

HOVNANIAN ENTERPRISES INC
Form DEF 14A
February 04, 2009

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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 Soliciting Material Under Rule 14a-12
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials

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)(4) 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:

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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

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

HOVNANIAN ENTERPRISES, INC.

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

February 4, 2009

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders, which will be held on Thursday, March 19, 2009, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017. The meeting will start promptly at 10:30 a.m.

In accordance with the Securities and Exchange Commission 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 2008) to each of those shareholders. We believe that this e-proxy process will expedite our shareholders' receipt of proxy materials, lower costs, and reduce the environmental impact of our annual meeting. If you received only a Notice Regarding the Availability of Proxy Materials (the "Notice") by mail or electronic mail, you will not receive a paper copy of the proxy materials unless you request one. Instead, the Notice will instruct you as to how you may access and review the proxy materials on the Internet. The Notice will also instruct you as to how you may access your proxy card to vote over the Internet, by telephone or by mail. If you received a Notice by mail or electronic mail and would like to receive a paper copy of our proxy materials, free of charge, please follow the instructions included in the Notice.

We anticipate that the Notice will be mailed to our shareholders on or about February 4, 2009, and will be sent by electronic mail to our shareholders who have opted for such means of delivery on or about February 4, 2009.

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. As in the past, shareholders of record of Class B Common Stock held in nominee name will only be able to vote by returning the enclosed proxy card in the envelope provided for this purpose or by voting in person at the Company's 2009 Annual Meeting.

Attached to this letter is a Notice of Annual Meeting of Shareholders and Proxy Statement, which describes 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 2009 Annual Meeting. We welcome the opportunity to meet with many of you and give you a firsthand report on the progress of your Company.

Sincerely yours,

Kevork S. Hovnanian
Chairman of the Board

PROXY VOTING METHODS

If at the close of business on January 22, 2009, you were a shareholder of record or held shares through a broker or bank, you may vote your shares as described below or you may vote in person at the Annual Meeting. To reduce our administrative and postage costs, we would appreciate if shareholders of Class A Common Stock and registered shareholders of Class B Common Stock would please vote through the Internet or by telephone, both of which are available 24 hours a day. You may revoke your proxies at the times and in the manners described on page 1 of the Proxy Statement. If you are a shareholder of record or hold shares through a broker or bank and are voting by proxy, your vote must be received by 11:59 p.m. (Eastern Daylight Time) on March 18, 2009 to be counted unless otherwise noted below.

To vote by proxy:

Shareholders of Class A Common Stock and Registered 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 12-digit Control Number included on your Notice Regarding the Availability of Proxy Materials to obtain your records and to create an electronic voting instruction form.

BY TELEPHONE

- From a touch-tone telephone, dial (800) 690-6903 and follow the recorded instructions, 24 hours a day, seven days a week.
- You will need the 12-digit Control Number included on your Notice Regarding the Availability of Proxy Materials in order to vote by telephone.

BY MAIL

- Request a proxy card from us by following the instructions on your Notice Regarding the Availability of Proxy Materials.
- When you receive the proxy card, mark your selections on the proxy card.
- Date and sign your name exactly as it appears on your proxy card.
- Mail the proxy card in the postage-paid envelope that will be provided to you.
- Mailed proxy cards must be received no later than March 18, 2009 to be counted for the Annual Meeting.

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

- Nominees of shareholders of Class B Common Stock may only appoint proxies by signing, dating and returning the enclosed proxy card in the envelope provided.
- 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 is properly completed, mailed and received not less than 3 nor more than 20 business days prior to March 19, 2009.

YOUR VOTE IS IMPORTANT. THANK YOU FOR VOTING.

HOVNANIAN ENTERPRISES, INC.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
FEBRUARY 4, 2009**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Hovnianian Enterprises, Inc. will be held on Thursday, March 19, 2009, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017 at 10:30 a.m. for the following matters:

1. The election of directors of the Company for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified;
2. The ratification of the selection of Deloitte & Touche LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2009;
3. 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 and FOR proposal 2.

Only shareholders of record at the close of business on January 22, 2009 are entitled to notice of, and to vote at, the Annual Meeting. Accompanying this Notice of Annual Meeting of Shareholders is a proxy statement, proxy card(s) and the Company's Annual Report for the year ended October 31, 2008.

To ensure your shares are voted, if you are a shareholder of Class A Common Stock or a registered shareholder of Class B Common Stock, you may vote your shares over the Internet, by telephone, or by requesting a paper proxy card to complete, sign and return by mail. These voting procedures are described on the preceding page and on the proxy card.

If you are a shareholder of record of Class B Common Stock held in nominee name, you may only appoint proxies to vote your shares by signing, dating and returning the enclosed proxy card in the envelope provided.

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,
PETER S. REINHART
Secretary

February 4, 2009

If you are a shareholder of record and you plan to attend the Annual Meeting, please mark the appropriate box on your proxy card or, if applicable, so indicate when designating a proxy via the Internet or by telephone. If your shares are held by a bank, broker or other intermediary and you plan to attend, please send written notice to Hovnianian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, Attention: Peter S. Reinhart, 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. If you do not plan to attend the Annual Meeting, please designate a proxy by mail or, if applicable, via the Internet or by telephone. If you choose to vote by mail, please complete, sign and date the enclosed proxy card 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.

