms of the award. See "Details of Compensation Elements" below.

Because the Summary Compensation Table uses accounting constructs to estimate values of long-term equity incentive awards at the time of grant, the Committee does not believe that it adequately measures CEO compensation for the purpose of assessing pay-for-performance alignment. These estimated values can differ significantly from the actual value that is ultimately earned from these awards. For this reason, the Committee also considers realizable pay, which captures the impact of the Company's current share price performance on previously granted long-term incentive awards by valuing equity awards based on the fiscal year-end stock price. As such, realizable compensation helps the Committee assess the alignment of the Company's compensation programs with the interests of its shareholders.

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The following chart compares the Summary Compensation Table values reported for the CEO for the fiscal years indicated to his realizable compensation for the same time period. The CEO's realizable pay is reflective of the rigorous performance conditions the Committee ties to his equity awards. For example, 50% of the CEO's 2013 stock options, which would have been reflected in his realizable pay in 2014 and 2015, were forfeited since the financial performance condition was not met. Similarly, the other 50% of the CEO's 2013 stock options, which would have been reflected in his realizable pay in 2014 and 2015, were underwater due to stock price performance. Furthermore, the 2014 and 2015 MSU grants are reflected at less than target due to the impact of the stock price performance multiplier and a quarter of the 2014 MSU grant has been permanently forfeited for the same reason. The CEO's realizable pay in 2017 is reflective of the improvement in the Company's stock price over the last year.

Hovnanian CEO Summary Compensation Table Pay vs. Realizable Pay ($ `000)

(1) *Reflects the three-year average (for the fiscal year indicated and the two preceding fiscal years) of base salary, actual annual bonus/incentive awards, the value of long-term equity incentive awards based on the closing trading price of the Company's Class A Common Stock on the NYSE on the last trading day of the applicable fiscal year and other direct compensation elements (such as perquisites and other personal benefits) but excludes indirect compensation elements (such as life insurance premiums, Company contributions to 401(k) and non-qualified deferred compensation accounts and above-market earnings on deferred compensation). For completed performance cycles, the calculation is based on the actual number of shares earned. For uncompleted performance cycles, the calculation assumes the target number of shares is earned unless achievement of the targeted level of shares is no longer probable based on the financial results of the completed portion of the performance period in which case no shares are included for such period.*

(2) *The CEO's realizable pay in 2017 is reflective of the improvement in the Company's stock price over the last year.*

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: To develop compensation programs that would retain and attract executive talent with industry-specific knowledge, 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 complexity in operations to the Company and are generally in the markets in which the Company competes. The Committee acknowledged that while certain members of the Peer Group have greater annual operating revenues than the Company, other members of the Peer Group have lower annual operating revenues compared to the Company. The Committee feels that it is important to compare the Company to others in the homebuilding industry, even if certain of these peers have different financial profiles, because the Company competes with homebuilding

industry peers for executive talent with industry-specific knowledge and experience. Further, the Company competes directly in all of its markets with most of the Peer Group companies for customers, land and trade partners. 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 opportunity (the sum of base salary, annual bonus/incentive awards and long-term incentive awards at target) 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.

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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 2014 through 2016. No comparison is shown for fiscal 2017 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 in the bottom quartile when ranked against the Peer Group for fiscal year 2016 and 30.74% below the Peer Group median. The Committee intended for total direct compensation to align with the median level of the Peer Group compensation in years when the Company performs at median levels compared to the Peer Group.

Hovnanian CEO Total Direct Compensation vs.

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

(1) *Reflects the sum of base salary, actual 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 performance criteria) but excludes all other compensation elements.*

(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 with CEO or CFO: The Company does not maintain employment or other agreements for our CEO or CFO that provide contractual rights upon termination of employment (other than upon death or disability) except for the vesting of equity-based awards in the case of retirement or in connection with a qualifying termination in the case of a change in control. The Company does have change in control severance agreements with the COO and the CAO as discussed in footnotes 5 and 6 to the "Potential Payments Upon Termination or Change-in-Control Table."

No 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."

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Perquisites: The Committee has provided to 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: In addition to the statutory CEO and CFO reimbursement requirements under the Sarbanes-Oxley Act of 2002, 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 cash and equity 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.

Investor Engagement: During fiscal 2017, the Company conducted proactive investor outreach programs, including having its executives attend five investor conferences as well as other meetings with the investment community and meeting by teleconference or in person with more than 210 investors either one-on-one or in small groups. As a result, the Company's executives met with institutional holders representing approximately 73% of shares held by our top ten shareholders that are actively managed funds. The executives that participated in these investor outreach programs included Mr. Hovnanian and Mr. Sorsby, who are also members of the Board of Directors, and reported their findings from the investor feedback back to the Board of Directors. None of these investors raised concerns about the Company's compensation practices during such meetings.

Compensation Decisions for Fiscal 2017

The Committee's compensation decisions for fiscal 2017 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 3.0% base salary increase, which was effective December 17, 2016, for each of the CEO, CFO and CAO in consideration of their individual performance and in line with the Company's ordinary course merit-based salary and cost of living increase practices. In connection with Mr. Smith's appointment to COO, his base salary was increased by 18.2% effective December 17, 2016. 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 2017 annual bonuses were paid to all NEOs. Additional details are described under "Details of Compensation Elements – Annual Bonuses – Regular Bonuses" below.

Discretionary Bonuses: The Committee did not award discretionary bonuses to any NEO for fiscal 2017.

Long-Term Awards, including stock options, MSUs and participation in the Long-Term Incentive Program described below: As further described under "Details of Compensation Elements – Stock Grants", for fiscal 2017, the Committee granted MSUs to the CEO, CFO and COO. 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. As in prior years, the CAO received an annual stock option grant, with a right to receive all or a portion of the grant in RSUs rather than options. The CEO, CFO and CAO did not receive an additional, special option grant in fiscal 2017 as they did in fiscal 2016.

The grant date fair value of the CEO's fiscal 2017 equity awards was 47.5% lower than the grant date fair value of his fiscal 2016 equity awards.

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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.

As context for setting the Company's compensation programs, the Committee considered that at the point at which housing starts were at the lowest levels during the great housing recession in 2009, the Company had written off over $2.5 billion of asset value and as a result was significantly overleveraged. During this period, many homebuilders declared bankruptcy and certain others significantly diluted shareholders via new equity issuances or by selling their companies at extremely low valuations. Hovnanian's management chose to preserve shareholder value by managing the Company for growth and taking creative steps to refinance and pay down its heavy debt load. From the beginning of 2009, the Company has reduced its debt by almost $900 million. Despite this reduction, the Company is still overleveraged and as a result has a large interest expense burden which causes profitability to be extremely difficult to achieve until such time as the Company grows or is able to further reduce its debt position. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top quartile of its peer group for its last two fiscal years. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company can achieve sufficient profitability to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. Given these challenges and the Company's debt burden, the Company's variable compensation programs are weighted toward metrics such as liquidity, shareholder value preservation, debt reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin.

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.

<u>Primary Objectives for the Compensation Program</u>

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 individual 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;

4. To maintain competitive pay opportunities for its executives so that it retains its talent pool and, at the same time, 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: 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.

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CAO: The CAO, Mr. Brad O'Connor, has less direct responsibility for the Company's strategic decisions and direction. Therefore, overall compensation for Mr. O'Connor reflects 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 the CAO, the variable incentive compensation element also includes personal performance objectives.

For all NEOs, the Committee retains the flexibility to adjust incentive awards downward or to consider discretionary bonus awards in special circumstances as described below under "Details of Compensation Elements – Annual Bonus – Discretionary Bonuses."

