BARFRESH FOOD GROUP INC.
Form 424B3
February 29, 2016

Prospectus Supplement No. 2 to	**Filed Pursuant to Rule to 424(b)(3)**
Prospectus dated May 12, 2015	**REGISTRATION STATEMENT NO. 333-203340**

16,780,333 Shares of Common Stock

This prospectus supplement no. 2 (“Supplement”) supplements and amends our original prospectus dated May 12, 2015 relating to the sale, from time to time, of up to 16,780,333 shares of our common stock by the selling shareholders listed under the caption “Selling Shareholders”, as supplemented by prospectus supplement no. 1 dated July 21, 2015 (together, the “Prospectus”). We are filing this Supplement to update and supplement the information included or incorporated by reference in the Prospectus with the information contained in our Quarterly Reports on Form 10-Q for the periods ended June 30, 2015 and September 30, 2015 and in our Current Reports on Form 8-K filed on each of October 28, 2015, November 20, 2015, December 14, 2015, February 1, 2016 and February 29, 2016. The text of the Quarterly Reports on Form 10-Q and Current Reports on Form 8-K is attached to and a part of this Supplement.

Our common stock is traded on the OTCQB under the symbol BRFH. On February 24, 2016, the last reported sale price of our common stock was $0.90 per share.

This Supplement should be read in conjunction with the Prospectus and may not be delivered or utilized without the Prospectus. To the extent there is a discrepancy between the information contained in this Supplement and the information in the Prospectus, the information contained herein supersedes and replaces such conflicting information.

INVESTING IN OUR COMMON STOCK INVOLVES SUBSTANTIAL RISK. IN REVIEWING THIS SUPPLEMENT AND THE PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DESCRIBED UNDER THE HEADING “RISK FACTORS” BEGINNING ON PAGE 3 OF THE PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES, OR DETERMINED IF THE PROSPECTUS, AS SUPPLEMENTED, IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 2 is February 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: **000-55131**

BARFRESH FOOD GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**27-1994406**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8530 Wilshire Blvd., Suite 450, Beverly Hills, California	**90211**
(Address of principal executive offices)	(Zip Code)

310-598-7113

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

As of November 10, 2015, there were 79,884,521 outstanding shares of common stock of the registrant.

TABLE OF CONTENTS

		Page Number
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements.	F-1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	3
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	8
Item 4.	Controls and Procedures.	8
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings.	9
Item 1A.	Risk Factors.	9
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	9
Item 3.	Defaults Upon Senior Securities.	9
Item 4.	Mine Safety Disclosures.	9
Item 5.	Other Information.	9
Item 6.	Exhibits.	9
SIGNATURES		10

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Barfresh Food Group Inc.

Condensed Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	March 31, 2015 (Audited)
Assets		
Current assets:		
Cash	$1,511,686	$5,364,657
Accounts Receivable	119,796	46,096
Inventory	310,595	165,847
Prepaid expenses and other current assets	36,190	6,386
Total current assets	1,978,267	5,582,986
Property, plant and equipment, net of depreciation	619,033	545,454
Intangible asset, net of amortization	630,447	651,433
Deposits	16,451	16,451
Total Assets	$3,244,198	$6,796,324
Liabilities And Stockholders' Equity		
Current liabilities:		
Accounts payable	$162,593	$133,254
Accrued expenses	369,867	424,262
Deferred rent liability	2,040	1,484
Short-term notes payable - related party, net of discount	300,000	157,393
Short-term notes payable, net of discount	50,000	539,631
Convertible note, net of discount	50,000	325,114
Current portion of long term debt	14,039	7,551
Total current liabilities	948,539	1,588,689
Long Term Debt	49,505	28,916
Total liabilities	998,044	1,617,605
Commitments and contingencies (Note 6)	-	-
Stockholders' equity:		
Preferred stock, $0.000001 par value, 5,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.000001 par value; 295,000,000 shares authorized; 79,884,521 and 77,720,828 shares issued and outstanding at September, 2015 and March 31, 2015, respectively	80	78

Additional paid in capital	14,923,086	14,034,623
Accumulated deficit	(12,675,067)	(8,808,640)
Unearned services	(1,945)	(47,342)
Total stockholders' equity	2,246,154	5,178,719
Total Liabilities and Stockholders' Equity	$3,244,198	$6,796,324

See the accompanying notes to the condensed consolidated financial statements

F-1

Barfresh Food Group Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the three months ended September 30,		For the six months ended September 30,	
	2015	2014	2015	2014
Revenue	$226,127	$40,233	$394,227	$101,725
Cost of revenue	119,229	19,744	209,431	61,103
Gross profit	106,898	20,489	184,796	40,622
Operating expenses:				
General and administrative	2,138,815	778,800	3,745,545	1,456,031
Depreciation Amortization	42,524	29,196	87,572	57,916
Total operating expenses	2,181,339	807,996	3,833,117	1,513,947
Operating loss	(2,074,441)	(787,507)	(3,648,321)	(1,473,325)
Other expenses				
Interest	62,507	126,766	210,249	237,756
Loss on debt conversion	-	-	7,858	-
	62,507	126,766	218,107	237,756
Net (loss)	$(2,136,948)	$(914,273)	$(3,866,427)	$(1,711,081)
Per share information - basic and fully diluted:				
Weighted average shares outstanding	78,496,262	66,254,136	78,188,337	65,887,401
Net (loss) per share	$(0.03)	$(0.01)	$(0.05)	$(0.03)

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the six month ended September 30,	
	2015	2014
Net Cash used in operations	$(3,366,381)	$(1,134,262)
Cash flow from investing activities:		
Investment in trademark	(9,906)	(11,438)
Purchase of equipment	(138,945)	(191,249)
Sale of equipment	7,684	1,977
Net Cash used in investing activities	(141,167)	(200,710)
Cash flow from financing activities:		
Exercise of Warrant	2,500	-
Repayment of Short Term Notes	(75,000)	-
Repayment of Short Term Notes -related party	(300,000)	-
Long term borrowing	33,000	-
Repayment of long term debt	(5,923)	-
Net cash used in financing activities	(345,423)	-
Net (decrease) in cash	(3,852,971)	(1,334,972)
Cash at beginning of period	5,364,657	2,632,612
Cash at end of period	$1,511,686	$1,297,64
Supplemental disclosure of cash flow information:		
Cash paid for interest	$57,720	$3,182
Cash paid for income taxes	$-	$-
Non-cash financing activities		
Common Stock issued for services	$60,500	$476,333
Common stock issued on conversion of note	$50,000	$-
Common stock issued on conversion of convertible note	$389,341	$-

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

Throughout this report, the terms “our”, “we”, “us” and the “Company” refer to Barfresh Food Group Inc., including its subsidiaries. The accompanying unaudited condensed financial statements of Barfresh Food Group Inc. at September 30, 2015 and 2014 have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial statements, instructions to Form 10-Q, and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the year ended March 31, 2015. In management’s opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation to make our financial statements not misleading have been included. The results of operations for the periods ended September 30, 2015 and 2014 presented are not necessarily indicative of the results to be expected for the full year. The March 31, 2015 balance sheet has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended March 31, 2015.

Basis of Consolidation

The condensed consolidated financial statements include the financial statements of the Company and our wholly owned subsidiaries Barfresh Inc. and Barfresh Corporation, Inc. (formerly known as Smoothie, Inc.). All inter-company balances and transactions among the companies have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the years reported. Actual results may differ from these estimates.

Inventory

Inventory consists of finished goods and is carried at the lower of cost or market on a first in first out basis.

Intangible Assets

Intangible assets are comprised of patents, net of amortization. The patent costs are being amortized over the life of the patents, which is twenty years from the date of filing the patent applications. In accordance with ASC Topic 350 *Intangibles - Goodwill and Other* ("ASC 350"), the costs of internally developing other intangible assets, such as patents, are expensed as incurred. However, as allowed by ASC 350, legal fees and similar costs relating to patents have been capitalized.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment loss, if any. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. Leasehold improvements are being amortized over the shorter of the useful life of the asset or the lease term that includes any expected renewal periods deemed to be reasonably assured. The estimated useful lives used for financial statement purposes are:

Furniture and fixtures: 5 years

Equipment: 7 years

Leasehold improvements: 2 years

Vehicle: 5 years

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Revenue Recognition

We recognize revenue from products sold when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collection is reasonably assured.

Earnings per Share

We calculate net loss per share in accordance with ASC Topic 260, *Earnings per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, and diluted earnings per share is computed by including common stock equivalents outstanding for the period in the denominator. At September 30, 2015 and 2014 any equivalents would have been anti-dilutive as we had losses for the periods then ended.

Research and Development

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred $17,672 and $33,577 in research and development expenses for the six-month periods ended September 30, 2015 and 2014, respectively, and $9,289 and $27,925 in research and development expenses for the three-month periods ended September 30, 2015 and 2014, respectively.

Rent Expense

We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, *Leases* (“ASC 840”).

Recent Pronouncements

From time to time, new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of recently issued standards that are not yet effective may have an impact on our results of operations and financial position. ASU Update 2014-09 *Revenue From Contracts With Customers (Topic 606*) issued May 28, 2014 by FASB and IASB converged guidance on recognizing revenue in contracts with customers with an effective date after December 15, 2017 will be evaluated as to impact and implemented accordingly. In addition, ASU Update 2014-15 *Presentation of Financial Statements-Going Concern (Sub Topic 205-40)* issued August 27, 2014 by FASB defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern. The additional disclosure requirement is effective after December 15, 2016 and will be evaluated as to impact and implemented accordingly.