**HOVNIANIAN ENTERPRISES, INC.
110 WEST FRONT STREET
P.O. BOX 500
RED BANK, NEW JERSEY 07701**

PROXY STATEMENT

GENERAL

The accompanying proxy is solicited on behalf of the Board of Directors of Hovnanian Enterprises, Inc. (the "Company", "we", "us", or "our") for use at the Annual Meeting of Shareholders referred to in the foregoing notice and 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, the persons named in the accompanying proxy card(s) will vote the shares represented by such proxies for the Board of Directors' slate of directors; for the ratification of the selection of Deloitte & Touche LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2009 and as recommended by the Board of Directors, unless contrary instructions are given. Any person may revoke a previously designated proxy at any time before it is exercised by delivering written notice of revocation to Peter S. Reinhart, Secretary, by delivering a later-dated proxy, or by voting in person at the Annual Meeting. Please note that attendance at the Annual Meeting will not by itself revoke a proxy.

VOTING RIGHTS AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The record date for the determination of shareholders entitled to vote at the meeting was the close of business on January 22, 2009. As of that date, the outstanding voting securities of the Company consisted of 62,526,271 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 14,639,746 shares of Class B Common Stock, each share entitling the holder thereof to ten votes. 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.

The following table sets forth as of January 22, 2009 (1) the Class A Common Stock and Class B Common Stock of the Company beneficially owned by holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company and (2) the Class A Common Stock, Class B Common Stock and Depository Shares of the Company beneficially owned by each Director, each nominee for Director, each executive officer named in the tables set forth under "Executive Compensation" below and all Directors and executive officers as a group:

Directors, Nominees for Director, Certain Executive Officers, Directors and Executive Officers as a Group and Holders of More Than 5%	Class A Common Stock (1)		Class B Common Stock (1)		Depository Shares (1)(3)	
	Amount and Nature of Beneficial	Percent of	Amount and Nature of Beneficial	Percent of	Amount and Nature of Beneficial	Percent of Class
	Ownership	Class (2)	Ownership	Class (2)	Ownership	(2)
Kevork S. Hovnanian (4)	7,567,392	12.10%	7,165,926	48.95%		
Ara K. Hovnanian (5)	5,736,237	8.91%	988,915	6.76%		
Paul W. Buchanan (6)	84,981	.14%				
Robert B. Coutts	21,223	.03%				
Edward A. Kangas	60,555	.10%				
Joseph A. Marengi	31,223	.05%				
Peter S. Reinhart	68,050	.11%			3,000	0.1%
Peter S. Reinhart as Trustee of the Sirwart Hovnanian 1994 Marital Trust (7)			5,210,091	35.59%		
John J. Robbins	43,779	.07%				
J. Larry Sorsby	311,802	.50%				
David Valiaveedan	1,367	.002%				
Stephen D. Weinroth	101,055	.16%	4,500	.03%		
Capital Group International, Inc. (8)	3,903,900	6.24%			N/A	N/A
EARNEST Partners, LLC (9)	5,352,802	8.56%			N/A	N/A
T. Rowe Price Associates, Inc. (10)	4,753,880	7.60%			N/A	N/A
All Directors and executive officers as a group (11 persons)	14,027,664	21.72%	13,369,432	91.32%	3,000	0.1%

⁽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 and generally attributes 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 outstanding. 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, whether or not in-the-money, include the following: K. Hovnanian (0), A. Hovnanian, (1,750,000), P. Buchanan (32,500), R. Coutts (2,333) E. Kangas (3,667), J. Marengi (2,333), P. Reinhart (22,500), J. Robbins (7,333), J. Sorsby (230,000), S. Weinroth (13,667), and all Directors and executive officers as a group (2,064,333). Shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days is zero. The stock options amounts exclude options forfeited by Mr. A. Hovnanian and Mr. J. Sorsby in December 2008 and by the non-employee Directors in January 2009 and as discussed under the "Actions for Fiscal 2009" section of the "Compensation Discussion and Analysis."

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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 and Class B Common Stock. The dividend was paid to stockholders of record on August 15, 2008. Subject to the terms, provisions and conditions of the Rights Plan, if the Preferred Stock Purchase Rights become exercisable, each Preferred Stock Purchase Right would initially represent the right to purchase from the Company one ten-thousandth of a share of Series B Junior Preferred Stock for a purchase price of \$35.00. 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 held by each such Director, nominee, executive officer or holder.

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

⁽⁴⁾ Includes 190,000 shares of Class A Common Stock held in the name of Sirwart Hovnanian and over which Ms. Hovnanian has sole power to dispose of and vote shares. Mr. Hovnanian disclaims beneficial ownership of such shares.