Peer Group Considerations

As context for setting the compensation levels for the CEO, CFO and COO in fiscal 2017, 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) CalAtlantic Group, Inc.; (3) D.R. Horton, Inc.; (4) KB Home; (5) Lennar Corporation; (6) M.D.C. Holdings, Inc.; (7) Meritage Homes Corporation; (8) NVR, Inc.; (9) Pulte Group, Inc.; (10) Taylor Morrison Home Corporation; and (11) Toll Brothers, Inc. The Committee, in consultation with the Committee's compensation consultant, FW Cook, and management, selected the companies in the Peer Group because of their comparable business profiles. In particular, to retain and attract executive talent with industry-specific knowledge, in constructing the Peer Group, the Committee selected those companies that compete directly with the Company in the homebuilding industry, are of comparable complexity in operations to the Company and are generally in the markets in which the Company competes. The Committee acknowledged that while certain members of the Peer Group have greater annual operating revenues than the Company, other members of the Peer Group have lower annual operating revenues compared to the Company. The Committee feels that it is important to compare the Company to others in the homebuilding industry, even if certain of these peers have different financial profiles, because the Company competes with homebuilding industry peers for executive talent with industry-specific knowledge and experience. Further, the Company competes directly in all of its markets with most of the Peer Group companies for customers, land and trade partners. The Committee will continue to review the appropriateness of the Peer Group composition. For the CAO, 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 on Peer Group comparisons for the CEO, CFO and COO and intends for Total Direct Compensation and the level of variable compensation realized to align with the median level of the Peer Group compensation in years when the Company performs at median levels compared to the Peer Group. Because of the limited compensation data reported for the chief accounting officer position by companies in the Peer Group, the Committee also reviews broad-based compensation survey data for the compensation of the CAO and considers internal pay relationships. The Committee does not consider the specific participants included in broad-based compensation survey data to be a material factor in its reviews. The Committee reviewed broad-based survey data in fiscal 2017 to assess current market trends with respect to compensation for the position held by the CAO.

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 challenging 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, for fiscal 2017, the Committee sought to emphasize pre-tax profit, liquidity, revenue and the completion of alternative capital raises. As a result, the fiscal 2017 bonus formulas for the CEO and CFO included pre-tax profit, liquidity balances, normalized revenue and alternative capital raises components. As another example of the consideration of market conditions, the Committee determined that 50% of the MSUs granted in June 2017 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 levels of gross margin improvement and pre-tax profit through the end of fiscal 2019, as discussed below.

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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 2017 Annual Meeting of Shareholders at which a substantial majority of our shareholders (99.4% 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 year, the Board of Directors decided that the Company would hold an advisory vote on the compensation of named executive officers every year.

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 2017, the Company conducted proactive investor outreach programs, including having its executives attend five investor conferences as well as other meetings with the investment community and meeting by teleconference or in person with more than 210 investors either one-on-one or in small groups. As a result, the Company’s executives met with institutional holders representing approximately 73% of shares held by our top ten shareholders that are actively managed funds. None of these investors raised concerns about the Company’s compensation practices during such meetings. Additionally, the Company periodically engages investors to discuss specific matters of importance to shareholders. The Company will continue to proactively engage shareholders and consider their concerns.

In addition, the Committee considered the result of the 2017 advisory, non-binding “say-on-pay” proposal in connection with the discharge of its responsibilities. A substantial majority of our shareholders (90.0% 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 2016 described in our proxy statement for the 2017 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 significant substantive changes were made to the structure of our executive compensation pay programs for fiscal 2017. The Committee will continue to consider the outcome of the Company’s say-on-pay votes when making future compensation decisions for the NEOs.

3. FISCAL 2017 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 option, 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.

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Compensation Mix

Hovnanian CEO Pay 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 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 Committee intended for variable compensation to represent a significant percentage of the Total Direct Compensation opportunity for all NEOs and, in fiscal 2017, variable compensation represented 80% of the CEO's Total Direct Compensation opportunity. In addition, the Committee intended for Total Direct Compensation and the level of variable compensation realized to align with the median level of the Peer Group compensation in years when the Company performs at median levels compared to the Peer Group. As further described below under "Details of Compensation Elements – Stock Grants", for fiscal 2017, the Committee granted the CEO, CFO and COO MSUs and granted the CAO stock options, with the right to receive all or a portion of the grant in RSUs rather than options. 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. The CEO, CFO and CAO did not receive an additional, special option grant in fiscal 2017 as they did in fiscal 2016.

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 2016, the Committee adopted an LTIP for the NEOs and other key senior executives of the Company, as discussed below.

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 set the fiscal 2017 base salaries of the NEOs at a level it believed to be necessary to retain such executive officers' 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. In each of fiscal 2015, 2016 and 2017, each of the CEO, CFO and CAO received a 3.0% 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. In connection with Mr. Smith's appointment to COO, the Committee increased his fiscal 2017 annual base salary by 18.2%. Based on discussions with FW Cook and Peer Group market data gathered by management, the Committee determined that, including these adjustments, the base salaries for the Company's CEO is near the median base salary level for the CEOs at Peer Group companies and the base salaries for the other NEOS are within the competitive range necessary to retain the executive officers' services.

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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 Mr. O'Connor, individual performance objectives, and for which the relevant metrics and formula are assessed annually. Fiscal 2017 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. Under the Short-Term Incentive Plan, the maximum bonus paid to any participant with respect to a fiscal year cannot exceed the greater of $15 million and 2.5% of the Company's income before income taxes, as reported in its audited consolidated financial statements for that fiscal year. Bonus opportunities are intended to be competitive with industry-wide practices in order to retain and attract executive talent.

The following description provides detail as to the determination of each NEO's fiscal 2017 annual bonus and the reasons the Committee feels that the incentive compensation paid to the NEOs is appropriate. Due to the reduced amount of the bonuses as compared to more profitable years, all bonuses for fiscal 2017 were paid 100% in cash.

CEO and CFO: As context for setting the Company's compensation programs, the Committee considered that at the point at which housing starts were at the lowest levels during the great housing recession in 2009, the Company had written off over $2.5 billion of asset value and as a result was significantly overleveraged. During this period, many homebuilders declared bankruptcy and certain others significantly diluted shareholders via new equity issuances or by selling their companies at extremely low valuations. Hovnanian's management chose to preserve shareholder value by managing the Company for growth and taking creative steps to refinance and pay down its heavy debt load. From the beginning of 2009, the Company has reduced its debt by almost $900 million. Despite this reduction, the Company is still overleveraged and as a result has a large interest expense burden which causes profitability to be extremely difficult to achieve until such time as the Company grows or is able to further reduce its debt position. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top quartile of its peer group for its last two fiscal years. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company can achieve sufficient profitability to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value.

When determining the CEO and CFO's bonus formula for fiscal 2017, the Committee considered that from October 2015 through October 2016, the Company had approximately $320 million of bonds mature, which it was unable to refinance because financing was unavailable in the capital markets to companies with comparable credit ratings. As a result, the Company shifted its focus from growth to gaining operating efficiencies and improving its bottom line. Also, in order to preserve and increase cash to fund the Company's maturing debt, the Company decided to temporarily reduce the amount of cash it was spending on future land acquisitions and to exit from four underperforming markets during fiscal 2016. In addition, the Company increased its use of land banking and joint ventures in order to enhance its liquidity position. The net effect of these liquidity enhancing efforts was to temporarily reduce the Company's ability to invest as aggressively in new land parcels as previously planned. This resulted in a reduction in the Company's land position and community count in fiscal 2016 and 2017, along with a decrease in net contracts during these periods, as compared to the prior year periods which led to mixed operating results in fiscal 2017 compared to the prior year. In light of these factors and the Company's strategic plan, the Committee determined that the bonus formulas for the CEO and CFO for fiscal 2017 would provide for an annual bonus award in a fixed dollar amount based on the Company's Pre-tax Profit plus ending Liquidity Balances (defined below) in each fiscal quarter plus Normalized Total Revenue (defined below) plus Alternative Capital Raises as further described below.

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By the time the Committee set the fiscal 2017 bonus formulas at its meeting on December 15, 2017, the Company's stock price had improved by more than 70% compared to the end of fiscal 2016. Nonetheless, and in spite of the fact that the CEO's fiscal 2016 bonus was 29.8% lower than the Peer Group median CEO bonus, the Committee elected to keep the CEO's fiscal 2017 target bonus flat compared to fiscal 2016. As discussed further below, the CEO's actual fiscal 2017 bonus reflected a 16.4% decrease compared to his fiscal 2016 bonus and, as a result, was 41.3% lower than the fiscal 2016 Peer Group median CEO bonus.

To continue to provide an incentive, however, the Committee believed it was appropriate to set realistic and attainable goals given that the Company had been unable to refinance $320 million of bonds as discussed above. This resulted in lower goals than fiscal 2016 for some metrics but the Committee felt it was appropriate given the challenges faced by the Company during that period.