Note 2. Property Plant and Equipment

Major classes of property and equipment at September 30, 2015 and March 31, 2015:

	September 30, 2015	March 31, 2015
Furniture and fixtures	$13,604	$10,794
Equipment	703,047	632,596
Leasehold Improvements	3,300	3,300
Vehicle	116,752	58,752
	836,703	705,442
Less: accumulated depreciation	(217,670)	(159,988)
Property and equipment, net of depreciation	619,033	545,454

We recorded depreciation expense related to these assets of $57,682 and $27,284 for the six-month periods ended September 30, 2015 and 2014, respectively, and $28,007 and $13,642 for the three-month periods ended September 30, 2015 and 2014, respectively.

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Note 3. Intangible Assets

As of September 30, 2015 and March 31, 2015, intangible assets consist primarily of patent costs and trademarks of $ 758,712 and $748,806, less accumulated amortization of $128,265 and $97,373, respectively.

The amounts carried on the balance sheet represent cost to acquire, legal fees and similar costs relating to the patents incurred by the Company. Amortization is calculated through the expiration date of the patent, which is December, 2025. The amount charged to expenses for amortization of the patent costs was $30,892 and $30,633 for the six-month periods ended September 30, 2015and 2014, respectively, and $15,519 and $15,555 for the three-month periods ended September 30, 1015 and 2014, respectively.

Estimated amortization expense related to the patent as of September 30, 2015 is as follows:

Fiscal Years Ending March 31,	
2016 (6 months remaining)	$41,579
2017	61,492
2018	61,492
2019	61,492
2020	61,492
Thereafter	342,900
Total	$630,447

Note 4. Short-Term Notes Payable (Related and Unrelated)

In December 2013, we closed an offering of $775,000 in short-term notes payable (“Short-Term Notes”), $500,000 of which was purchased by a significant shareholder, $100,000 was purchased by the family trust of an officer, director and significant shareholder and $100,000 was purchased by a company controlled by a director and significant

shareholder. During December 31, 2014 the $100,000 that was purchased by the family trust of an officer, director and significant shareholder is no longer considered to be owned by the officer as he is no longer, nor is any other related party, the trustee and does not exercise control over the trust and is not classified as a related party debt. The Short-Term Notes bear interest at a rate of 2% per annum and were due and payable on December 20, 2014. We also issued 1,291,667 warrants to the Short-Term Note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of $0.45 per share, may be exercised on a cashless basis and are exercisable for a period of five years.

In accordance with the guidance in ASC Topic 470-20 *Debt with Conversion and Other Options* (“ASC 470”), we first calculated the fair value of the warrants issued and then determined the relative value of the Short-Term Notes.

The relative value of the warrants was $298,232, which was the amount recorded as debt discount. The amounts recorded as debt discount was amortized over the life of the note, one year, and charged to interest expense. We estimated the effective interest rate as calculated to be approximately 52% but paid cash at a rate of 2% per annum.

We exercised our right to extend the due date of the Short-Term Notes to June 20, 2015. The extended Short-Term Notes bear at the rate of 3% per annum and we required us to issue additional warrants (“Extension Warrants”). We issued 898,842 warrants to the Short-Term Note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of $0.485 per share, may be exercised on a cashless basis and are exercisable for a period of three years.

On June 20, 2015, some of the Short-Term Notes were amended, and some of the Short-Term Notes were redeemed. Short-Term Notes totaling $700,000 were amended to provide for repayment on June 20, 2015 of 50% of the face value, plus accrued interest to that date ($10,500), and extension of the remaining balance until September 20, 2015, and the interest rate on the notes that were extended was adjusted to 10%. The remaining Short-Terms Notes were fully redeemed on June 20, 2015. One such note in the amount of $25,000 was redeemed for cash, and one such note in the amount of $50,000 was redeemed for 71,429 shares of our common stock. As a result of the above described amendments and redemptions of the Short-Terms Notes, all remaining unamortized debt discount was expensed as of June 20, 2015.

Of the balance of the notes due that were payable on September 20, 2015, one note for $250,000 was repaid on October 1, 2015, and two notes totaling $100,000 were extended until December 31, 2015, with 10% interest.

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Note 5. Convertible Note (Related and Unrelated)

In August 2012, we closed an offering of $440,000 of convertible notes, $50,000 of which was purchased by the family trust of a significant shareholder of ours. The notes bear interest at a rate of 12% per annum and were due and payable on September 6, 2013. In addition, the notes were convertible at any time after the original issue date until the notes are no longer outstanding into our common stock at a conversion price of $0.372 per share. We also issued 956,519 warrants to the note holders for the right to purchase shares of our common stock. Each warrant entitled the holder to purchase one share of our common stock at a price of $0.46 per share for a term of seven years.

When the convertible notes were due we settled the notes by repaying $40,000 of the notes in cash, issuing new convertible notes in the amount of $400,000 and received payment for another note in the amount of $20,000. The new notes bear interest at a rate of 12% per annum and are due and payable on September 6, 2015. In addition the new notes are convertible at any time after the original issue date until the new notes are no longer outstanding, into our common stock at a conversion price of $0.25 per share. We also issued warrants to the new note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of $0.25 per share. There were 1,680,000 warrants issued. The warrants issued with the original notes were cancelled.

In accordance with the guidance in ASC 470, we first calculated the fair value of the warrants issued and then determined the relative value of the notes and determined that there was a beneficial conversion feature.

The fair value of the warrants, $0.13 per share, ($216,531 in the aggregate) was calculated using the Black-Sholes option pricing model using the following assumptions:

Expected life (in years)	3	
Volatility (based on a comparable company)	85	%
Risk Free interest rate	0.91	%
Dividend yield (on common stock)	-	

The relative value of the warrants to the notes was $142,873, which was the amount recorded as a portion of the debt discount. We also recorded a beneficial conversion feature on the convertible notes of $125,905. The amounts recorded as debt discount will be amortized over the life of the notes, two years, and charged to interest expense. We estimated the effective interest rate as calculated to be approximately 74% but the face rate was 12% per annum.

As of September 30, 2015 all debt discount has been amortized.

During September 2015 all of the holders of the convertible notes elected to convert the notes, $420,000, and accumulated interest of $21,955 to our common stock. We issued 1,557,367 shares of our common stock and will issue the remaining 210,455 shares in the near future.

Note 6. Commitments and Contingencies

We lease office space under a non-cancelable operating lease, which will expire on November 7, 2016.

The aggregate minimum requirements under non-cancelable leases as of September 30, 2015 is as follows:

Fiscal Years ending March 31,	
2016	$46,368
2017	54,529
	$100,897

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Note 7. Stockholders' Equity

During the six months ended September 30, 2015, we increased our authorized capitalization to 300,000,000 shares of stock, consisting of 295,000,000 shares of common stock, par value $0.000001per share, and 5,000,000 shares of blank check preferred stock, par value $0.000001. During the quarter, our Board of Directors also unanimously approved and adopted the Barfresh Food Group, Inc. 2015 Equity Incentive Plan (the "Plan"). The maximum number of shares that may be issued pursuant to awards under the Plan is 15,000,000 shares.

During the six months ended September 30, 2015 we issued 97,581 shares of common stock, valued at $60,500, for services.

During the six months ended September 30, 2015 we granted the right to 1,000,000 shares of restricted common stock to a director of the Company who during the period became an officer of the Company. The stock vests 50% on each of the second and third anniversary of the issuance. In accordance with ASC Topic 718, Compensation - Stock Compensation ("ASC 718"), compensation expense in the amount of $104,167 and $62,500, respectively for the six and three months ended September 30, 2015, was recognized in the statement of operations. In addition, we granted the right to 350,000 shares of restricted to another officer in connection with an employment agreement entered into during the six months ended September 30, 2015. In accordance with ASC Topic 718, Compensation - Stock Compensation ("ASC 718"), compensation expense in the amount of $44,040 and $29,896, respectively for the six and three months ended September 30, 2015 was recognized in the statement of operations.

During the six months ended September 30, 2015, we issued 1,790,000 options to purchase our common stock to officers and employees of the Company. In addition, we cancelled 10,000 options to purchase our common stock. The exercise price of the options ranged from $0.50 to $0.82 per share, and are exercisable for periods of between 5 and 8 years. The options vest under a variety of vesting schedules. Seventy thousand (70,000) of the options vest on the first anniversary of issuance, 850,000 of the options vest on the second anniversary of issuance, and 870,000 of the options vest on the third anniversary of issuance.

The fair value of the options ($1,181,393 in the aggregate) was calculated using the Black-Sholes option pricing model, based on the criteria shown below, and are being written off the life of each option.