⁽⁵⁾ Includes 223,587, shares of Class B Common Stock held in a grantor retained annuity trust (the "AKH GRAT") for which Ara K. Hovnanian is trustee, 372,116 shares of Class A Common Stock and 431,394 shares of Class B Common Stock held in family related trusts as to which Ara K. Hovnanian has shared voting power and shared investment power and 37,374 shares of Class A Common Stock and 142,274 shares of Class B Common Stock held by Mr. Hovnanian's wife and children. Ara K. Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential pecuniary interest in the AKH GRAT and such other accounts and trusts.

⁽⁶⁾ Includes 52,481 shares of Class A Common Stock that are held jointly with Mr. Buchanan's spouse, Gail R. Buchanan. Paul W. Buchanan and Gail R. Buchanan share voting and investment power with respect to such shares.

⁽⁷⁾ Includes 4,833,826 shares of Class B Common Stock held by the Kevork S. Hovnanian Family Limited Partnership, a Connecticut limited partnership (the "Limited Partnership"). Peter S. Reinhart, as trustee of the Sirwart Hovnanian 1994 Marital Trust (the "Marital Trust"), is the managing general partner of the Limited Partnership and as such has the sole power to vote and dispose of the shares of Class B Common Stock held by the Limited Partnership, as well as of the 376,265 shares of Class B Common Stock held directly by the Marital Trust. Mr. Reinhart disclaims beneficial ownership of the shares held by the Limited Partnership and the Marital Trust.

⁽⁸⁾ Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 1, 2008. As of December 31, 2007, Capital Group International, Inc., as the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the securities, had sole voting power with respect to 3,291,600 shares and sole investment power with respect to 3,903,900 shares of Class A Common Stock. Capital International Limited, as the investment manager of various institutional accounts, had sole voting power with respect to 2,963,700 shares and sole investment power with respect to 3,374,000 shares of Class A Common Stock. Address: 11100 Santa Monica Blvd., Los Angeles, California 90025.

⁽⁹⁾ Based solely upon information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission on January 31, 2008. As of December 31, 2007, EARNEST Partners, L.L.C. had sole voting power with respect to 1,824,199 shares, shared voting power with respect to 1,440,581 shares and sole investment power with respect to 5,352,802 shares of Class A Common Stock. Address: 1180 Peachtree Street NE, Suite 2300, Atlanta, Georgia 30309.

⁽¹⁰⁾ Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 13, 2008. As of December 31, 2007, T. Rowe Price Associates, Inc. had sole voting power with respect to 1,222,450 shares, shared voting power with respect to zero shares, sole dispositive power with respect to 4,753,880 shares and shared dispositive power with respect to zero shares of Class A Common Stock. Address: 100 E. Pratt Street, Baltimore, Maryland 21202.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors, persons who own more than 10% of a registered class of the Company's equity securities and certain entities associated with the foregoing (Reporting Persons) to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission (the SEC) and the New York Stock Exchange (the NYSE) or NASDAQ, as applicable. 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, the NYSE and NASDAQ.

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, 2008, all the Reporting Persons complied with all applicable filing requirements except that (1) a Form 4 was filed late on behalf of Mr. Ara K. Hovnanian for one exercise of options to acquire shares of Class A Common Stock and (2) a Form 3 was filed late on behalf of Mr. Peter S. Reinhart, as Trustee of the Sirwart Hovnanian 1994 Marital Trust, in connection with his deemed acquisition of voting power and dispositive power over securities held by that Trust as a result of the resignation of another trustee of the Trust; however, no Company equity securities were reportable as beneficially owned by Mr. Reinhart because of his trustee position.

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(1) ELECTION OF DIRECTORS

The Company's Restated By-laws provide that the Board of Directors shall consist of up to eleven Directors who shall be elected annually by the shareholders. The Company's Amended 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 NYSE, listed companies that have a controlling shareholder are not required to have a majority of independent directors, as defined by NYSE rules. Because Mr. K. Hovnanian and members of his immediate 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.

The Board of Directors has determined that a Board of Directors consisting of the eight nominees listed below is the best composition in order to satisfy both the independence requirements of the Company's Amended Certificate of Incorporation as well as the rules of the NYSE.

The following individuals are nominated 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
Kevorg S. Hovnanian	85	Chairman of the Board & Director	1967
Ara K. Hovnanian	51	President, Chief Executive Officer, Vice Chairman of the Board & Director	1981

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Robert B. Coutts	58	Director	2006
Edward A. Kangas	64	Director	2002
Joseph A. Marengi	55	Director	2006
John J. Robbins	69	Director	2001
J. Larry Sorsby	53	Executive Vice President, Chief Financial Officer, Treasurer & Director	1997
Stephen D. Weinroth	70	Director	1982

Board of Directors □ Nominees □ Biographies

Mr. K. Hovnanian is the founder of the Company and has served as Chairman of the Board since its original incorporation in 1967. He served as Chief Executive Officer from 1967 through July 1997. In 1996, the New Jersey Institute of Technology awarded Mr. Hovnanian a President's Medal for "Distinguished Achievement to an Outstanding Entrepreneur". In 1992, Mr. Hovnanian was granted one of five nationwide Harvard Dively Awards for Leadership in Corporate Public Initiatives.