The fiscal 2017 Pre-tax Profit component of the bonus formulas for the CEO and CFO was based on achieving targeted levels of Company Pre-tax Profit for fiscal 2017. If the Company's financial performance exceeded the levels established under the Pre-tax Profit component of the CEO and CFO's bonus formulas for fiscal 2017, the Committee could extrapolate the amount of the bonus above these levels. For this purpose, "Pre-tax Profit" is defined as income (loss) before income tax expense and before income (loss) from unconsolidated joint ventures as reflected on the Company's audited financial statements plus income (loss) before income tax expense for the Company's unconsolidated joint ventures as reflected on their respective financial statements for the twelve months ended October 31, 2017, excluding the impact of any items deemed by the Committee to be extraordinary items (for example, litigation, 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).

The Liquidity Balances component of the CEO and CFO's bonus formulas was based on the number of fiscal 2017 quarter-ends in which Liquidity Balances were at or above $200 million. While the fiscal 2017 Liquidity Balances threshold increased 33.3% over the fiscal 2016 Liquidity Balances threshold of $150 million, the CEO's maximum payout for that metric increased by only 20.0%. "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 Normalized Total Revenue component of the CEO and CFO's bonus formulas measured total revenue as reflected on the Company's audited financial statements plus total revenue for the Company's unconsolidated joint ventures as reflected on their respective financial statements for the twelve months ended October 31, 2017, excluding total revenue for the Company's Minnesota, North Carolina, Tampa and Northern California Bay Area operations, which the Company had exited or had been in the process of exiting during fiscal 2017.

The Alternative Capital Raises component of the CEO and CFO's bonus formulas measured amounts raised by the Company or its unconsolidated joint ventures from alternative capital sources as determined by the Committee (such as financing by joint ventures, land banking transactions and non-recourse debt, but excluding SEC registered and 144A debt financing transactions) that were closed during fiscal 2017.

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The CEO and CFO's bonus formulas are illustrated by the following tables:

Fiscal 2017 Pre-Tax Profit (in millions)	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than $10	$ 0	$ 0
$12	$ 250	$ 95
$15	$ 550	$ 205
$20	$ 850	$ 315
$25	$1,150	$ 425
$35	$1,550	$ 575
$45	$1,950	$ 725
$55	$2,350	$ 875
$65	$2,750	$1,025
$75	$3,150	$1,175
$85	$3,550	$1,325

PLUS

Number of Fiscal 2017 Quarter-Ends with Liquidity Balances At or Above $200 Million	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than 2	$ 0	$ 0
2	$350	$150
3	$550	$225
4	$750	$300

PLUS

Fiscal 2017 Normalized Total Revenue (in millions)	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than $2,575	$ 0	$ 0
$2,575	$150	$ 75
$2,650	$300	$125
$2,700	$550	$200

PLUS

Alternative Capital Raises Closed During Fiscal 2017 (in millions)	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**

$ 0	$ 0	$ 0
$ 50	$100	$ 50
$ 75	$200	$100
$100	$450	$175

* *The bonus is interpolated on a linear basis between the points shown in the tables. If Pre-tax Profit exceeds $85 million, 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.*

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Fiscal 2017 Pre-tax Profit and Normalized Total Revenue results were between threshold and target but Liquidity Balances and Alternative Capital Raises results exceeded the maximum. Specifically, fiscal 2017 Pre-tax Profit as defined under the bonus formulas for the CEO and CFO was $15.7 million, Liquidity Balances at the end of four fiscal 2017 quarters were above $200 million, Normalized Total Revenue was $2.6 billion and Alternative Capital Raises were $242.7 million. As a result, Mr. Hovnanian earned a cash bonus equal to $2,020,552, which represented a 16.4% decrease from his fiscal 2016 bonus. This amount also represented less than 40% of Mr. Hovnanian's maximum potential bonus. Mr. Sorsby earned a cash bonus equal to $796,536, which represented a 9.0% decrease from his fiscal 2016 bonus. This amount also represented less than 40% of Mr. Sorsby's maximum potential bonus.

COO: Prior to his promotion to COO effective November 1, 2017, the COO served as Executive Vice President of Homebuilding Operations, and prior to that, as President of the Phoenix Group, a division of the Company which operates in Arizona, California and Texas. As part of the Company's leadership transition planning, the Company entered into a letter agreement with the COO (the "COO letter agreement") pursuant to which it was determined that Mr. Smith's bonus would continue to be based on the financial results of the Phoenix Group, since he was directly responsible for developing and growing the Phoenix Group into a profitable division within the company. Pursuant to the COO letter agreement, the COO's bonus formula for fiscal 2017 provided for a bonus award equal to a percentage of (1) Phoenix Group Pre-tax Profit based on achieving targeted levels of Phoenix Group ROI plus (2) a percentage of his base salary based on achieving targeted levels of Phoenix Group Customer Satisfaction plus (3) a percentage of his base salary based on achieving targeted levels of Phoenix Group Mortgage Capture, as illustrated by the table below. See "COO Letter Agreement" below for additional discussion of the COO letter agreement.

The terms utilized in the COO's bonus calculation are defined in the COO's letter agreement. Phoenix Group ROI is defined as Pre-tax Profit divided by the average inventory balance of the Phoenix Group. Pre-tax Profit is generally defined as the profit for the Phoenix Group reflecting joint ventures as wholly-owned after profit sharing accrual and the allocation of all applicable business unit overhead(s), plus, if applicable, the allocable portion of title profits for the Phoenix Group after profit sharing accrual and all applicable overheads of the title company and $1,500 per home closed through K. Hovnanian American Mortgage. The average inventory balance for this purpose is calculated as the average balance in the inventory accounts utilizing the last day ending balances of these accounts for each of the five consecutive fiscal quarters ending with the last quarter of the fiscal year. Customer Satisfaction is based on the number of positive responses to customer surveys as further defined in the COO's letter agreement. Mortgage Capture is calculated based on specified closings as further described in the COO's letter agreement.

For the COO*

Phoenix Group ROI	Bonus
0.00 – 10.00%	1.375% of Phoenix Group Pre-tax Profit
15.00%	1.650% of Phoenix Group Pre-tax Profit
20.00%	1.925% of Phoenix Group Pre-tax Profit
25.00%	2.200% of Phoenix Group Pre-tax Profit

PLUS

Phoenix Group Customer Satisfaction	**Bonus**
85.00%	11.00% of base salary
88.00%	22.00% of base salary
91.00%	33.00% of base salary

PLUS

Phoenix Group Mortgage Capture	**Bonus**
75.00%	5.50% of base salary
80.00%	11.00% of base salary
85.00%	16.50% of base salary

* *The bonus is interpolated on a linear basis between the points shown in the tables, provided that if Phoenix Group ROI is zero or lower, the portion of the bonus award for Customer Satisfaction and Mortgage Capture will be reduced to 50% of the bonus amounts for those categories listed above. The bonus is also subject to the maximum bonus payable under the Short-Term Incentive Plan.*

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Fiscal 2017 Phoenix Group ROI was 17.62%, Phoenix Group Pre-tax Profit was $82.6 million, Phoenix Group Customer Satisfaction was 89.56% and Phoenix Group Mortgage Capture was 91.57%. As a result, Mr. Smith earned a cash bonus equal to $1,768,725.

CAO: The fiscal 2017 incentive opportunity for the CAO was based on a combination of Company performance and individual performance factors that were within his control and that would have a positive impact on the Company. Therefore, the bonus program for the CAO targeted the achievement of both (a) ROACE financial performance objectives for the Company and (b) personal objectives. For fiscal 2017, the total bonus payable under both components combined was capped at the maximum percentage of base salary the CAO could achieve under the personal objectives portion of his bonus formulas. If the Company achieved positive Pre-tax Profit in fiscal 2017, the cap would be 60% of base salary. If the Company did not achieve positive Pre-tax Profit in fiscal 2017, the cap would be 30% of base salary. The Committee intends to evaluate the cap as the Company's financial results improve. For this purpose, "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). "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.