Expected life (in years)	4.5 to 8
Volatility (based on a comparable company)	78% to 99%
Risk Free interest rate	1.38% to 2.11%
Dividend yield (on common stock)	-

The following is a summary of outstanding stock options issued to employees and directors as of September 30, 2015:

	Number of Options	Exercise price per share	Average remaining term in years	Aggregate intrinsic value at date of grant
Outstanding March 31, 2015	1,600,000	$0.45 - $0.54	3.25	$ -
Issued	1,820,000	$0.45 - $0.82	7.59	$ 210,000
Cancelled	(10,000)	-	-	-
Outstanding September 30, 2015	3,410,000	$0.45 - $0.82	5.51	$ 210,000
Exercisable	1,450,000	$0.45 - $0.51	3.05	$ -

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial statements

September 30, 2015 and 2014

(Unaudited)

Note 8. Outstanding Warrants

The following is a summary of all outstanding warrants as of September 30, 2015:

	Number of warrants	price per share	remaining term in years	intrinsic value at date of grant
Warrants issued in connection with private placements of common stock	22,033,332	$0.25 - 1.50	1.65	$1,590,567
Warrants issued in connection with private placement of convertible notes	1,680,000	$0.25	0.94	$-
Warrants issued in connection with short-term notes payable	2,190,509	$0.45-$0.485	2.73	$64,583

During the six month period ended September 30, 2015 holders of 667,560 warrants to purchase shares of our common stock elected to exercise those warrants. Of the warrants exercised 657,560 were cashless and we issued 427,316 shares of our common stock in exchange for the warrants and 10,000 were exercised for cash and we issued 10,000 shares of our common stock.

Note 9. Interest Expense

Interest expense includes direct interest of $37,387 and $33,041 for the six month periods ended September 30, 2015 and 2014, respectively and $19,362 and $16,611 for the three months ended September 30, 2015 and 2014, calculated based on the interest rates stated in our various debt instruments.

In addition as more fully described in Notes 4 and 5 above, interest expense includes non-cash amortization of the debt discount of $172,862 and $204,715 for the six months ended September 30, 2015 and 2014, respectively and

$43,145 and $110,155 for the three months ended September 30, 2015 and 2014.

Note 10. Income Taxes

We account for income taxes in interim periods in accordance with ASC Topic 740, Income Taxes ("ASC 740"). We have determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during our fiscal year to our best current estimate. As of September 30, 2015 the estimated effective tax rate for the year will be zero.

There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit our tax returns from 2009 through the current period. Our policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

For the six months ended September 30, 2015 and 2014, we did not have any interest and penalties associated with tax positions. As of September 30, 2015 we did not have any significant unrecognized uncertain tax positions.

Note 11. Business Segments

During the three months ended September 30, 2015 and 2014, we operated in only one business segment.

Note 12. Subsequent Events

Management has evaluated all activity and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

F-9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the financial information included elsewhere in this Quarterly Report on Form 10-Q (this "Report"), including our unaudited condensed consolidated financial statements as of September, 2015 and for the six month periods ended September 30, 2015 and 2014 and the related notes. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations section to "us", "we", "our" and similar terms refer to Barfresh Food Group Inc. This discussion includes forward-looking statements, as that term is defined in the federal securities laws, based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as "anticipate", "estimate", "plan", "continuing", "ongoing", "expect", "believe", "intend", "may", "will", "should", "could" and similar expressions are used to identify forward-looking statements.

We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. All of the products are portion controlled and ready to blend beverage ingredient packs or "beverage packs". The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the products. In November 2011, the Company acquired the patent rights in the United States and Canada. The Canadian patent has been granted and the United States patent is "patent pending". On October 15, 2013, the Company acquired all of the related international patent rights, which were filed pursuant to the Patent Cooperation Treaty and have been granted in 13 jurisdictions. The patents are pending in the remainder of the jurisdictions that have signed the treaty. In addition, on October 15, 2013, the Company purchased all of the trademarks related to the patented products.

The Company has conducted sales through two channels: National Accounts, and through an exclusive nationwide distribution agreement with Sysco Corporation ("Sysco"), the U.S.'s largest broadline distributor, which was entered into during July 2014.

The process of obtaining sales orders for National Accounts generally follows several steps, including product demonstration, product testing, and exclusive flavor development for the larger National Accounts. We are currently in various stages of product development and testing with National Accounts representing over 37,000 restaurant locations. The Company recently moved into full roll out with Shari's Café and Pies, a family dining chain in the Pacific Northwest operating 100 restaurants which are open 24 hours a day, 365 days a year. Barfresh also recently entered into a sales agreement with the Bowling Proprietor's Association of America ("BPAA"), an organization that serves the interests of 3,340 bowling centers nationwide. Under the agreement with BPAA, Barfresh will work with the organization to provide Barfresh's line of smoothies, shakes and frappes to its members.

In addition to the National Accounts, the Company sells to food distributors that supply products to the food services market place. Effective July 2, 2014, the Company entered into an exclusive agreement with Sysco Merchandising and Supply Chain Services, Inc. for resale by the Sysco Corporation ("Sysco") to the foodservice industry of the Company's ready-to-blend smoothies, shakes and frappes. All Barfresh products will be included in Sysco's national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi-unit chain operators nominated distributor for our products. The Company has already started shipping to 35 of the 74 Sysco distribution centers under this agreement and anticipates a national rollout over the next 12 months.

On October 26, 2015, Barfresh signed an agreement with PepsiCo North America Beverages, a division of PepsiCo, to become its exclusive sales representative within the food service channel to present Barfresh's line of ready-to-blend smoothies and frozen beverages throughout the United States and Canada. Through this agreement, Barfresh' products will be included as part of PepsiCo's offerings to its significant customer base, which we expect to fast track our growth and expedite the test to market process.

Finally, the Company intends to monetize the international patents outside of the current area of operations, North America, by expanding contract manufacturing to other countries and selling either through selling agents or internal sales personnel. The Company will also consider entering into some form of license or royalty agreements with third parties.

Barfresh currently utilizes contract manufacturers to manufacture all of the products in the United States. Ice cream manufacturers are best suited to produce the products and two production lines are currently operational in our Salt Lake City contract manufacturer location. This manufacturer is currently producing products sold to existing customers as well as producing exclusive products developed for National Accounts. Currently annual production capacity with our existing contract manufacturer is 14 million units per year. The Company is now in advanced discussion with an additional contract manufacturing company that would be able to produce an additional 100 million units per year.

Although there currently is not a contract in place with any suppliers for the raw materials needed to manufacture our products, there are a significant number of sources available and the company does not anticipate becoming dependent on any one supplier. As demand for the range of our products grows, we plan to contract a level of raw material requirements to ensure continuity of supply.

As of September 30, 2015, we had 34 employees and 4 consultants. There are currently 24 employees and 2 consultants selling our products.

Most recently, as part of the Company's expansion due to the acquisition of the international patents, a leading regional Australian food ingredient supply and product developer has been engaged as the wholesaler and distributor for Barfresh products in Australia.

Critical Accounting Policies

The significant accounting policies set forth in Note 2 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2015, as updated by Note 1 to the Unaudited Condensed Consolidated Financial Statements included herein, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended March 31, 2015, appropriately represent, in all material respects, the current status of our critical accounting policies and estimates, the disclosure with respect to which is incorporated herein by reference

Results of Operations

Results of Operation for Three Months Ended September 30, 2015 as Compared to the Three Months Ended September 30, 2014 (References to 2015 and 2014 are to the three months ended September 30, 2015 and 2014, respectively, unless otherwise specified.)

Revenue and cost of revenue

Revenue increased $185,894 (462%) from $40,233 in 2014 to $226,127 in 2015. The increase is a result of our product being distributed through Sysco, a leading national broad line food distributor. We currently sell into 34 of Sysco's 74 distribution locations. At this time last year we sold our product into 2 of Sysco's distribution locations. We expect to have our product in all of Sysco's 74 distribution locations during calendar year 2016.

Cost of revenue for 2015 was $119,229 as compared to $19,744 in 2014. Our gross profit was $106,898 (47.27%) and $20,489 (50.93%) for 2015 and 2014, respectively. There were no significant change in our selling prices. Revenue in both 2015 and 2014 included sales of blenders and freezers. We only make a nominal profit on these items as they are to accommodate our customers. We anticipate that our gross profit percentage for the remainder of 2015 will be comparable to the current percentage.

Operating expenses

Our operations during 2015 and 2014 were directed towards increasing sales and finalizing flavor profiles. During the current quarter we increased our overhead as a result of the ongoing implementation of the distribution agreement with Sysco. We anticipate further increases to selling costs, mostly related to increasing our sales and marketing staff, as we continue to implement our distribution agreement with Sysco, and as we begin to implement our new sales agreement with PepsiCo North America Beverages.

Our general and administrative expenses increased $1,360,015 (175%) from $778,800 in 2014 to $2,138,815 in 2015, as our business grew, and may not necessarily be indicative of the rate of future increases. The following is a breakdown of our general and administrative expenses for the three months ended September 30, 2015 and 2014:

	Three months ended September 30,		
	2015	2014	Difference
Personnel costs	$1,040,843	$239,626	$801,217
Stock based compensation/options	255,321	116,823	138,498
Legal and professional fees	202,072	105,795	96,277
Travel	110,404	55,323	55,081
Rent	34,482	35,211	(729)
Marketing and selling	158,686	43,610	115,076
Consulting fees	172,090	78,495	93,595
Other expenses	164,917	103,917	61,000
	$2,138,815	$778,800	$1,360,015

Personnel cost represents the cost of employees including salaries, employee benefits and employment taxes and continues to be our largest cost. Personnel cost increased $801,217 (334%) from $239,626 to $1,040,842. We have significantly increased our sales staff primarily as a result of the distribution agreement with Sysco. We currently have 34 full time employees compared to 6 at the end of the prior period. We anticipate personnel cost to increase in the future as we add more staff for both the further implementation of the Sysco distribution agreement and the PepsiCo sales agreement.