Mr. A. Hovnanian has been Chief Executive Officer since July 1997 after being appointed President in 1988 and Executive Vice President in 1983. Mr. A. Hovnanian joined the Company in 1979 and has been a Director of the Company since 1981. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

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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 COO of the former Electronics Sector of Lockheed Martin. He was elected an officer by the Board of Lockheed Martin in December 1996. Mr. Coutts held management positions with General Electric Corporation (NYSE) from 1972-1993, 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 Corp., and is a member of the Board of The Stanley Works (NYSE) and the Baltimore Symphony Orchestra. Mr. Coutts is also currently the CEO and Deputy Chairman of the Association of the U.S. Army (AUSA) Council of Trustees and a member of the Board of Overseers, College of Engineering, Tufts University. He was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is a member of the Company's Compensation Committee.

Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from December 1989 to May 2000, when he retired. He also serves on the Boards of United Technologies Corp. (NYSE), Eclipsys, Inc. (NASDAQ), Tenet Healthcare Corporation, Inc. (NYSE), and Intuit, Inc. (NASDAQ). Mr. Kangas is the immediate past Chairman of the Board of the National Multiple Sclerosis Society. Mr. Kangas was elected as a Director of the Company in September 2002, is Chairman of the Company's Audit Committee and a member of the Company's Compensation and Corporate Governance Committees.

Mr. Marengi, since July 2007, serves as a Venture Partner for Austin Ventures. Prior to that date, Mr. Marengi served as senior vice president for Dell Inc.'s (NASDAQ) Commercial Business Group. 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. He is also an outside Director for Quantum Corporation (NYSE) and serves as Chairman of the Board for Entorian Technologies, Inc. (NASDAQ). He was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is member of the Company's Corporate Governance Committee.

Mr. Robbins was a managing partner of the New York Office of Kenneth Leventhal & Company and executive committee partner, retiring from the firm in 1992. He was made a partner of Kenneth Leventhal & Company in 1973. Mr. Robbins has been a Trustee of Keene Creditors Trust since 1996. He was Director and the Chairman of the Audit Committee of Raytech Corporation from May 2003 until March 2007, and a Director and Chairman of the Audit Committee of Texas Petrochemicals Inc. since May 2006. Mr. Robbins was elected as a Director of the Company in January 2001, and is a member of the Company's Audit Committee.

Mr. Sorsby has been Chief Financial Officer of the Company since 1996, Executive Vice President since November 2000, and Treasurer since August 2008, a position he also held from March 1991 to July 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.

Mr. Weinroth was, until mid-2008, Managing Member of Hudson Capital Advisors, LLC, a private equity merchant banking firm and Chairman of the Board of Cyalume Technologies, Inc., a manufacturer of military and safety equipment. From 1989 to 2003, he served as co-Chairman and head of the Investment Committee at First Britannia Mezzanine N.V., a European private investment firm. 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 of the Board. He has been Vice Chair of the Central Asian American Enterprise Fund, and is Vice Chairman of its successor the US Central Asia Education Foundation, and Chairman of the Board of The Joyce Theatre Foundation Inc., as well as a recently retired Trustee of the Horace Mann School. Mr. Weinroth has been a Director of the Company since 1982, is a member of the Company's Audit Committee, and Chairman of the Company's Compensation and Corporate Governance Committees.

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

During the year ended October 31, 2008, the Board of Directors held four regularly scheduled meetings and three telephonic meetings. In addition, Directors considered Company matters and had communications with the Chairman and Vice Chairman of the Board of Directors and others outside of formal meetings. Directors are expected to attend the Annual Meeting of Shareholders, but the Company does not have a formal policy with respect to attendance. Seven of the eight members of the Board of Directors attended the Annual Meeting of Shareholders held on March 31, 2008.

Audit Committee

During the year ended October 31, 2008, the members of the Audit Committee of the Board of Directors were Messrs. Kangas, Robbins and Weinroth. 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. During the year ended October 31, 2008, the Audit Committee met on four occasions and held eight telephonic meetings. The Audit Committee also authorizes staffing and compensation of the 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. In fiscal 2008, the Audit Department issued sixteen traditional audit reports and performed five Sarbanes-Oxley Section 404 reviews. The Company's Chief Accounting Officer reports directly to the Audit Committee on significant accounting issues. For additional information related to the Audit Committee, see "The Audit Committee" below.

Compensation Committee

During the year ended October 31, 2008, the members of the Compensation Committee of the Board of Directors were Messrs. Weinroth, Kangas, and Coutts. 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. During the year ended October 31, 2008, the Compensation Committee met on four occasions and held four telephonic meetings.

Corporate Governance

On December 12, 2005, the Board of Directors approved the establishment of a Corporate Governance Committee, although the Company is not required to have such committee because it is a controlled company under the rules of the NYSE. During the year ended October 31, 2008, the members of the Corporate Governance Committee of the Board of Directors were Messrs. Weinroth, Kangas and Marengi. The Corporate Governance Committee is responsible for reviewing and recommending corporate governance matters and other

Board-related policies. The Corporate Governance Committee also oversees the annual performance evaluation of the Board and its Committees, the Board's periodic review of the Company's Corporate Governance Guidelines (Guidelines) and compliance with the Company's Related Person Transaction Policy. During the year ended October 31, 2008, the Corporate Governance Committee met on three occasions and held no telephonic meetings.