For the CAO, the bonus formula was both:

(a) Calculation Method – for Achievement of Financial Performance Measure*

ROACE Percentage	Bonus
0%	$0
5%	10% of base salary
10%	20% of base salary
15%	40% of base salary
20% or more	60% of base salary

* *The bonus is interpolated on a linear basis between the points shown in the table. The total bonus payable under both components combined was capped at the maximum percentage of base salary the CAO could achieve under the personal objectives portion of his bonus formula.*

AND

(b) Calculation Method – for Meeting Personal Objectives Measure*

Goals	**Bonus**
Threshold	Up to 20% of base salary
Target	Up to 40% of base salary
Outstanding	Up to 60% of base salary

* *"Threshold," "target" and "outstanding" levels are determined by the CFO and the CEO, who may consult with other members of senior management, other than the CAO, and are used for internal evaluation purposes only. As stated above, the total bonus payable under both components combined was capped at the maximum percentage of base salary the CAO could achieve under the personal objectives portion of his bonus formula. If the Company achieved positive Pre-tax Profit in fiscal 2017, the cap was 60% of base salary. If the Company did not achieve positive Pre-tax Profit in fiscal 2017, the cap was 30%.*

Mr. O'Connor's fiscal 2017 personal objectives included participating in industry initiatives related to the adoption of new accounting standards, in particular, the new revenue recognition standard; ensuring federal and state deferred tax assets were used effectively and in accordance with federal and state tax laws; leading the Company's accounting department in preparing and filing all required SEC documents and any transaction-related offering documents; and reporting on accounting or financial statement issues to the Audit Committee of the Board of Directors on a quarterly basis. Mr. O'Connor successfully completed these objectives by participating in periodic meetings with other homebuilding industry representatives and public accounting firms to discuss and agree on the interpretation and implementation of the new revenue recognition standard; successfully coordinating with the Company's auditors and tax team in their analysis and preparation for fully and properly utilizing the federal and state deferred tax assets as they become available; overseeing the preparation and filing of all required SEC documents and transaction-related offering documents; and presenting accounting and financial statement issues to the Audit Committee and the Board of Directors each quarter.

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Based on the bonus formula above, actual financial results and the Committee's determination regarding his personal objectives, Mr. O'Connor did not earn a bonus related to the ROACE metric for fiscal 2017, but he earned a cash bonus for meeting his fiscal 2017 personal objectives in full (the "outstanding" category). Because the Company achieved positive Pre-tax Profit in 2017, Mr. O'Connor received a cash bonus of $215,624 (representing 60% of base salary).

Discretionary Bonuses

The Committee has the authority to make discretionary bonus awards, which it considers under special circumstances, including exceptional contributions not reflected in the regular bonus measures, new hire sign-on bonuses and retention rewards. No discretionary bonus awards were granted to the NEOs in fiscal 2017.

One-time Retention Bonus

In addition, since fiscal 2007, the CEO, CFO and CAO 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 2017, the Company's ROACE did not meet this threshold, so no retention bonuses were earned for fiscal 2017.

Stock Grants

The Committee may make grants of stock options, stock appreciation rights, MSUs, restricted stock and RSUs, unrestricted shares of stock or stock-based awards settled in cash under the shareholder-approved 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as further amended or amended and restated from time to time, the "Stock Plan"). In fiscal 2017, the Committee awarded MSUs to the CEO, CFO and COO and fair market value stock options to the CAO. The CAO was eligible to elect to receive RSUs in lieu of stock options and elected to receive 50% of his award in RSUs.

Equity awards are intended to establish a strong commitment to maintain employment with the Company and to focus on creating long-term shareholder value. Because the ultimate value received by equity award recipients is directly tied to the Company's stock price, such awards serve to link the interests of management and shareholders and to motivate executive officers to make decisions that will increase the long-term total return to shareholders. Certain of the equity awards also include financial performance conditions, which are intended to incentivize recipients to direct the Company to achieve specified financial performance goals. Additionally, grants under the Stock Plan include

vesting and termination provisions that the Committee believes will encourage equity award recipients to remain long-term employees of the Company.

The Committee ultimately approves the size of the grants taking into account the recommendations of the CEO (other than for his own grant) and other criteria as determined by the Committee. The Committee generally targets a specific number of shares rather than a specific share value. This philosophy directly aligns equity grant values with shareholder value since equity values are generally higher when the stock price is increasing and lower when the stock price is decreasing. The Committee will continue to determine the appropriate mix of equity and other award types based on the objectives of the compensation program, the Company's business needs, the potential dilution impact and the pool of shares remaining available for grant under the Company's shareholder-approved incentive plans.

Fiscal 2017 Equity Awards

In determining the fiscal 2017 equity awards for the NEOs, the Committee considered, without giving specific weight to any one factor, then-available information on Peer Group equity awards for the NEOs, the anticipated changes in equity award values across industries, the Company's available share pool and the potential impact on shareholder dilution, the Company's stock performance, the historical equity awards provided to each NEO, the desire to retain the employment of each NEO and the desire to continue to link a portion of each NEO's compensation with future Company performance. All equity awards granted to NEOs in fiscal 2017 were made in the form of rights to receive shares of Class A Common Stock, except for the CEO, who received his equity awards in the form of rights to receive shares of Class B Common Stock. In making such determination for the CEO, the Committee discussed the various reasons for making awards in Class B Common Stock and considered and evaluated the feedback reported to the Committee by senior human resources personnel about the diligence review thereof, which included discussions with Company associates and external parties such as lenders, suppliers and contractors. Such parties expressed that Hovnanian family ownership and control has high value in that it continues to be important to the Company's business relationships and to attracting and retaining current and prospective employees, particularly in light of industry acquisitions and consolidation activity which resulted in significant workforce reductions at the companies involved. After such discussion and review and analysis thereof, the Committee determined that making the CEO's equity awards in the form of rights to receive shares of Class B Common Stock best served the Company's and its shareholders' interests by promoting continuity of direction and management and stability in the Company's business and employee relationships through Hovnanian family ownership and control, which has been and continues to be critical to the growth and success of the Company.

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The Committee decided to award MSUs to the CEO, CFO and COO in fiscal 2017 because it believes MSUs provide a clear linkage to shareholder value creation, provide less market leverage than stock options but more market leverage than time vested RSUs, and balance retention and performance objectives.

Fifty percent of the MSUs will generally pay out in four equal annual installments, with the first of such installments commencing on the second anniversary of the grant date. The remaining fifty percent of the MSUs are subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSUs. For fiscal 2017, these financial performance conditions were based on the Company's pre-tax profit and gross margin as further discussed below. If the financial and stock price performance conditions are met, these financial performance-based MSUs pay out in four equal installments with the first installment being paid in January 2020 and the remaining annual installments commencing on the third anniversary of the grant date.

CEO: In fiscal 2017, as in the most recent three fiscal years, the CEO was granted 600,000 target MSUs.

CFO: In fiscal 2017, the CFO was granted 170,000 target MSUs, an increase from the number of MSUs granted in the three most recent fiscal years. The Committee believed that this fiscal 2017 grant amount was merited in light of the CFO's position as a key member of the senior executive team and in recognition of his focus on and commitment to the Company's long-term strategic goals and success in executing on those goals in the past year.

COO: In fiscal 2017, the first year in which Mr. Smith served as COO, he was granted 80,000 target MSUs.

The number of shares to be delivered at each MSU vesting date, if any, will be determined by multiplying the number of MSUs that become vested on such applicable vesting date by the Stock Performance Multiplier. The "Stock Performance Multiplier" is a percentage calculated by dividing (x) the average closing trading price of the Company's Class A Common Stock on the NYSE over the 60 calendar day period ending on the vesting date by (y) the average closing trading price of the Company's Class A Common Stock on the NYSE over the 60 calendar day period ending on the grant date; except that (a) if such percentage is less than 50%, then the Stock Performance Multiplier will equal zero and no shares will be granted and (b) if such percentage exceeds 175%, then the Stock Performance Multiplier will be capped at 175% resulting in 75% more shares being granted. This mechanism is intended to modify the number of shares paid to the executive based on changes in the Company's stock price between the grant date and vesting date of the MSU award. Due to this mechanism, the CEO and CFO received zero shares upon the vesting of 25% of their 2014 MSU awards due to decreases in the Company's stock price between the grant date and the vesting date.