Stock based compensation is used as an incentive to attract new employees and to compensate existing employees. Stock based compensation includes stock issued and options granted to employees and non-employees. During the three months ended September 30, 2015, we granted 80,000 options to purchase shares of our common stock to employees. The exercise prices range from $0.47 to $0.72. The fair value of the stock was based on the trading value of the shares on the date of grant and are being amortized over the vesting period. The fair value of the stock options was calculated using the Black-Sholes model using the following assumptions: expected life in years, 8; volatility, 98.7% to 99%; risk free rate of return, 1.64% to 2.11%, and no annual dividends and are being amortized over the vesting period. We anticipate making additional grants in the future. Fewer grants were made in 2014.

Legal and professional fees increased $ 96,277 (91%) from $105,795 in 2014 to $ 202,072 in 2015. The increase was primarily due to increased accounting costs and more legal services required as a result of increased business and financing activity. We anticipate legal fees related to ongoing Securities and Exchange Commission reporting to remain the same and additional legal fees to be related to the continuing increase in our business and financing activities.

Travel expenses increased $55,081 (100%) from $55,323 in 2014 to $110,404 in 2015. The increase is due to increased travel related to increased personnel engaging in selling and marketing activities. We anticipate that travel cost will continue to increase as we increase our personnel and our customer base.

Rent expense is primarily for our location in Beverly Hills, California. Rent expense for the Beverly Hills office is approximately $7,600 per month. The lease on the office commenced in November 8, 2014 and expires in November 2016. Rent expense also includes monthly parking fees as well as an offsite storage facilities. The increase is due to a nominal increase on the office and the addition of additional parking fees as our employee base grows.

Marketing and selling expenses increased $115,076 (264%) from $43,610 in 2014 to $158,686 in 2015. The increase relates primarily to the increase in overall sales and marketing activities, including a rebranding project. We anticipate a continued increase in these costs as our business continues to grow.

Consulting fees increased $93,595 (119%) from $78,495 in 2014 to $172,090 in 2015. Our consulting fees vary based on needs. We engage consultants in the areas of sales, operations and accounting. Future consulting fees will be variable.

Other expenses consist of ordinary operating expenses such as office, telephone, insurance, and stock related costs. We anticipate increases in these expenses.

We had operating losses of $2,074,441 and $787,507 for 2015 and 2014, respectively.

Interest expense decreased $64,259 (51%) from $126,766 in 2014 to $62,507 in 2015. Interest primarily relates to convertible debt that was issued in August 2012, renewed in September 2013, and converted into stock during September of 2015, and short term notes that were issued in December 2013, which were partially repaid during June of 2015. The stated interest rate on the convertible debt is 12%. After giving effect to the debt discount the effective rate of interest on the short term debt is estimated to be approximately 53% and approximately 74% on the convertible notes. Interest expense includes direct interest of $19,362 and $16,611 for 2015 and 2014, respectively, calculated based on the interest rates stated in our various debt instruments. In addition, interest expense includes non-cash amortization of the debt discount of $43,145 and $110,155 for 2015 and 2014, respectively

We had net losses of $2,136,948 and $914,273 for 2015 and 2014, respectively.

***Results of Operation for Six Months Ended September 30, 2015 as Compared to the Six Months Ended September 30, 2014* (References to 2015 and 2014 are to the six months ended September 30, 2015 and 2014, respectively, unless otherwise specified.)**

Revenue and cost of revenue

Revenue increased $292,502 (288%) from $101,725 in 2014 to $394,227 in 2015. The increase is a result of our product being distributed through Sysco, a leading national broad line food distributor. We currently sell into 34 of Sysco’s 74 distribution locations. At this time last year we sold our product into 2 of Sysco’s distribution locations. We expect to have our product in all of Sysco’s 74 distribution locations during calendar year 2016.

Cost of revenue for 2015 was $209,431 as compared to $61,103 in 2014. Our gross profit was $184,796 (46.88%) and $40,622 (39.93%) for 2015 and 2014, respectively. There were no significant change in our selling prices. Revenue in both 2015 and 2014 included sales of blenders and freezers. We only make a nominal profit on these items as they are to accommodate our customers. We anticipate that our gross profit percentage for the remainder of 2015 will be comparable to the current percentage.

Operating expenses

Our operations during 2015 and 2014 were directed towards increasing sales and finalizing flavor profiles. During the current quarter we increased our overhead as a result of the ongoing implementation of the distribution agreement with Sysco. We anticipate further increases to selling costs, mostly related to increasing our sales and marketing staff, as we continue to implement our distribution agreement with Sysco, and as we begin to implement our new sales

agreement with PepsiCo North America Beverages.

Our general and administrative expenses increased $2,289,514 (157%) from $1,456,031 in 2014 to $3,745,545 in 2015, as our business grew, and may not necessarily be indicative of the rate of future increases. The following is a breakdown of our general and administrative expenses for the six months ended September 30, 2015 and 2014:

	Six months ended September 30,		
	2015	2014	Difference
Personnel costs	$1,775,997	$481,752	$1,294,245
Stock based compensation/options	423,663	320,823	102,840
Legal and professional fees	279,604	134,306	145,298
Travel	242,060	87,957	154,103
Rent	67,615	59,160	8,455
Marketing and selling	471,953	68,691	403,262
Consulting fees	202,091	110,995	91,096
Other expenses	282,562	192,347	90,215
	$3,745,545	$1,456,031	$2,289,514

Personnel cost represents the cost of employees including salaries, employee benefits and employment taxes and continues to be our largest cost. Personnel cost increased $ 1,294,245 (269%) from $481,752 to $1,775,997. We have increased our sales staff primarily as a result of the distribution agreement with Sysco. We currently have 34 full time employees compared to 6 at the end of the prior period. We anticipate personnel cost to increase in the future as we add more staff for both the further implementation of the Sysco distribution agreement and the PepsiCo sales agreement.

Stock based compensation is used as an incentive to attract new employees and to compensate existing employees. Stock based compensation includes stock issued and options granted to employees and non-employees. During the six months ended September 30, 2015, we granted 1,820,000 options to purchase shares of our common stock to officers, directors and employees. The exercise prices range from $0.45 to $0.82 and we granted restricted stock rights for 1,350,000. The fair value of the stock was based on the trading value of the shares on the date of grant and are being amortized over the vesting period. The fair value of the stock options was calculated using the Black-Sholes model using the following assumptions: expected life in years, 8; volatility, 98.7% to 99%; risk free rate of return, 1.64% to 2.11%, and no annual dividends and are being amortized over the vesting period. We anticipate making additional grants in the future. Fewer grants were made in 2014.

Legal and professional fees increased $ 145,298 (108%) from $134,306 in 2014 to $ 279,604 in 2015. The increase was primarily due to increased accounting costs and more legal services required as a result of increased business and financing activity. We anticipate legal fees related to ongoing Securities and Exchange Commission reporting to remain the same and additional legal fees to be related to the continuing increase in our business and financing activities.

Travel expenses increased $154,103 (175%) from $87,957 in 2014 to $242,060 in 2015. The increase is due to increased travel related to increased personnel engaging in selling and marketing activities. We anticipate that travel cost will continue to increase as we increase our personnel and our customer base.

Rent expense is primarily for our location in Beverly Hills, California. Rent expense for the Beverly Hills office is approximately $7,600 per month. The lease on the office commenced in November 8, 2014 and expires in November 2016. Rent expense also includes monthly parking fees as well as an offsite storage facilities. The increase is due to a nominal increase on the office and the addition of additional parking fees as our employee base grows.

Marketing and selling expenses increased $403,262 (587%) from $68,691 in 2014 to $471,953 in 2015. The increase relates primarily to the increase in overall sales and marketing activities, including a rebranding project. We anticipate a continued increase in these costs as our business continues to grow.

Consulting fees increased $91,096 (82%) from $110,995 in 2014 to $202,091 in 2015. Our consulting fees vary based on needs. We engage consultants in the areas of sales, operations and accounting. Future consulting fees will be variable.

Other expenses consist of ordinary operating expenses such as office, telephone, insurance, and stock related costs. We anticipate increases in these expenses.

We had operating losses of $3,648,321 and $1,473,325 for 2015 and 2014, respectively.

Interest expense decreased $27,507 (12%) from $237,756 in 2014 to $210,249 in 2015. Interest primarily relates to convertible debt that was issued in August 2012, renewed in September 2013, and converted into stock during September of 2015, and short term notes that were issued in December 2013, which were partially repaid during June of 2015. The stated interest rate on the convertible debt is 12%. After giving effect to the debt discount the effective rate of interest on the short term debt is estimated to be approximately 53% and approximately 74% on the convertible notes. Interest expense includes direct interest of $37,387 and $33,041 for 2015 and 2014, respectively, calculated

based on the interest rates stated in our various debt instruments. In addition, interest expense includes non-cash amortization of the debt discount of $172,862 and $204,715 for 2015 and 2014, respectively

We had net losses of $3,866,427 and $1,711,081 for 2015 and 2014, respectively.

Liquidity and Capital Resources

During the six months ended September 30, 2015 we used cash for operations of $ $3,366,381, $9,906 for investment in patent and trademarks, and also purchased equipment for $138,945, and received $7,684 from the sale of equipment. In addition we used $380,923 to repay debt.