The Guidelines require that the Board of Directors conduct a self-evaluation at least annually, and as circumstances otherwise dictate. In conjunction with the self-evaluation, the Board of Directors reviews the qualifications and effectiveness of the existing Board of Directors and allows for each board member to make comments or recommendations regarding the qualifications and effectiveness of the existing Board of Directors or additional qualifications that may be required when selecting new board members. Among other factors, the Board of Directors generally considers the size of the Board of Directors best suited to fulfill its responsibilities, the Board of Directors' overall membership composition to ensure the Board of Directors has the requisite expertise and consists of persons with sufficiently diverse backgrounds, the independence of outside directors and other possible conflicts of interest of existing and potential members of the Board of Directors.

The Company does not have a Nominating Committee. The Company is not required to have such a committee because it is a controlled company under the rules of the NYSE. Therefore, 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 2010 Annual Meeting below. Possible nominees to the Board of Directors may be suggested by any Director and given to the Chairman of the Board. The Company's Restated By-laws provide that Directors need not be shareholders. Each year, the Chairman of the Board of Directors, who is also the controlling shareholder, recommends a slate of directors to be nominated for election at the annual shareholders' meeting, which is then approved by the Board of Directors. Vacancies on the Board of Directors, other than those resulting from removal by shareholders, may be filled by action of the Board of Directors after recommendation by the Chairman of the Board.

As of the 120th calendar day prior to February 19, 2009, the Board of Directors had not received any recommendation for the nomination of a candidate to the Board of Directors by any shareholder or group of shareholders that at such time held more than 5% of the Company's voting stock for at least one year.

VOTE REQUIRED

The election of the nominees to the Company's Board of Directors for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified, requires that each director be elected by 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 2009 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 votes cast.

Mr. K. Hovnanian and certain members of his family have informed the Company that they intend to vote in favor of the nominees named in this proposal. Because of the voting power of Mr. K. Hovnanian and such members of his family, 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.

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(2) RATIFICATION OF THE SELECTION OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On January 5, 2009, the Audit Committee of the Board of Directors of the Company dismissed Ernst & Young LLP as the independent registered public accounting firm for the Company. Ernst & Young LLP's reports on the financial statements of the Company for the fiscal years ended October 31, 2007 and 2008 did not contain any adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal years ended October 31, 2007 and 2008, and through January 5, 2009, (1) there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make reference thereto in its reports on the financial statements of the Company for such years, and (2) there have been no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

Also on January 5, 2009, the Audit Committee of the Company's Board of Directors appointed Deloitte & Touche LLP as the independent registered public accounting firm for the Company as of and for the fiscal year

ending October 31, 2009. This appointment followed a solicitation and review process conducted by the Company's Audit Committee.

During the fiscal years ended October 31, 2007 and 2008, and through January 5, 2009, (1) Deloitte & Touche LLP had not been engaged as the principal accountant of the Company to audit its financial statements or as an independent accountant to audit a significant subsidiary of the Company, and (2) the Company had not consulted with Deloitte & Touche LLP regarding (a) the application of accounting principles to any completed or proposed transaction, (b) the type of audit opinion that might be rendered on the Company's financial statements for such periods, or (c) any other accounting, auditing or financial reporting matter described in Items 304(a)(2)(i) and (ii) of Regulation S-K.

The selection of an independent registered public accounting firm to examine financial statements of the Company made available or transmitted to shareholders and filed with the SEC for the year ending October 31, 2009 is submitted to this Annual Meeting of Shareholders for ratification. Deloitte & Touche LLP has been selected by the Audit Committee of the Company to examine such financial statements. In the event that the shareholders fail to ratify the appointment, the Audit Committee will consider the view of the shareholders in determining its selection of the Company's independent registered public accounting firm for the subsequent fiscal year. Even if the selection is ratified, the Audit Committee may, in its discretion, direct the appointment of a new independent registered public accounting firm at any time during the fiscal year if the Audit Committee determines that such a change would be in the best interests of the Company and our stockholders.

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

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, 2009, requires the majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, present in person or by proxy at the 2009 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 matter because such shares are not votes cast.

Mr. K. Hovnagian and certain members of his family have informed the Company that they intend to vote in favor of this proposal. Because of the voting power of Mr. K. Hovnagian and such members of his family, this proposal is assured passage.

Our Board of Directors recommends that shareholders vote FOR ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm.

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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 three 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 on the Company's public website (www.khov.com).

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, at least annually, the salaries, bonuses and other forms of compensation, including stock option grants, for the Company's senior executives (which include the named executive officers ("NEOs") for whom compensation is reported in the tables below);
- Reviewing, at least annually, compensation paid to the Company's non-employee Directors;
- Participating in the review of compensation of other key employees of the Company as may be directed by the Board of Directors or by management;
- 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), the Chief Executive Officer's severance

agreement, executive perquisites, and forms of equity grants to all employees and non-employee directors; and

- Fostering good corporate governance practices as they relate to executive compensation.