Half of the MSUs are subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSUs. As such, 25% of the shares that would be received upon vesting after taking the Stock Performance Multiplier into account may be further reduced as a result of the Gross Margin Multiplier and an additional 25% of such result could also be further reduced as result of the Pre-Tax Profit Multiplier. These multipliers act as negative modifiers which reduce the number of shares received upon the vesting of the MSUs subject to

financial performance conditions to zero if specified performance objectives are not met. The Committee concluded that, in order to avoid a reduction in the number of shares received upon the vesting of MSUs subject to financial performance conditions, the Company must achieve a 100 basis points improvement in gross margin and $75 million in pre-tax profit as discussed below.

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The "Gross Margin Multiplier" will be determined as follows by reference to the increase (if any) in the Gross Margin Factor for the Company's fiscal year ending October 31, 2019, as measured against the Gross Margin Factor for the Company's fiscal year ended October 31, 2017. The "Gross Margin Factor" is (A) the sum of (1) the consolidated homebuilding gross margin, before cost of sales interest expense and land charges, for the Company, as reported in the Company's audited financial statements for the fiscal year and (2) the homebuilding gross margin, before cost of sales interest expense and land charges, for the Company's unconsolidated joint ventures, as reflected in their respective financial statements for the same 12-month period, divided by (B) the sum of (1) the sale of homes revenue for the Company, as reported in the Company's audited financial statements for the fiscal year and (2) the sale of homes revenue for the Company's unconsolidated joint ventures, as reflected in their respective financial statements for the same 12-month period. If the Company does not improve its gross margin in fiscal 2019 compared to fiscal 2017, the CEO, CFO and COO will receive zero shares upon the vesting of this portion of the MSU award due to the negative Gross Margin Multiplier. In order to avoid a reduction in the payout of this portion of their target MSUs, the Company must improve its fiscal 2019 gross margin by at least 100 basis points compared to fiscal 2017 and, under the Stock Performance Multiplier, must maintain or increase shareholder value between the grant date and the vesting date as described above.

Gross Margin Improvement (increase): Fiscal Year 2019 vs. Fiscal Year 2017	**Applicable Gross Margin Multiplier***
0 basis points (or less)	0%
50 basis points	50%
100 basis points (or more)	100%

** The applicable Gross Margin Multiplier is interpolated on a linear basis between the points shown in the table.*

The "Pre-Tax Profit Multiplier" will be determined as follows by reference to income (loss) before income tax expense and before income (loss) from unconsolidated joint ventures as reflected on the Company's audited financial statements plus income (loss) before income tax expense for the Company's unconsolidated joint ventures as reflected on their respective financial statements for the twelve months ended October 31, 2019, excluding the impact of any items deemed by the Committee to be unusual or nonrecurring items and excluding losses from land impairments and gains or losses from debt repurchases/debt retirement such as call premiums and related issuance costs. If the Company does not achieve more than $25 million in pre-tax profit in fiscal 2019, the CEO, CFO and COO will receive zero shares upon the vesting of this portion of the MSUs awards subject to the Pre-Tax Profit multiplier. In order to avoid a reduction in the payout of this portion of their target MSUs, the Company must achieve $75 million in pre-tax profit in fiscal 2019 and, under the Stock Price Performance Multiplier, must maintain or increase shareholder value between the grant date and the vesting date as described above. If fiscal 2019 pre-tax profit is the same or lower than pre-tax profit in fiscal 2015 and fiscal 2017, the CEO, CFO and COO would receive zero shares upon the vesting of this portion of the MSU award. If fiscal 2019 pre-tax profit is the same as fiscal 2016, the CEO, CFO and COO would receive less than one percent of the shares underlying this portion of their target MSUs.

Fiscal Year 2019 Pre-tax Profit	**Applicable Pre-Tax Profit Multiplier***
$25 million (or less)	0%
$50 million	50%
$75 million (or greater)	100%

* *The applicable Pre-Tax Profit Multiplier is interpolated on a linear basis between the points shown in the table.*

CAO: The CAO received an annual fiscal 2017 grant of 25,000 stock options, the same as his regular annual fiscal 2016 grant. Mr. O'Connor was eligible to elect to receive RSUs in lieu of stock options at a ratio of two stock options for each RSU. Mr. O'Connor elected to receive 50% of this fiscal 2017 award in stock options and 50% of this fiscal 2017 award in RSUs. These stock options and RSUs vest in four equal annual installments, commencing on the second anniversary of the grant date, thereby providing a five-year period before becoming fully vested.

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2013 Long-Term Incentive Program

In fiscal 2013, the Company adopted a Long-Term Incentive Program (the “2013 LTIP”) under the Stock Plan to aid the Company in retaining key employees and to motivate them to exert their best efforts to achieve greater levels of profitability and to extend the maturity and/or reduce the amount of the Company’s existing homebuilding debt by providing rewards at the end of a multi-year period. The 2013 LTIP was intended to incentivize achievement of specified pre-tax profit goals and specified improvements in the Company’s capital structure through refinancings of, or reductions in, homebuilding debt.

Each of the NEOs was a participant in the 2013 LTIP and their award payouts (40% in the form of cash and 60% in shares) were determined based on actual performance for the full 31-month performance period, subject to vesting requirements over an additional 24-month period, as described below. This performance period commenced on March 11, 2013 and ended on October 31, 2015. After the performance period, the awards remained subject to vesting conditions during fiscal 2016 and 2017. Like MSU awards, the Committee believes the 2013 LTIP acted as intended because the payout was 10% below target and substantially below maximum based on the Committee’s determination of the Company’s performance.

As an additional condition of earning each portion of the award and as a retention inducement, following the performance period, a participant must also be employed through the vesting dates outlined below (other than in cases of death, disability or qualified retirement, or in the case of Mr. O’Connor, specified termination following a change in control of the Company). The vesting percentages relate to the earned award value as of October 31, 2015.

1. 20% of the award vested on October 31, 2015 and was paid in January 2016;

2. 30% of the award vested on October 31, 2016 and was paid in January 2017; and

3. 50% of the award vested on October 31, 2017 and was paid in January 2018;

with the cash portion of the earned award value becoming vested and payable before any share portion of the earned award value becomes vested and payable.

2016 Long-Term Incentive Program

In fiscal 2016, the Company adopted a Long-Term Incentive Program (the “2016 LTIP”) under the Stock Plan to further aid the Company in retaining key employees and to motivate them to exert their best efforts on behalf of the Company. Specifically, the 2016 LTIP is entirely performance-based and is intended to incentivize achievement of specified pre-tax profit goals as a measure of operational improvement and specified improvements in the Company’s capital structure through reductions of interest expense as a percentage of homebuilding revenue. This was in line with our focus at that time on gaining operating efficiencies and improving our bottom line. In particular, using reductions of interest expense as a percentage of homebuilding revenues as a financial measure can incentivize a number of achievements that may improve our bottom line, including reductions in debt, refinancing debt at lower interest rates, improvements in homebuilding revenue or combinations of these achievements.

Each of the NEOs is a participant in the 2016 LTIP and their award payouts, if any, will be determined based on actual performance for the full 36-month performance period, subject to vesting requirements over an additional 24-month period, as described below. This performance period commenced on November 1, 2015 (the beginning of fiscal 2016) and will end on October 31, 2018 (that is, the performance period covers fiscal 2016, 2017 and 2018). After the performance period, the awards remain subject to vesting conditions during fiscal 2019 and 2020. Like MSU and other LTIP awards, in accordance with the Committee’s intentions, the payout under the 2016 LTIP will be determined based on the Company’s performance. Based on the financial results for the completed portion of the performance period and the other information currently available to the Committee, the payout is expected to be zero for all participants.