During the six months ended September 30, 2014 we used $1,134,262 of cash for operations, $11,438 for investment in patents, $191,249 for the purchase of equipment, and received $1,977 from the sale of equipment.

Our operations to date have been financed by the sale of securities, the issuance of convertible debt and the issuance of short-term debt, including related party advances. If we are unable to generate sufficient cash flow from operations with the capital raised we will be required to raise additional funds either in the form of capital or debt. There are no assurances that we will be able to generate the necessary capital or debt to carry out our current plan of operations.

We lease office space under a non-cancelable operating lease, which expires November, 2016.

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 2020 Annual Meeting" below. The Corporate Governance and Nominating Committee will consider director candidates recommended by shareholders in the same manner as it considers candidates recommended by others. Possible nominees to the Board of Directors may be suggested by any Director and given to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee may seek potential nominees and engage search consultants to assist it in identifying potential nominees. The Corporate Governance and Nominating Committee's charter contains a provision stating that it shall consider all factors it considers appropriate, including the benefits of racial and gender diversity. The Corporate Governance and Nominating Committee recommends to the Board of Directors a slate of nominees for the Board of Directors for inclusion in the matters to be voted upon at each Annual Meeting. The Company's Restated By-laws provide that Directors need not be shareholders. Vacancies on the Board of Directors, other than those resulting from removal by shareholders, may be filled by action of the Board of Directors.

Table of Contents

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 2019 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, these nominees are assured election.

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, 2019 is submitted to this 2019 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 2019 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, 2019 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 2019 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, 2019.

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

Shareholders are being asked to consider and approve a proposal to further amend and restate the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as amended through January 2016, the "Existing Plan", and as so amended and restated, the "Amended Plan"), which approval will also be deemed to constitute a re-approval of the material terms of the performance goals for certain performance-based awards that may be granted under the Amended Plan. The Amended Plan, if approved, will permit the Company to continue making equity-based and other incentive awards to its employees, directors and consultants in a manner intended to properly incentivize such individuals by aligning their interest with the interests of the Company's shareholders. The Company has been granting equity-based incentive awards under the Existing Plan, however, the Company presently has insufficient shares remaining available for future grants under the Existing Plan to make equity grants at a level that would be commensurate with the Company's past practices and performance. When the Existing Plan was most recently approved in its current form, the Company had reserved 20,550,000 shares of Class A Common Stock ("Shares") for issuance of awards (inclusive of the 5,000,000 Shares initially reserved in 2012, the 6,450,000 Shares added in 2014 and the 9,100,000 Shares added in 2016). As of the January 22, 2019 record date for the 2019 Annual Meeting, approximately Shares remained available for future grants of awards under the Existing Plan. The proposed Amended Plan would add an additional 5,300,000 Shares to the number of Shares available for future grants under the Existing Plan. The Amended Plan also reflects technical updates to remove certain provisions of the Existing Plan (including annual limitations on equity award grants) related to Section 162(m) of the Code which are no longer required in light of the 2017 Tax Cuts and Jobs Act, and reflects new minimum vesting conditions applicable to certain future award grants under the Amended Plan. No awards or contingent awards have been or will be granted utilizing the increased share reserve under the Amended Plan prior to obtaining shareholder approval for the Amended Plan.

10

Table of Contents

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

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

The Company's Board of Directors has approved the adoption of the Amended Plan and, if the Amended Plan is approved by shareholders at the 2019 Annual Meeting, it will become immediately effective as of the date of the 2019 Annual Meeting. If shareholders do not approve the Amended Plan, the Existing Plan will continue to remain in effect according to its terms, and we may continue to make awards (subject to the authorized limit of 20,550,000 Shares) under the Existing Plan.

In reaching our conclusion as to the appropriateness of the additional share proposal, we reviewed key metrics that are typically used to evaluate such proposals. One such metric many investors use is a calculation that quantifies how quickly a company uses its shareholder capital. The total number of Shares issuable under awards we have granted under the Existing Plan, as a percentage of our annual weighted average Common Stock outstanding (commonly referred to as the "burn rate"), has been on average 1.0% over the last three completed fiscal years, which is generally consistent with the industry median. As applicable for the award, this calculation is based on the amount of Shares issuable at the actual level of performance under awards as of the dates they were earned. In addition to burn rate, many investors look at the economic effect of dilution. Assuming all 5,300,000 Shares of Common Stock of the Company being requested to be added to the share reserve pursuant to this proposal were fully dilutive as of January 22, 2019, the dilutive effect on all outstanding Shares would be approximately %.

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

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

Material Features of the Amended Plan

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

Purpose

The purpose of the Amended Plan is to aid the Company and its affiliates in recruiting and retaining key employees, directors and consultants of outstanding ability and to motivate those employees, directors and consultants to exert their best efforts on behalf of the Company and its affiliates by providing incentives through the granting of “Awards”, which consist of options, stock appreciation rights or other stock-based Awards (including performance-based Awards) granted pursuant to the Amended Plan. All employees, directors and consultants of the Company and its affiliates are eligible to participate in the Amended Plan if they are selected by the Compensation Committee of the Board of Directors (the “Committee”) to participate in the Amended Plan (any such individual, a “Participant”). For the fiscal year ended October 31, 2018, approximately 44 employees, 6 directors (includes non-employee directors only) and no consultants were selected by the Committee to participate in the Existing Plan. The Company anticipates that future participation by employees and directors under the Amended Plan will be at levels similar to their historical participation under the Existing Plan.

Table of Contents

Administration

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

Awards

Awards are determined ("granted") by the Committee and are subject to the terms and conditions stated in the Amended Plan and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine. Under the terms of the Amended Plan, vesting of (or lapsing of restrictions on) an Award at the time of grant may not occur any more rapidly than on the first anniversary of the grant date for such Award (or the date of commencement of employment or service, in the case of a grant made in connection with a Participant's commencement of employment or service), other than (i) in connection with a Change in Control or (ii) as a result of a Participant's death, retirement, disability or involuntary termination of employment without cause; provided, that such minimum vesting condition will not be required on Awards covering, in the aggregate, a number of Shares not to exceed 5% of the Absolute Share Limit, as described below under "Limitations." However, the Committee retains the ability under the Amended Plan to waive terms and conditions applicable to an Award after the time of grant (including with respect to the ability to accelerate or waive vesting conditions). Any stock options or stock appreciation rights granted must have a per share exercise price that is not less than 100% of the fair market value of the Company's Common Stock underlying such awards on the date an award is granted (other than in the case of awards granted in substitution of previously granted awards). The maximum term for stock options and stock appreciation rights granted under the Amended Plan is ten years from the initial date of grant.

Performance-based Awards previously granted under the Existing Plan were generally intended to be deductible by the Company under Section 162(m). However, the "performance-based compensation" exemption under Section 162(m) is no longer applicable based on recent tax legislation. The Committee may also approve grants of Awards or other compensation that do not qualify for a deduction under Section 162(m) if it determines that it is appropriate to do so in light of other competing interests and goals.

Prior to the payment of any Award that is intended to qualify as performance-based compensation for purposes of Section 162(m) (to the extent that such Award remains eligible to qualify as "performance-based compensation" for

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

Effect of Certain Events on Amended Plan and Awards

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

The Share numbers reflected in this Proposal 3 (including, without limitation, the number of Shares proposed as a Share increase to the Amended Plan, the number of Shares described as being subject to outstanding Awards and the number of Shares currently remaining available for future issuance under the Existing Plan) do not reflect the equitable adjustments that would be required in the event Proposal 5 is approved and a corresponding reverse stock-split is implemented. In the event that such a reverse stock-split is implemented, equitable adjustments would be made to the corresponding Share references under this Proposal 3 as provided under the Amended Plan as summarized above. See "Proposal 5—Approval and Adoption of Amendments to Restated Certificate of Incorporation to Effect a Reverse Stock Split and a Corresponding Decrease in Authorized Shares—Effect of the Reverse Stock Split on Holders of Outstanding Common Stock" for more information about the treatment of equity-based awards in the proposed Reverse Stock Split.

Limitations

The Amended Plan provides that the total number of Shares of Common Stock of the Company that may be issued under the Amended Plan (inclusive of the 20,550,000 Shares previously reserved under the Existing Plan and the additional 5,300,000 Shares which are being requested under this proposal) is 25,850,000 (the "Absolute Share Limit"). The number of Shares covered by Awards granted under the Amended Plan that terminate or lapse without the payment of consideration will be available for future grants under the Amended Plan. The Amended Plan also provides that the maximum number of Shares subject to Awards granted during a calendar year to any non-employee director serving on the Board, taken together with any cash fees paid to such non-employee director during such calendar year, shall not exceed $600,000 in total value (calculating the value of any such Awards based on the grant date fair value of such Awards for financial reporting purposes).

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

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

Amendment and Termination

The Committee may amend, alter or discontinue the Amended Plan, but no amendment, alteration or discontinuation shall be made which, (a) without the approval of the shareholders of the Company, would (except as provided in the

Amended Plan in connection with adjustments in certain corporate events), increase the total number of Shares of Common Stock of the Company reserved for the purposes of the Amended Plan or change the maximum number of Shares of Common Stock of the Company for which Awards may be granted to any Participant or amend the prohibitions on repricing set forth above or (b) without the consent of a Participant, would materially impair any of the rights or obligations under any Award theretofore granted to such Participant under the Amended Plan; provided, however, that the Committee may amend the Amended Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. The Committee may not amend, alter or discontinue the provisions relating to a Change in Control (as defined in the Amended Plan) after the occurrence of a Change in Control.