These areas of responsibilities are discussed in more detail below under "Compensation Discussion and Analysis." During the fiscal year ended October 31, 2008, the members of the Committee were all independent, non-employee directors and the Committee met on four occasions and held four telephonic meetings.

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.

In determining overall compensation for the NEOs, the Committee may consult with other members of the Board of Directors, including the Chairman of the Board, the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO") of the Company. These individuals often provide the Committee with insight on the overall performance of executives, including the achievement of personal objectives, if any, rather than relying solely on the Company's financial performance measures in determining their compensation. The Committee also engages an outside compensation specialist related to various compensation issues.

Outside Compensation Consultant

Since October 2003, the Committee has engaged Pearl Meyer & Partners ("PM&P") as the Committee's outside compensation consultant. PM&P does not provide any other services to the Company unless approved by the Committee. In fiscal 2008, PM&P assisted the Committee with its review and design of the Company's annual bonus and long-term incentive plans for the NEOs in order to reflect modifications in the Company's objectives due to declining market conditions in the homebuilding industry. The analysis also included a review of the compensation of similar executive positions among the Company's peer group of 11 publicly-traded homebuilding companies (the "Peer Group"). See "Peer Group Considerations" of the Compensation Discussion and Analysis below for a list of the companies in the Company's Peer Group.

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The Committee's primary objective for engaging PM&P is to obtain advice and feedback related to maintaining programs that provide compensation opportunities within the median range of the Peer Group for comparable financial performance. The Committee may also instruct PM&P 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 in the context of a challenging business environment. The Company also periodically participates in a homebuilding industry group compensation survey that is conducted by PM&P and which provides valuable information to the Committee in assessing its competitive pay levels.

The Committee weighs the information gathered from PM&P and the members of the Board and management it has consulted in conjunction with its review of other information it considers relevant when making decisions or making recommendations to the full Board regarding executive compensation.

Board Communication

The Company's Board of Directors is updated at least quarterly of 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 its review, the Compensation 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 year ended October 31, 2008.

COMPENSATION COMMITTEE

Stephen D. Weinroth, Chair

Robert B. Coutts

Edward A. Kangas

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended October 31, 2008, the members of the Compensation Committee were Messrs. Weinroth, Kangas, and Coutts. Each of Messrs. Weinroth, Kangas, and Coutts are non-employee Directors and were never officers or employees of the Company or any of its subsidiaries.

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COMPENSATION DISCUSSION AND ANALYSIS

I. COMPENSATION PHILOSOPHY AND OBJECTIVES

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

The four primary objectives that the Committee considered in making compensation decisions are discussed below. In making compensation related decisions, the Committee also considered its role in promoting good corporate governance practices.

Primary Objectives for the Compensation Program

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

1. To fairly compensate its executives in a manner that is appropriate with respect to their performance, level of responsibilities, abilities, and skills;
2. To offer compensation that guides, motivates, retains, and rewards its executives for the achievement of the Company's financial performance, strategic initiatives, and individual goals, including increased long-term shareholder value;
3. To maintain competitive pay 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; and
4. To ensure suitability of the reward system in a challenging business environment.

Tailored Compensation

Consistent with these objectives, the Company's compensation philosophy also takes into consideration the very unique roles played by each of the named executive officers for whom compensation is reported in the tables below (NEOs) and seeks to individually tailor their compensation packages to align their pay mix and pay levels to their contributions to, and positions within, the Company. For example:

- **Chairman of the Board:** The Company's founder, Mr. Kevork Hovnanian, has served as the Chairman of the Board of Directors since the Company's inception in 1959. Since Mr. K. Hovnanian owns a significant percentage of the voting power of the Company's issued and outstanding shares, his compensation package emphasizes cash compensation rather than equity awards.
- **CEO:** The CEO's compensation package differs from those of the other NEOs due to his unique role and elevated set of responsibilities. Because the CEO makes executive decisions that influence the direction, stability, and profitability of the Company, his overall compensation is intended to strongly align with objective financial measures of the Company.
- **CFO:** The Committee recognizes that the role of the CFO, similar to the CEO, is important in influencing the direction, stability, and profitability of the Company. Therefore, a significant portion of the CFO's overall compensation is also aligned with objective financial measures of the Company.
- **Other NEOs:** The Company's Senior Vice President - Chief Accounting Officer, Paul W. Buchanan and Senior Vice President - General Counsel, Peter S. Reinhart, have, as result of their respective positions, less direct influence on the Company's strategic and operational decisions as compared to the Chairman of the Board, CEO and CFO. Therefore, overall compensation for these NEOs reflects both objective financial measures of the Company and the attainment of personal objectives (as determined by the CFO and the CEO, who may consult with other members of senior management).

Variable Incentive Compensation & Discretionary Awards

The Company's compensation philosophy emphasizes variable incentive compensation elements (bonus and long-term incentives) that reflect the Company's financial and stock performance. For executives who report to the CEO or CFO, the variable compensation elements also include personal performance objectives. For all executive officers, the Committee retains the flexibility to adjust incentive awards downward or to

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consider discretionary bonus awards. Discretionary awards may be appropriate, for example, to reward progress toward strategic objectives or to reflect strong leadership while addressing industry-wide market conditions or to serve as a retention bonus for valued executives.