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For each of the NEOs other than the COO, award payouts, if any, will be based on a specific target multiple of each participant's base salary in effect on the grant date. Per the COO's letter agreement, his award payout, if any, is based on a target multiple of two times his base salary upon his promotion to Executive Vice President, Homebuilding Operations rather than on his base salary in effect on the grant date. The target number of shares was set based on the closing price of the Class A Common Stock on the grant date, regardless of whether the share price increases or decreases by the time the award is determined or distributed. In order to manage the potential dilutive impact of the 2016 LTIP, the Committee required that 50% of the payout be in the form of cash, with any award potential above target payable 100% in cash. All stock awards under the 2016 LTIP were made in the form of rights to receive shares of Class A Common Stock, except that the Committee determined the CEO's award would be in the form of rights to receive shares of Class B Common Stock for the reasons discussed above under "– Details of Compensation Elements – Stock Grants." The following describes the target multiple of base salary and form of payout for each NEO:

	Target Multiple of Base Salary	**Target Payout Method**
CEO	3.00	50% cash / 50% shares
CFO	2.00	50% cash / 50% shares
COO	2.00	50% cash / 50% shares
CAO	1.25	50% cash / 50% shares

Although the Committee views both the stock and cash portions of the 2016 LTIP as multi-year incentive plan awards, they are reported differently for purposes of the Summary Compensation Table. The share payout portions are reflected as "Stock Awards" in fiscal 2016 at their grant date fair value under ASC Topic 718, which was based on the probable outcome as of the grant date. Conversely, the actual amounts earned on the cash payout portions, if any, will be reflected in the Summary Compensation Table as "Non-Equity Incentive Plan Compensation" for fiscal 2018 (which coincides with the end of the performance period) even though payments remain subject to subsequent vesting restrictions.

For purposes of the 2016 LTIP, "pre-tax profit" is defined as income (loss) before income tax expense as reflected on our audited financial statements, excluding the impact of any items deemed to be unusual or nonrecurring items for financial reporting purposes and excluding losses from land impairments and losses from debt repurchases/debt retirement such as call premiums, above par purchase prices and related issuance costs. "Interest Expense as a Percentage of Homebuilding Revenue" is defined as (A) the sum of (1) cost of sales interest and other interest for the Company as reflected in our audited financial statements and (2) cost of sales interest and other interest for our unconsolidated joint ventures as reflected in their respective financial statements for the 12 months ended October 31, 2018, divided by (B) the sum of (1) total homebuilding revenue for the Company as reflected in our audited financial statements and (2) total homebuilding revenue for our unconsolidated joint ventures as reflected in their respective financial statements for the 12 months ended October 31, 2018.

The following table illustrates the percentage of the target award that can be achieved at each performance level. Awards will be interpolated on a linear basis between performance levels but will not be extrapolated above the maximum performance levels listed below.

		Fiscal 2018 Interest Expense as a Percentage of Fiscal 2018 Homebuilding Revenue						
		7.3% or more	**6.8%**	**6.3%**	**5.8%**	**5.3%**	**4.8%**	**4.3% or less**
Cumulative Pre-tax Profit for Fiscal 2016 through Fiscal 2018 (in millions)	**$325 or more**	100% of target award	125% of target award	150% of target award	175% of target award	200% of target award	225% of target award	250% of target award
	$225	75% of target award	100% of target award	125% of target award	150% of target award	175% of target award	200% of target award	225% of target award
	$125	50% of target award	75% of target award	100% of target award	125% of target award	150% of target award	175% of target award	200% of target award
	$50	0% of target award	15% of target award	30% of target award	45% of target award	60% of target award	75% of target award	90% of target award
	Less than $50	0% of target award	0% of target award	0% of target award	0% of target award	0% of target award	0% of target award	0% of target award

As an additional condition of earning each portion of the award and as a retention inducement, following the performance period, a participant must also be employed through the vesting dates outlined below (other than in cases of death, disability, qualified retirement or specified termination following a change in control of the Company). The vesting percentages relate to the earned award value as of October 31, 2018.

1. 50% of the award will become vested on October 31, 2018 and would be payable in January 2019;

2. 30% of the award will become vested on October 31, 2019 and would be payable in January 2020; and

3. 20% of the award will become vested on October 31, 2020 and would be payable in January 2021;

with the cash portion of the earned award value becoming vested and payable before any share portion of the earned award value becomes vested and payable.

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Other Employee Benefits

The Company maintains additional employee benefits that the Committee believes enhance executive safety, efficiency and time that the executive is able to devote to Company affairs.

We do not believe that special perquisites or other personal benefits should play a major role in our executive compensation program. However, some NEOs are provided one or more of the following items:

- Auto allowance, including car maintenance and fuel expense;
- Personal use of the Company's automobiles (including driver's compensation) and of the Company's fractional aircraft share (limited to the CEO);
- Executive term life insurance;
- Annual Executive Physical Exam Program;
- Golf membership or country club fee reimbursement (limited to the CEO); and
- Personal income tax preparation services (limited to the CEO).

The Committee annually reviews the elements and level of executive perquisites for the NEOs. In particular, in evaluating the appropriateness of these benefits for the CEO, the Committee takes into consideration the degree to which the CEO is required to travel to various Company locations and business functions on a daily basis. Based on its review, the Committee has requested that the CEO use Company-provided transportation to enhance the efficient use of his time.

The Company makes a matching contribution to all participants, including the NEOs, in the Company's 401(k) plans of up to 6% of eligible employee compensation, based on tenure. The Company also makes contributions to the executive
deferred compensation plan ("EDCP") for the NEOs and certain other executives of the Company to provide up to 6% of earnings above the annual 401(k) limit for the calendar year, based on tenure. Calendar year contributions are credited in the subsequent fiscal year and reflected in the proxy statement for that year.

Specific benefits and the incremental costs of such benefits are described in detail in the footnotes to the Summary Compensation Table. The Company does not offer any defined benefit pension plans to its employees.

COO Letter Agreement

Mr. Smith is party to a July 24, 2015 letter agreement with us governing the terms of his employment. Under the terms of his letter agreement, Mr. Smith's initial annual base salary rate of $550,000 increased to $650,000 in December 2016 and then increased to $700,000 in December 2017. The letter agreement also entitles Mr. Smith to receive a $24,000 annual auto allowance and certain additional annual incentive profit sharing awards, long-term incentive program grants and other equity-based awards. In the event that we terminate Mr. Smith's employment other than for cause, the letter agreement provides that Mr. Smith would be entitled to receive severance payments pursuant to our normal Severance Pay Program, which currently provides for 52 weeks of base salary at the rate in effect at the time of termination; provided, however, that if we appoint a certain person as Chief Operating Officer within two years following any such termination, then in lieu of the normal Severance Pay Program benefits, we would be required to pay Mr. Smith, as severance, the sum of: (1) 52 weeks of base salary at the rate then in effect at the time of termination; plus (2) the average annual amount earned by Mr. Smith as an incentive profit sharing award with respect to the two most recent completed fiscal years preceding his termination date (up to a maximum of $2 million). Mr. Smith's letter agreement also provides that in the event we terminate his employment other than for cause within two years following a "change in control" (as defined in our Stock Plan), he would remain entitled to receive certain payments in respect of his long-term incentive program awards. Mr. Smith's termination protection benefits under his letter agreement are generally contingent upon his execution and non-revocation of a general release of claims in our favor.

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5. ACTIONS FOR FISCAL 2018

The Committee approved a 3.0% base salary increase, effective December 16, 2017, for each of Messrs. Hovnanian and O'Connor, in line with the Company's ordinary course merit-based salary and cost of living increase practices. The Committee increased Mr. Sorsby's salary to $700,000 effective December 16, 2017, a 3.7% increase in light of the CFO's position as a key member of the senior executive team. The Committee did not otherwise modify Mr. Smith's annual salary which increased from $650,000 to $700,000 in December 2017, consistent with his letter agreement.

The Committee determined that for fiscal 2018, the bonus formulas for the CEO and CFO would include liquidity balances and total revenue components and a component based on capital raised by the Company or its joint ventures from alternative sources, similar to those in the 2017 bonus formulas. In light of the Company's current debt levels and debt restructuring activities during fiscal 2017 that resulted in higher interest expense, the pre-tax profit component in the 2017 bonus formula, however, will be replaced by a measure based on the Company's earnings before interest and taxes ("EBIT").

The Committee ratified the fiscal 2018 bonus formula outlined in the COO's letter agreement which is similar to his fiscal 2017 bonus formula.

The Committee determined that the fiscal 2018 bonus formula for Mr. O'Connor will be similar to fiscal 2017, although his personal objectives were updated to reflect key goals for fiscal 2018.