Clawback/Forfeiture

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

Nontransferability of Awards

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

Table of Contents

Certain United States Federal Income Tax Consequences

Stock Options

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

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

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

Restricted Stock

Unless an election is made by the Participant under Section 83(b) of the Code, the grant of an Award of restricted stock will have no immediate tax consequences to the Participant. Generally, upon the lapse of restrictions (as determined by the applicable restricted stock agreement between the Participant and the Company), a Participant will recognize ordinary income in an amount equal to the product of (a) the fair market value of a share of Common Stock

of the Company on the date on which the restrictions lapse, less any amount paid with respect to the Award of restricted stock, multiplied by (b) the number of Shares of restricted stock with respect to which restrictions lapse on such date. The Participant’s tax basis will be equal to the sum of the amount of ordinary income recognized upon the lapse of restrictions and any amount paid for such restricted stock. The Participant’s holding period will commence on the date on which the restrictions lapse.

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

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

Stock Units

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

Table of Contents

Other Stock-based Awards

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

Code Section 409A

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

General

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

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

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

15

Table of Contents

Stock Awards Previously Granted Under the Existing Plan

The following table sets forth information on awards granted under the Existing Plan since its adoption and after giving effect to Shares forfeited and reincluded in the Existing Plan pool. The closing price of the Class A Common Stock on the NYSE on January 22, 2019 (the record date for the 2019 Annual Meeting) was per Share (Shares of Class B Common Stock convert on a one-for-one basis to Shares of Class A Common Stock).

Name & Position	**Stock Option Grants # of Shares Covered**	**Restricted Stock Unit Grants # of Shares Covered (1)**	**Total of All Columns in Table # of Shares Covered**
Ara K. Hovnanian, President, Chief Executive Officer and Chairman of the Board			
J. Larry Sorsby, Executive Vice President, Chief Financial Officer and Director			
Lucian T. Smith III, Chief Operating Officer			
Brad G. O'Connor, Vice President, Chief Accounting Officer and Corporate Controller			
Current Executive Officers as a Group			
Robert B. Coutts, Director			
Edward A. Kangas, Director			
Joseph A. Marengi, Director			
Vincent Pagano Jr., Director			
Robin Stone Sellers, Director			
Stephen D. Weinroth, Director			
Current Non-Executive Directors as a Group			
All Employees, including All Current Officers who are not Executive Officers, as a Group			

(1) *Includes all full value shares granted under the Existing Plan, which consist of restricted stock units (RSUs), shares issued to non-employee Directors as part of their annual retainer and equity awards, the maximum number of shares that are potentially issuable under the Market Share Units (the "MSUs") granted in fiscal 2014 through fiscal 2018 and the maximum number of shares that are potentially issuable under the 2018 and 2019 Long-Term Incentive Programs.*

Table of Contents

Equity Compensation Plan Information

The following table provides information as of October 31, 2018 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Plan Category	Number of Class A Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (1)(4) (a)	Number of Class B Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (1) (a)	Weighted average exercise price of outstanding Class A Common Stock options, warrants and rights (2) (b)	Weighted average exercise price of outstanding Class B Common Stock options, warrants and rights (3) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (5) (c)
Equity compensation plans approved by security holders:	9,675,928	8,701,730	$2.80	$3.16	2,899,558
Equity compensation plans not approved by security holders:	—	—	—	—	—
Total	9,675,928	8,701,730	$2.80	$3.16	2,899,558

(1) *Includes the maximum number of shares that are potentially issuable under the MSUs granted in fiscal 2014, fiscal 2015, fiscal 2016, fiscal 2017 and fiscal 2018 under the Existing Plan and the actual number of shares for which performance has been met that are issuable under the 2013 Long-Term Incentive Program under the Existing Plan, subject to vesting. Also includes the maximum number of shares that are potentially issuable under*

the 2016 Long-Term Incentive Program under the Existing Plan, subject to vesting.

(2) *Does not take into account 5,098,873 shares that may be issued upon the vesting of restricted stock and performance-based awards discussed in (1) above, nor 203,171 shares of restricted stock vested and deferred at the associates' election or 337,058 shares of restricted stock deferred due to mandatory hold requirements, in each case, because they have no exercise price.*

(3) *Does not take into account 5,774,230 shares that may be issued upon the vesting of the performance-based awards discussed in (1) above because they have no exercise price.*

(4) *These shares include 160,000 shares of Class A Common Stock and 300,000 Class B Common Stock, respectively, shares that may be issued upon exercise of outstanding options with exercise prices greater than $6.00 per share.*

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

Table of Contents

Additional Equity Compensation Plan Information

The following is the Company's overhang information, which measures the number of Shares subject to equity-based awards outstanding but unexercised or unvested, as of January 22, 2019, for all of the Company's existing equity compensation plans, as well as certain other information relating to outstanding awards under the plans:

Stock options outstanding:

Weighted average exercise price of outstanding stock options:

Weighted average remaining contractual term of outstanding stock options: years

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

Shares available for future grants of awards:

Total Shares of Common Stock outstanding:

The following table sets forth the number of time-based stock options and time-based RSU awards granted by the Company in the years ended October 31, 2018, 2017 and 2016. In addition, the table provides the number of Shares of Common Stock granted related to performance-based awards and the weighted average number of Shares of Common Stock outstanding in the year indicated.

Fiscal Year	**Number of Time-Based Stock Options Granted**	**Number of Stock Options Earned Related to Performance-Based Awards**	**Number of Time-Based RSUs Granted**	**Number of Shares of Common Stock Earned Related to Performance-Based Awards (1)**	**Weighted Average Number of Shares of Common Stock Outstanding (2)**
2018	445,625	500,000	507,278	583,781	148,376,782
2017	236,250	—	366,513	178,205	147,703,180
2016	648,481	500,000	456,070	—	147,451,292

(1) *Includes the actual number of shares that are issuable under the 2016 Long-Term Incentive Program under the Existing Plan, subject to vesting, and the actual MSUs earned during each fiscal year.*

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

Registration with the SEC

If the Amended Plan as described in this Proposal 3 is approved by shareholders, the Company will file a Registration Statement on Form S-8 with the SEC with respect to the Shares of the Company's Class A Common Stock to be registered pursuant to the Amended Plan as soon as reasonably practicable following shareholder approval.

VOTE REQUIRED

Adoption of the Amended Plan requires approval by a majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, represented in person or by proxy at the 2019 Annual Meeting. In determining whether the proposal has received the requisite number of affirmative votes, abstentions are considered "votes cast" under NYSE rules and thus will have the same effect as a vote "against" the proposal. Broker non-votes will not count as votes cast "for" or "against" the proposal to adopt the Amended Plan and will have no effect on the outcome of the proposal.

Mr. Hovnanian and others with voting power over the shares held by the 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 approval of the Amended Plan.

Table of Contents

PROPOSAL 4 — 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 33 to 74.

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 33 to 55, as well as the discussion regarding the Compensation Committee on pages 30 to 32.

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 year 2017, the Chairman of the Board, President and Chief Executive Officer's (the "CEO") total direct compensation was in the bottom quartile when ranked against the Peer Group (as defined below) and 22.07% below the Peer Group median. No comparison is shown for fiscal 2018 because complete Peer Group chief executive officer compensation data was not available at the time of filing this Proxy Statement.

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 EBIT Return on Inventory and lowering or refinancing debt and 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 and options, which are tied to stock price performance, and half of the MSU awards have been subject to financial performance conditions (for awards made in fiscal 2018, community count and pre-tax profit levels) in addition to the stock price performance conditions applicable to all of the MSU awards. The rigor of the performance conditions related to the long-term incentive programs and MSU awards is demonstrated by the fact that the 2016 LTIP payout determined in 2018 was only 11.24% of target and certain portions of MSU awards either have been permanently forfeited or have paid out below target as discussed in the "Compensation Discussion and Analysis" section.

In recent years, the Compensation Committee has determined to weight the Company's variable compensation programs toward rigorous performance conditions with metrics such as liquidity, shareholder value preservation, debt reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin. As context for basing the Company's compensation programs on these metrics, 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 $1.1 billion. 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. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top half of its Peer Group for its last three fiscal years and, even though profitability has been a challenge, pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax loss for fiscal 2017 of $45.2 million. In addition, the Company ranks second highest among its Peer Group in inventory turns and has substantially increased its land position which we expect to lead to delivery and revenue growth and ultimately improved profitability. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company achieves a profitability level at which it will determine to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. While total shareholder return for the Peer Group was negative during 2018, the Company's total shareholder return declined even more than the Peer Group due to our more highly leveraged balance sheet.

Table of Contents

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 EBIT Return on Inventory and lowering or refinancing debt and 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 2018, 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 – community count and pre-tax profit levels – in addition to the stock price performance conditions applicable to all of the MSU awards. For the options granted to the CEO and CFO in fiscal 2018, 100% have an exercise price set 25% above the closing stock price on the date of grant. 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 19, 2019, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby approved."

VOTE REQUIRED

The approval of the compensation paid to the Company's named executive officers 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 2019 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 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 approval of this resolution.