Peer Group Considerations

As context for setting compensation levels and practices, the Committee considered the compensation levels and practices of its Peer Group companies, as well as survey data. The Company's Peer Group includes the following 11 publicly-traded homebuilding companies: (1) Beazer Homes USA, Inc.; (2) Centex Corporation; (3) D.R. Horton, Inc.; (4) KB Home; (5) Lennar Corporation; (6) M.D.C. Holdings, Inc.; (7) NVR, Inc.; (8) Pulte Homes, Inc.; (9) Ryland Group, Inc.; (10) The Standard Pacific Corp.; and (11) Toll Brothers, Inc. The companies in the Peer Group have not changed since 2003 and have been selected by PM&P because of their comparable business profile. The Company and PM&P will continue to review the appropriateness of the Peer Group composition. Because the compensation structure for each of the NEOs is uniquely tailored to his position, the extent to which such Peer Group benchmarking data is considered is described below for each individual NEO.

Market Conditions Considerations

In determining overall compensation for the NEOs, the Committee also takes into account leadership abilities and risk management contributions, which are especially critical during difficult market conditions.

During fiscal 2008, the homebuilding industry has continued to be impacted by a lack of consumer confidence, increasing home foreclosure rates and large supplies of resale and new home inventories. The result has been weakened demand for new homes, slower sales, higher than normal cancellation rates, and increased price discounts and other sales incentives to attract homebuyers.

The heightened importance of cash flow and liquidity, as well as the Company's budget cuts and downsizing were considered by the Committee in making executive compensation decisions for fiscal 2008. As a result, the Chairman of the Board and the CEO did not receive any salary increase for fiscal 2008 and their 2008 annual bonus formulas were reoriented to focus more on cash flow and liquidity. The CFO's bonus formula was similarly reoriented and the CFO received a market adjustment in his salary for fiscal 2008 as described in greater detail below. For the reasons discussed below, the other NEOs' fiscal 2008 bonus formulas remained the same as fiscal 2007 and their salary adjustments reflect increases of less than 3% from the prior fiscal year.

As discussed in the fiscal 2007 Compensation Discussion and Analysis and below, each NEO has been offered the opportunity to earn a one-time retention bonus equal to 3% of such NEOs' fiscal year end 2007 base salary if the NEO remains employed with the Company through the end of the fiscal year in which the Company's Return on Average Common Equity (ROACE) for the fiscal year for which the bonus is to be paid returns to 20%. At the end of fiscal 2008, the Company's ROACE did not meet this threshold. Also as discussed in the fiscal 2007 Compensation Discussion and Analysis and below, discretionary retention awards were awarded where appropriate.

The Committee viewed these difficult compensation actions as appropriate and necessary to ensure alignment of pay and performance, while also taking into consideration competitive market pressures, both within and outside of the homebuilding industry, and the strength of leadership required in this challenging business environment.

II. FISCAL YEAR 2008 COMPENSATION ELEMENTS AND COMPENSATION MIX**Compensation Elements at a Glance**

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

1. Base salaries;
2. Regular and discretionary bonuses;
3. Stock grants (for example, stock options and restricted share and deferred share awards); and

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4. Various employee benefits, including specified perquisites.

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Compensation Mix

Fixed vs. Variable Compensation. A significant portion of executives' Total Direct Compensation (which includes base salary, bonuses and stock grants) is attributed to variable compensation—that is, compensation dependent on performance. Of the elements of Total Direct Compensation, base salary is fixed compensation and bonuses, including the stock component, and stock options are variable compensation. Bonuses for the Chairman of the Board, CEO and CFO are based upon objective formulas tied to financial performance goals that include the Company's (a) ROACE and (b) net debt reduction. For the other NEOs, bonuses are determined based on both the Company's ROACE and the achievement of tailored personal objectives. An important part of each NEO's compensation package also consists of stock options, which are 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. For the fiscal years 2004 through 2008, the percentages of each NEO's Total Direct Compensation attributable to variable compensation were as follows:

Total Variable Compensation as a Percentage of Total Direct Compensation*

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
	Percentages	Percentages	Percentages	Percentages
Kevork S. Hovnanian	83%	62%	0%	44%
Ara K. Hovnanian	97%	92%	78%	71%
J. Larry Sorsby	88%	81%	69%	63%
Paul W. Buchanan	56%	53%	51%	50%
Peter S. Reinhart	47%	53%	44%	43%

* Computed as the sum of total bonus (whether paid in cash or restricted share units in lieu of cash (computed upon the closing price of Class A Common Stock on the New York Stock Exchange on the date of grant) and the value of stock option grants based on the Black-Scholes options calculation model on the date of grant divided by the sum of base salary, total bonus, and stock option grants.