The Committee also adopted a new Long-Term Incentive Program (the "2018 LTIP"). Each of the NEOs will be a participant in the 2018 LTIP and their award payouts will be determined based on the Company's achievement of specified levels of (1) cumulative pre-tax profit for fiscal 2018 through fiscal 2020, including unconsolidated joint ventures and (2) a measure based on the Company's average adjusted EBIT Return on Inventory for fiscal 2018, fiscal 2019 and fiscal 2020, including unconsolidated joint ventures. These awards are generally subject to vesting requirements over an additional 24-month period. The performance period for the 2018 LTIP commenced on November 1, 2017 and will end on October 31, 2020.

6. TAX DEDUCTIBILITY AND ACCOUNTING IMPLICATIONS

As a general matter, the Committee always takes into account the various tax and accounting implications of compensation. When determining amounts of equity grants to executives and employees, the Committee also examines the accounting cost associated with the grants.

Certain of the Company's incentive compensation programs are intended to allow the Company to make awards to executive officers that are deductible under Section 162(m) of the Code, which provision otherwise sets limits on the tax deductibility of compensation paid to a company's most highly compensated executive officers. Commencing with the Company's fiscal 2019 year, the performance-based compensation exception to the deductibility limitations under Section 162(m) will no longer apply (other than with respect to certain "grandfathered" performance-based awards granted prior to November 2, 2017) and the deduction limitation under Section 162(m) will generally apply to compensation paid to any of our then current or former named executive officers. The Committee may continue to seek ways to limit the impact of Section 162(m) of the Code. However, the Committee believes that the tax deduction limitation should not compromise the Company's ability to establish and implement compensation and incentive programs that support the compensation objectives discussed above. Accordingly, achieving these objectives and maintaining required flexibility in this regard is expected to result in compensation that is not deductible for federal income tax purposes, such as a portion of salaries, bonuses and other payments related to equity-based or other incentive awards.

7. TIMING AND PRICING OF STOCK OPTIONS AND MSUs

For fiscal 2017, with the exception of grants related to new hires and promotions, stock options and MSUs were granted on the second Friday in June for all eligible employees, consistent with our practice of granting equity awards annually on the second Friday in June. The Company's practice of setting "fixed" equity award grant dates is designed to avoid the possibility that the Company could grant stock awards prior to the release of material, non-public information that is likely to result in an increase in its stock price or delay the grant of stock awards until after the release of material, non-public information that is likely to result in a decrease in the Company's stock price. Exercise prices of stock options were set at the closing trading price per share of the Company's Class A Common Stock on the NYSE on the date the options were granted.

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8. STOCK OWNERSHIP GUIDELINES

The Board of Directors has adopted stock ownership guidelines, which set forth recommended minimum amounts of stock ownership, directly or beneficially, for the CEO, CFO, COO and non-employee Directors. The Corporate Governance and Nominating Committee reviews adherence to the Company's stock ownership guidelines on an annual basis, which guidelines are incorporated into the Company's Guidelines. The Company believes these guidelines further enhance the Company's commitment to aligning the interests of our non-employee Directors and senior management with those of our shareholders.

Under the terms of the ownership guidelines, once the stock ownership guidelines are met, they are deemed satisfied for subsequent annual review periods, regardless of decreases in the Company's stock price on the NYSE.

Senior Executive Officers

The guidelines provide that the following senior executive officers of the Company are requested to achieve and maintain minimum stock ownership amounts as follows within five years after they become subject to the guidelines:

CEO – 6 times current base salary

CFO – 3 times current base salary

COO – 3 times current base salary

Messrs. Hovnanian, Sorsby and Smith currently meet their requisite stock ownership under the guidelines.

See "Non-Employee Director Compensation" for information on the stock ownership guidelines for non-employee Directors.

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EXECUTIVE COMPENSATION

1. SUMMARY COMPENSATION TABLE

The following table summarizes the compensation for the fiscal years ended October 31, 2017, October 31, 2016 and October 31, 2015 of the CEO, CFO and each of the other persons serving as an executive officer as of October 31, 2017. These four individuals compose our named executive officers (“NEOs”).

Summary Compensation Table

Name and Principal Position	**Year**	**Salary ($) (1)**	**Bonus ($) (2)**	**Stock Awards ($) (3)**	**Option Awards ($) (4)**	**Non-Equity Incentive Plan Compensation ($) (5)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (6)**	**All Other Compen-sation ($) (7)**	**Total ($) (8)**
Ara K. Hovnanian, President, Chief Executive Officer and Chairman of the Board	2017	1,193,965	—	1,698,000	—	2,020,552	27,596	318,643	5,258,756
	2016	1,159,059	—	3,000,576	235,474	2,418,033	19,683	379,368	7,212,193
	2015	1,120,972	1,180,014	2,488,887	—	823,729	4,260	555,265	6,173,127
J. Larry Sorsby, Executive Vice President and Chief Financial Officer	2017	675,330	—	481,101	—	796,536	11,127	116,555	2,080,649
	2016	655,587	—	899,039	235,474	875,512	7,564	140,018	2,813,194
	2015	634,044	432,000	598,746	—	361,865	1,630	196,665	2,224,950
Lucian T. Smith III, Chief Operating Officer	2017	639,423	—	226,400	—	1,768,725	6,085	63,986	2,704,619
	2017	359,388	—	14,063	15,751	215,624	3,047	53,246	661,119

Brad G. O'Connor, Vice President — Chief Accounting Officer and Corporate Controller	2016	348,881	—	211,715	78,194	209,344	1,960	55,049	905,143
	2015	337,417	216,572	59,219	31,872	101,624	393	63,573	810,670

(1) ***"Salary" Column.*** *Messrs. Hovnanian, Sorsby, Smith and O'Connor received a salary increase effective December 17, 2016. These increases occurred after the beginning of fiscal 2017, resulting in a prorated base salary for fiscal 2017.*

(2) ***"Bonus" Column.*** *Represents the cash portion of the award payable in fiscal 2015 in connection with the 2013 LTIP and, for Mr. O'Connor, a retention bonus of $101,624 paid for fiscal 2015. Due to the Compensation Committee's interpretation of the results for purposes of the 2013 LTIP, the cash portion of the award earned in fiscal 2015 in connection with the 2013 LTIP is reflected in the Summary Compensation Table as "Bonus" for fiscal 2015, rather than "Non-Equity Incentive Plan Compensation."*

(3) ***"Stock Awards" Column.*** *For fiscal 2015, this column represents the incremental fair value of the share portion of the award payable in connection with the 2013 LTIP for Messrs. Hovnanian, Sorsby and O'Connor and, for Messrs. Hovnanian and Sorsby, the aggregate grant date fair value of the MSUs granted to them in fiscal 2015. For fiscal 2016, this column reflects the aggregate grant date fair value of the share portion of the 2016 LTIP awards for Messrs. Hovnanian, Sorsby and O'Connor based upon the probable outcome of the performance conditions as of the grant date, which was the maximum amount, and, for Messrs. Hovnanian and Sorsby, the aggregate grant date fair value of the MSUs granted to them in fiscal 2016. For fiscal 2017, this column reflects, for Messrs. Hovnanian, Sorsby and Smith, the aggregate grant date fair value of the MSUs granted to them in fiscal 2017 and, for Mr. O'Connor, the grant date fair value of the RSUs granted to him in fiscal 2017. The 2016 LTIP award levels included in the table above are subject to performance over a three-year period (fiscal 2016, 2017 and 2018) and, if earned, awards are subject to vesting restrictions that extend through the end of fiscal 2020. The grant date fair values and incremental fair values were, in each case, computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in Footnotes 3 and 15 to the Company's audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2017. Fifty percent of the MSU awards are subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSU awards, and the grant date fair value of the MSU awards reported above is based upon the maximum achievement of the financial performance conditions. The stock price performance conditions applicable to all MSU awards are a market condition as defined under FASB ASC Topic 718 and not a performance condition as defined under FASB ASC Topic 718. Accordingly, there are no maximum grant date fair values that differ from the fair values presented in this column. The MSUs granted in fiscal 2015, 2016 and 2017 are subject to vesting restrictions that extend through June 12, 2020, June 10, 2021 and June 9, 2022, respectively.*

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(4) ***“Option Awards” Column.*** *This column reflects the aggregate grant date fair value of stock options awarded in the fiscal year indicated. Amounts were computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are set forth in Footnotes 3 and 15 to the Company’s audited financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2017. The fiscal 2016 option awards for Messrs. Hovnanian and Sorsby have an exercise price set 33 1/3% above the closing stock price on the date of grant and vest on the fourth anniversary of the grant with no acceleration upon retirement or disability.*