PROPOSAL 5 — APPROVAL AND ADOPTION OF AMENDMENTS TO RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT AND A CORRESPONDING DECREASE IN AUTHORIZED SHARES

Shareholders are being asked to consider the approval and adoption of a series of four alternative amendments to the Restated Certificate of Incorporation of the Company (as amended, the “Restated Certificate of Incorporation”) to effect a reverse stock split of each of the Company’s Class A Common Stock and Class B Common Stock (the “Reverse Stock Split”) as set forth herein and, if and when the Reverse Stock Split is effected, to contemporaneously amend the Restated Certificate of Incorporation to correspondingly decrease the number of authorized shares of each of the Class A Common Stock and Class B Common Stock.

On January 9, 2019, the Board of Directors adopted resolutions (1) approving and declaring advisable a series of four alternative amendments to the Restated Certificate of Incorporation to effect, at the discretion of the Board of Directors, the Reverse Stock Split at one of four reverse stock split ratios: 1-for-10, 1-for-15, 1-for-20 and 1-for-25 (each, a “Reverse Stock Split Ratio”), and contemporaneously with such Reverse Stock Split, to effect a corresponding decrease in the number of authorized shares of Class A Common Stock from 400,000,000 to 40,000,000, 26,666,667, 20,000,000 or 16,000,000, respectively, and in the number of authorized shares of Class B Common Stock from 60,000,000 to 6,000,000, 4,000,000, 3,000,000 or 2,400,000, respectively (the Reverse Stock Split together with the corresponding decrease in the number of authorized shares, collectively, the “Reverse Stock Split Amendments”), (2) directing that the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment (as defined below) be submitted to the holders of Class A Common Stock and Class B Common Stock for their approval and adoption, and (3) recommending that the holders of Class A Common Stock and Class B Common Stock approve and adopt the Reverse Stock Split Amendments.

Table of Contents

The actual number of authorized shares of Class A Common Stock and Class B Common Stock after giving effect to the Reverse Stock Split, if and when effected, will depend on the Reverse Stock Split Ratio that is ultimately determined by the Board of Directors (the “Final Reverse Stock Split Ratio”). The table below shows the Reverse Stock Split Ratio and the number of authorized shares of Class A Common Stock and Class B Common Stock for each of the four alternative amendments, identified as Reverse Stock Split Amendments A, B, C and D:

		Authorized Shares of Class A Common Stock		**Authorized Shares of Class B Common Stock**	
Reverse Stock Split Amendment	**Reverse Stock Split Ratio**	**Prior to the Reverse Stock Split Amendment**	**Giving Effect to the Reverse Stock Split Amendment**	**Prior to the Reverse Stock Split Amendment**	**Giving Effect to the Reverse Stock Split Amendment**
A	1-for-10	400,000,000	40,000,000	60,000,000	6,000,000
B	1-for-15		26,666,667		4,000,000
C	1-for-20		20,000,000		3,000,000
D	1-for-25		16,000,000		2,400,000

The Company also has 100,000 authorized shares of its 7.625% Series A Preferred Stock for issuance, which will not be affected by the Reverse Stock Split. See “Effect of the Reverse Stock Split on Holders of Series A Preferred Stock and Series B Preferred Stock Purchase Rights” below. After giving effect to Reverse Stock Split Amendments A, B, C or D, the total number of shares of all classes of stock which the Company shall have the authority to issue is 46,100,000, 30,766,667, 23,100,000 or 18,500,000, respectively.

Upon receiving shareholder approval of the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment, the Board of Directors will have the authority, but not the obligation, in its sole discretion, at any time on or prior to August 31, 2019, to elect without further action on the part of the Company’s shareholders, as it determines to be in the best interests of the Company and its shareholders, whether to effect the Reverse Stock Split and, if so, to determine the Final Reverse Stock Split Ratio from Reverse Stock Split Amendments A, B, C or D set forth above. Depending on the selected Final Reverse Stock Split Ratio, 10, 15, 20 or 25 issued shares (including treasury shares) of Class A Common Stock will be combined into one share of Class A Common Stock, and 10, 15, 20 or 25 issued shares (including treasury shares) of Class B Common Stock will be combined into one share of Class B Common Stock. The number of shares of Class A Common Stock and Class B Common Stock issued (including treasury shares) will therefore be decreased by an amount based upon the Final Reverse Stock Split Ratio determined by the Board of Directors. In no event will the Reverse Stock Split Amendments occur with respect to only Class A Common Stock or only Class B Common Stock. The Reverse Stock Split Amendments, if and when effected, will become effective as to both Class A Common Stock and Class B Common Stock at the same Final Reverse Stock Split Ratio (see “Purposes of the Reverse Stock Split Amendments” below). No fractional shares will be issued as a result of the Reverse Stock Split (see “Fractional Shares” below).

If the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment are approved by our shareholders and the Board of Directors elects to effect the Reverse Stock Split at any time on or prior to August 31, 2019, we will file an amendment to the Restated Certificate of Incorporation in the form of the Certificate of Amendment attached as Appendix B to this Proxy Statement (the "Form of Certificate of Amendment"). For the convenience of our shareholders, the Form of Certificate of Amendment indicates in brackets, for each of Reverse Stock Split Amendments A, B, C and D, the Reverse Stock Split Ratio and the correspondingly decreased number of authorized shares of Class A Common Stock and Class B Common Stock. Only the version of the Form of Certificate of Amendment that sets forth the Reverse Stock Split Amendments providing for the Final Reverse Stock Split Ratio (the "Final Certificate of Amendment") will be filed with the Secretary of State of the State of Delaware and become effective (such time of effectiveness, the "Effective Time"). Upon effectiveness of the Final Certificate of Amendment at the Effective Time, all other Reverse Stock Split Amendments will automatically be deemed to have been abandoned by the Board of Directors. By voting in favor of the approval and adoption of the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment, shareholders will also have approved and expressly authorized the Board of Directors to abandon each Reverse Stock Split Amendment, including the deemed abandonment of alternative Reverse Stock Split Ratios that will occur upon the filing of the Final Certificate of Amendment and the deemed abandonment of all Reverse Stock Split Amendments if the Board of Directors does not elect to effect the Reverse Stock Split on or prior to August 31, 2019.

Table of Contents

The Board of Directors believes that shareholder approval of the Reverse Stock Split Ratios represented as Reverse Stock Split Amendments A, B, C and D above, as compared to shareholder approval of a single reverse stock split ratio, provides appropriate flexibility to achieve the purposes of the Reverse Stock Split outlined below under "Purposes of the Reverse Stock Split Amendments" and, therefore, is in the best interests of the Company and its shareholders. In determining the Final Reverse Stock Split Ratio following the receipt of shareholder approval, the Board of Directors may consider, among other things, factors such as:

- the historical trading price and trading volume of Class A Common Stock;
- the number of shares of Class A Common Stock and Class B Common Stock issued (including treasury shares);
- the then-prevailing trading price and trading volume of Class A Common Stock and the anticipated impact of the Reverse Stock Split on the trading market for Class A Common Stock;
- the anticipated impact of a particular Reverse Stock Split Ratio on our ability to reduce administrative and transactional costs;
- the continued listing requirements of the NYSE; and
- prevailing general market and economic conditions.

If and when the Board of Directors elects to effect the Reverse Stock Split, the Board of Directors will determine the exact timing of the filing of the Final Certificate of Amendment based on its evaluation as to when the filing would be the most advantageous to the Company and its shareholders. If the Board of Directors does not elect to effect the Reverse Stock Split on or prior to August 31, 2019, then the Reverse Stock Split and all of the Reverse Stock Split Amendments will be deemed to be automatically abandoned. In addition, the Board of Directors reserves the right to abandon the Reverse Stock Split and any of the Reverse Stock Split Amendments without further action by our shareholders at any time prior to the Effective Time of the Final Certificate of Amendment, even if the Reverse Stock Split Amendments have been approved by our shareholders. The Reverse Stock Split will not change the par value of a share of Class A Common Stock or Class B Common Stock. Except for any changes as a result of the treatment of fractional shares as set forth in the Form of Certificate of Amendment, each shareholder will hold the same percentage of Class A Common Stock and/or Class B Common Stock outstanding immediately after the Reverse Stock Split as such shareholder held immediately prior to the Reverse Stock Split, and the decrease in authorized shares and issued shares (including treasury shares) as a result of the Reverse Stock Split will not affect any shareholder's proportionate voting power or other rights. To avoid the existence of fractional shares of Class A Common Stock or Class B Common Stock, shareholders of record who would otherwise hold fractional shares as a result of the Reverse Stock Split will be entitled to receive cash (without interest) in lieu of such fractional shares from our exchange agent as described under "Fractional Shares."

Purposes of the Reverse Stock Split Amendments

Class A Common Stock is listed on the NYSE. In order for Class A Common Stock to continue trading on the NYSE, the Company must comply with various listing standards, including that the Company maintain a minimum average closing price of at least $1.00 per share of Class A Common Stock during a consecutive 30 trading-day period. On January 9, 2019, the Company received notice from the NYSE that the average closing price per share of Class A Common Stock during the consecutive 30 trading-day period ended January 7, 2019 was $0.98, and therefore it has fallen below this price criteria of the continued listing standards, and that failure to comply with this listing requirement may lead to delisting from the NYSE.

The Company can regain compliance (and therefore avoid delisting) during the six-month cure period from the NYSE's notification, which would require that on the last trading day of any calendar month during such period the closing price of the Class A Common Stock is at least $1.00 per share and the average closing price of Class A Common Stock is at least $1.00 per share over the consecutive 30 trading-day period ending on the last trading day of such month. During this period, the Class A Common Stock will continue to be traded on the NYSE, subject to compliance with other continued listing standards.