The intent of the Committee is to maintain variable compensation opportunity as the most significant percentage of Total Direct Compensation for all NEOs for fiscal 2008 and to maintain its approximate level from year to year. In addition, the level of variable compensation is intended to align with the Peer Group in years when the Company performs at median levels compared to the Peer Group. In fiscal 2007 and 2008, the percentage of variable compensation has declined from historical levels because total bonus amounts were zero for fiscal 2007 and significantly lower than historical amounts for fiscal 2008. Consistent with the Committee's philosophy to maintain variable compensation levels similar to the Peer Group, the Committee awarded stock grants to each of the NEOs in fiscal 2008, with the exception of Mr. K. Hovnanian as discussed below, which were intended to result in Total Direct Compensation opportunity that falls within the median comparable Peer Group range for executives.

Long-Term vs. Short-Term Compensation. An important portion of each NEO's Total Direct Compensation is long-term compensation, which includes both stock options and restricted share unit awards granted in lieu of cash for a portion of total bonus amounts. Short-term compensation consists of base salary and the cash portion of annual bonus amounts. Restricted share unit and stock option awards are intended to foster long-term commitment by the executive, employee-shareholder alignment, and improved long-term shareholder value. The average long-term compensation amounts as a percent of Total Direct Compensation for fiscal years 2005 through 2008 for the CEO and CFO were 60% and 49%, respectively. The Company's Chairman of the Board and founder, Mr. K. Hovnanian, does not typically receive any stock options or restricted share unit awards as part of his overall compensation as he currently holds a significant equity interest in the Company. Mr. Buchanan and Mr. Reinhart's average long-term compensation percentages for the same period were 24% and 22%, respectively, reflecting the Committee's belief that while it is important for these executives to be compensated in part based on the long-term performance of the Company, they have less direct influence on the long-term financial success of the Company as compared to the other NEOs.

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III. DETAILS OF COMPENSATION ELEMENTS

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Base Salaries

Base salaries are intended to reward and retain executives for their day-to-day contributions to the Company. The Committee believes that base salaries at or above the competitive median level are necessary to retain the Company's executive talent pool, and it determined that the fiscal 2008 base salaries of the Company's executive officers were necessary to retain their services.

Base salaries of all the NEOs are reviewed annually by the Committee and are subject to adjustment based on individual performance, change in responsibilities, average salary increases or decreases in the industry, compensation for similar positions involving the Company's Peer Group or other comparable companies if comparable data was unavailable from the Peer Group companies, as well as other factors such as cost of living. The Committee also consults with PM&P in determining the need for salary adjustments.

- **Chairman of the Board and CEO:** For fiscal 2008 and 2009, the Chairman of the Board and the CEO did not receive any salary adjustments in respect of their existing annual base salaries, reflecting the Company's budget cuts and downsizing due to industry conditions. In addition, based on discussions with PM&P, the Committee understands that the CEO's base salary is near the median base salary level of other individuals with similar responsibilities at Peer Group companies.
- **CFO:** The CFO received a salary adjustment for fiscal 2008, but did not receive any salary adjustment for fiscal 2009. The Committee determined that a salary increase from \$312,171 to \$500,000 for fiscal 2008 was warranted after reviewing an analysis of CFO compensation among the Peer Group, which highlighted a significant retention concern because the CFO's salary had fallen below the Peer Group's 25th percentile. In particular, salaries for Peer Group CFOs have increased considerably more rapidly than at the Company. With the fiscal 2008 increase to \$500,000, the CFO's salary has approached the desired Peer Group median salary level.
- **Other NEOs:** No base salary adjustments were approved for Messrs. Buchanan and Reinhart for fiscal 2008 and they each received a nominal merit increase of 2.5% of their base salary for fiscal 2009, which was consistent with the increases generally provided to other employees of the Company.

Bonuses

Regular Bonuses

The Company provides each of the NEOs with an opportunity to earn bonuses, the cash portions of which are intended to reward executives for the attainment of short-term financial objectives and, in the case of certain NEOs, individual performance objectives. Fiscal 2008 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") and the 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (formerly known as the 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan) (the "Stock Incentive Plan"), each of which is a shareholder approved plan.

Bonus opportunities are intended to be competitive with industry-wide practices in order to retain and attract executive talent. For fiscal 2008, with the exception of the Chairman of the Board, who has significant equity ownership, 30% of the earned bonuses for the NEOs was paid in the form of deferred shares (with the remaining 70% paid in cash) with vesting restrictions in order to provide alignment with shareholders and encourage long-term retention. The number of shares of the Company's common stock paid under a deferred share award is determined by dividing the dollar amount of the deferred share portion by the lesser of (1) the closing price of the Class A Common Stock on the last day of the fiscal year during which the service giving rise to the deferred share award was performed or (2) the average of the closing prices of a share of Class A Common Stock on the last day of each of the five previous fiscal quarters ending on the last day of the fiscal year during which the service giving rise to the deferred share award was performed, and adding an incremental 20% more shares to reflect the shift from a cash bonus award to a deferred share award with four-year vesting restrictions.

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Historically, bonuses for the Chairman of the Board, CEO and CFO were linked solely to a measure of the Company's return on equity (ROACE, as the current example), a common industry practice. For fiscal 2008, bonus formulas for these NEOs were reorie