(5) ***“Non-Equity Incentive Plan Compensation” Column.*** *This column represents the performance-based annual bonus awards earned by the NEOs in the fiscal year indicated. As noted in footnote (2) above, the amounts earned by the NEOs in fiscal 2015 in connection with the cash portion of the 2013 LTIP awards are reflected in the Summary Compensation Table as “Bonus.”*

(6) ***“Change in Pension Value and Nonqualified Deferred Compensation Earnings” Column.*** *Represents above-market earnings on the Company contribution amounts in the EDCP.*

(7) ***“All Other Compensation” Column.*** *This column discloses all other compensation for the fiscal year indicated, including reportable perquisites and other personal benefits.*

For fiscal 2017, total perquisites and other personal benefits, and those that exceeded the greater of $25,000 or 10% of total perquisites and other personal benefits for each NEO, were as follows:

	Total Perquisites and Description		Fiscal 2017 Perquisites that Exceeded the Greater of $25,000 or 10% of Total Perquisites			
Name	**Total Fiscal 2017 Perquisites ($)**	**Types of Perquisites (a)**	**Personal Use of the Company’s Fractional Aircraft Share ($) (b)**	**Personal Use of Company’s Automobiles ($) (c)**	**Personal Income Tax Preparation ($) (d)**	**Auto Allowance, Car Maintenance and Fuel (e)**
Ara K. Hovnanian	154,379	(1) (2) (4) (5) (6) (7)	52,137	52,320	28,652	N/A
J. Larry Sorsby	35,897	(3) (4) (5)	N/A	N/A	N/A	28,632
Lucian T. Smith III	25,643	(3) (4)	N/A	N/A	N/A	25,211
Brad G. O’Connor	14,769	(3) (4) (5)	N/A	N/A	N/A	N/A

(a) *(1) Personal use of the Company's fractional aircraft share; (2) Personal use of the Company's automobiles; (3) Auto allowance and, in some cases, car maintenance and fuel expenses; (4) Company-subsidized medical premiums under grandfathered service provision and premiums for long-term disability insurance; (5) Use of the Company's Annual Executive Physical Exam Program; (6) Golf/country club membership fees; and (7) Personal income tax preparation.*

(b) *The incremental costs of personal use of the Company's fractional aircraft share are calculated as the total operating costs (including trip-based management fees) directly associated with personal trips and any repositioning of the aircraft related to personal trips. Because the Company's aircraft is predominantly used for business trips, other costs are not allocated between business and personal use.*

(c) *The incremental costs of personal use of the Company's automobiles are calculated as the allocable share of all costs of the automobiles for the fiscal year (including depreciation and the Company's driver's salary and benefits) based upon the percentage of total miles driven during the fiscal year represented by personal trips.*

(d) *Reflects the Company's reimbursement of actual tax preparation expenses incurred by Mr. Hovnanian.*

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(e) *Represents auto allowance and reimbursements for gas and maintenance for NEOs' personal vehicles, including for the business use of their vehicles.*

In addition to the perquisites and other personal benefits listed above, the NEOs received the following other compensation in fiscal 2017:

Fiscal 2017 All Other Compensation Other Than Perquisites (Supplemental Table)

Name	**Term Life Insurance Premiums ($)**	**Company Contributions to the Executive's Retirement Plan (401(k)) ($)**	**Company Contributions to the Executive Deferred Compensation Plan (EDCP) ($)**
Ara K. Hovnanian	4,244	16,200	143,820
J. Larry Sorsby	4,443	16,200	60,015
Lucian T. Smith III	3,035	16,200	19,108
Brad G. O'Connor	1,323	16,200	20,954

(8) ***"Total" Compensation Column.*** *This column reflects the sum of all the columns of the Summary Compensation Table.*

Fiscal 2017 Total Compensation (Supplemental Table). *The Fiscal 2017 Total Compensation (Supplemental Table) below includes the same amounts as reflected in the "Salary," "Non-Equity Incentive Plan Compensation," and "All Other Compensation" columns of the Summary Compensation Table for fiscal 2017, but values stock awards, option awards and deferred compensation earnings for the fiscal year differently, as explained in footnotes (a), (b), (c), (d) and (e) below.*

The table below is intended to provide additional, supplemental compensation disclosure and not as a replacement for the Summary Compensation Table.

Fiscal 2017 Total Compensation (Supplemental Table)

Name	Fiscal 2017 Salary ($)	Fiscal 2017 Cash Bonus ($)	Fiscal 2017 Stock Vested (excluding LTIP) ($) (a)	Intrinsic Value of Options Granted in Fiscal 2017 ($) (b)	2013 LTIP Cash Realized ($) (c)	2013 LTIP Stock Realized ($) (d)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (e)	Fiscal 2017 All Other Compen-sation ($)	Total of All Columns of Supplemental Table ($)
Ara K. Hovnanian	1,193,965	2,020,552	300,159	—	283,084	721,121	5,040	318,643	4,842,564
J. Larry Sorsby	675,330	796,536	60,035	—	103,636	264,000	—	116,555	2,016,092
Lucian T. Smith III	639,423	1,768,725	21,281	—	56,271	143,346	7,674	63,986	2,700,706
Brad G. O’Connor	359,388	215,624	—	—	27,575	70,250	—	53,246	726,083

(a) *“Fiscal 2017 Stock Vested (excluding LTIP)” column, for Messrs. Hovnanian and Sorsby, represents the portion of the MSU awards granted to them on June 13, 2014 and June 12, 2015 that vested in fiscal 2017, at the stock price on the date of vesting. For Mr. Smith, this column represents the portion of the RSU awards granted to him on June 13, 2014 and June 12, 2015 that vested in fiscal 2017, at the stock price on the date of vesting.*

(b) *The “Intrinsic Value of Options Granted in Fiscal 2017” column is based on the intrinsic value or degree to which the stock option was “in-the-money” for options granted in fiscal 2017 as of the grant date, instead of the grant date fair values of option awards granted in fiscal 2017, as discussed under footnote (4) to the Summary Compensation Table above.*

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(c) *Reflects the cash portion of the 2013 LTIP awards that was realized in fiscal 2017 on the basis of performance through October 31, 2015 vesting through October 31, 2017 under the terms of the award, which was paid in January 2018. These amounts are included in the "Bonus" column of the Summary Compensation Table in fiscal 2015. Additional details are described above under "Details of Compensation Elements – 2013 Long-Term Incentive Program" in the Compensation Discussion and Analysis.*

(d) *Reflects the share portion of the 2013 LTIP awards that was realized in fiscal 2017 on the basis of performance through October 31, 2015 vesting through October 31, 2017 under the terms of the award, which was paid in January 2018. The incremental fair value associated with the share portion of the 2013 LTIP award, determined under FASB ASC Topic 718, Compensation – Stock Compensation, is reflected in the "Stock Awards" column of the Summary Compensation Table in fiscal 2015. Additional details are described above under "Details of Compensation Elements – 2013 Long-Term Incentive Program" in the Compensation Discussion and Analysis.*

(e) *Reflects above-market portions of deferred compensation earnings realized in fiscal 2017 with respect to deferred compensation distributions.*

Cash Compensation (Supplemental Table). *For each of the periods presented, the Cash Compensation (Supplemental Table) below includes salary and annual cash bonuses earned and the cash portion of LTIP awards that vested.*

The table below is intended to provide additional, supplemental compensation disclosure and not as a replacement for the Summary Compensation Table.

Cash Compensation (Supplemental Table)

Name	**Year**	**Salary ($)**	**Cash Bonus ($)**	**LTIP Cash Realized ($)**		**Total of All Columns of Supplemental Table ($)**
Ara K. Hovnanian	2017	1,193,965	2,020,552	283,084	(a)	3,497,601
	2016	1,159,059	2,418,033	538,158	(a)	4,115,250
	2015	1,120,972	823,729	358,772	(a)	2,303,473
J. Larry Sorsby	2017	675,330	796,536	103,636	(a)	1,575,502
	2016	655,587	875,512	197,018	(a)	1,728,117
	2015	634,044	361,865	131,345	(a)	1,127,254