Delisting of the Class A Common Stock from the NYSE could have material, adverse effects on our business, financial condition and Common Stock. The Board of Directors submits the Reverse Stock Split Amendments to shareholders for approval with the primary intent of increasing the price per share of Class A Common Stock to cure the price deficiency and return to compliance with this listing requirement. As of January   , 2019, the average closing price per share of Class A Common Stock during the consecutive 30 trading-day period then ended was $.

Table of Contents

In addition, many brokerage houses and institutional investors have internal policies and practices that prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of Class A Common Stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. We believe that the Reverse Stock Split will make Class A Common Stock a more attractive and cost-effective investment for many investors, including by broadening the pool of investors that may be interested in investing in the Company, which may enhance the liquidity of Class A Common Stock for our shareholders.

We also believe that the Reverse Stock Split Amendments will provide the Company and its shareholders with other benefits. Currently, the fees we pay to list shares of Class A Common Stock on the NYSE are based on the number of such shares we have outstanding. Also, the fees we pay for custody and clearing services and the fees we pay to the SEC to register securities for issuance are frequently based on or related to the number of shares being held, cleared or registered, as applicable. Reducing the number of shares that are outstanding and that will be issued in the future may reduce the amount of fees and taxes that we pay to these organizations and agencies, as well as other organizations and agencies that levy charges based on the number of shares rather than the value of the shares.

We have provided that the Reverse Stock Split Amendments, if and when effected, will become effective as to both Class A Common Stock and Class B Common Stock at the same Final Reverse Stock Split Ratio so that any shareholder's percentage ownership interest in us and proportionate voting power will remain the same, except to the extent that the Reverse Stock Split would result in any holder of Class A Common Stock or Class B Common Stock receiving cash in lieu of fractional shares. In no event will the Reverse Stock Split Amendments occur with respect to only Class A Common Stock or only Class B Common Stock.

Other Considerations

Reducing the number of outstanding shares of Class A Common Stock through the Reverse Stock Split is intended, absent other factors, to increase the market price of Class A Common Stock. However, other factors, such as our financial results, prospects, market conditions and the market perception of our business may adversely affect the market price of Class A Common Stock. As a result, even if the Reverse Stock Split is effected, it may not result in the intended benefits described above, including compliance with the NYSE listing requirements, the market price of Class A Common Stock may not increase following the Reverse Stock Split or even if it does, the market price of Class A Common Stock may decrease in the future. Additionally, the market price per share of Class A Common Stock after the Reverse Stock Split may not increase in proportion to the decrease in the number of shares of Class A Common Stock outstanding before the Reverse Stock Split. Accordingly, the total market capitalization of Class A Common Stock after the Reverse Stock Split may be lower than the total market capitalization before the Reverse Stock Split. In addition, the Reverse Stock Split would likely increase the number of shareholders who own odd lots (less than 100 shares). Shareholders who own odd lots typically will experience an increase in the cost of selling their

shares, as well as possible greater difficulty in effecting such sales. Accordingly, a Reverse Stock Split may not achieve all of the desired results discussed above.

Effect of the Reverse Stock Split on Holders of Outstanding Common Stock

If approved and effected, the Reverse Stock Split Amendments as set forth in the Final Certificate of Amendment will become effective at the Effective Time as to both Class A Common Stock and Class B Common Stock at the same Final Reverse Stock Split Ratio. In no event will the Reverse Stock Split Amendments occur with respect to only Class A Common Stock or only Class B Common Stock.

The Restated Certificate of Incorporation provides that, with respect to all matters upon which shareholders are entitled to vote or to give consent, each share of Class B Common Stock generally is entitled to ten votes and each share of Class A Common Stock is entitled to one vote and that one share of Class B Common Stock may, at any time, at the option of the holder thereof, be converted into one share of Class A Common Stock. The Reverse Stock Split Amendments will be effected as to both Class A Common Stock and Class B Common Stock at the same Final Reverse Stock Split Ratio in the event the Reverse Stock Split is effected and the Reverse Stock Split will affect all holders of Class A Common Stock and Class B Common Stock uniformly (with holders of Class A Common Stock being entitled to receive shares of Class A Common Stock, and holders of Class B Common Stock being entitled to receive shares of Class B Common Stock) and will not affect any shareholder’s percentage ownership interest in us or proportionate voting power, except to the extent that the Reverse Stock Split would result in any holder of Class A Common Stock or Class B Common Stock receiving cash in lieu of fractional shares. As described below under “Fractional Shares”, holders of Class A Common Stock or Class B Common Stock otherwise entitled to fractional shares as a result of the Reverse Stock Split will receive a cash payment from our exchange agent in lieu of such fractional shares.

Table of Contents

The principal effects of the Reverse Stock Split will be that, based on the Final Reverse Stock Split Ratio:

- 10, 15, 20 or 25 issued shares (including treasury shares) of Class A Common Stock will be combined into one share of Class A Common Stock, and 10, 15, 20 or 25 issued shares (including treasury shares) of Class B Common Stock will be combined into one share of Class B Common Stock;
- the aggregate number of equity-based awards that remain available to be granted under the Existing Plan (or, if Proposal 3 in this Proxy Statement relating to the approval of the Amended Plan is approved by our shareholders, the Amended Plan) will be decreased proportionately;
- proportionate adjustments will be made to the per-share exercise price, share-based vesting criteria and the number of shares issuable upon the exercise of our outstanding stock options, as well as to the number of shares that would be owned upon vesting and settlement of restricted stock units and other equity-based awards, which will result in approximately the same aggregate price that would have been required to be paid upon exercise of such options, as well as the same value of shares that would have been owned upon vesting and settlement of such restricted stock units and other equity-based awards, as compared to immediately preceding the Reverse Stock Split; and
- the number of authorized shares of Class A Common Stock and Class B Common Stock will correspondingly be decreased.

After the Effective Time, Class A Common Stock and Class B Common Stock will each have a new Committee on Uniform Securities Identification Procedures ("CUSIP") number, which numbers are used to identify our equity securities, and stock certificates with the old CUSIP numbers will need to be exchanged for stock certificates with the new CUSIP numbers by following the procedures described below.

The Reverse Stock Split is not intended to be a first step in a series of steps leading to a "going private transaction" pursuant to Rule 13e-3 under the Exchange Act. Implementing the Reverse Stock Split would not reasonably likely result in, or would not have a purpose to produce, a going private effect.

We expect that our transfer agent will act as the exchange agent for the purposes of implementing the Reverse Stock Split. However, we may decide at a later time to utilize another agent.

Beneficial Holders of Common Stock. Upon the implementation of the Reverse Stock Split, we intend to treat shares held by shareholders in "street name" (i.e., through a bank, broker, custodian or other nominee), in the same manner as registered shareholders whose shares are registered in their names. Banks, brokers, custodians or other nominees will be instructed to effect the Reverse Stock Split for their beneficial holders holding Common Stock in street name.

However, these banks, brokers, custodians or other nominees may have different procedures than registered shareholders for processing the Reverse Stock Split and making payment for fractional shares. If a shareholder holds shares of Common Stock with a bank, broker, custodian or other nominee and has any questions in this regard, shareholders are encouraged to contact their bank, broker, custodian or other nominee.

Registered "Book-Entry" Holders of Common Stock. Certain of our registered holders of Common Stock may hold some or all of their shares electronically in book-entry form with the transfer agent. These shareholders do not have stock certificates evidencing their ownership of Common Stock. They are, however, provided with a statement reflecting the number of shares registered in their accounts. If a shareholder holds registered shares in book-entry form with the transfer agent, they will be sent a Direct Registration Statement by the exchange agent after the Effective Time and a check reflecting any cash payment from the exchange agent in lieu of fractional shares following the Reverse Stock Split.

Holders of Certificated Shares of Common Stock. Shareholders of record at the Effective Time holding shares of Common Stock in certificated form (the "Old Certificates") will be sent a transmittal letter by the exchange agent after the Effective Time and, following the determination by the Board of Directors, these holders will receive in exchange for their Old Certificates either (i) registered shares in book-entry form or (ii) new certificates (the "New Certificates"), in each case representing the appropriate number of whole shares of Class A Common Stock and/or Class B Common Stock following the Reverse Stock Split and a check reflecting any cash payment from the exchange agent in lieu of fractional shares.

Table of Contents

The letter of transmittal will contain the necessary materials and instructions on how a shareholder should surrender his, her or its Old Certificates representing shares of Common Stock to the exchange agent. No registered shares in book-entry form or New Certificates will be delivered to a shareholder until the shareholder has surrendered all Old Certificates, together with a properly completed and executed letter of transmittal, to the exchange agent. Shareholders will then receive either a statement reflecting the shares in book-entry form registered in their accounts or New Certificates representing the number of whole shares of Common Stock for which their shares of our Common Stock were combined as a result of the Reverse Stock Split.

Until surrendered, outstanding Old Certificates will only represent the number of whole shares of Class A Common Stock and/or Class B Common Stock following the Reverse Stock Split to which the shares formerly represented by the Old Certificate were combined into as a result of the Reverse Stock Split. Shareholders must exchange their Old Certificates with respect to Class A Common Stock in order to effect transfers or deliveries of shares on the NYSE.

Any Old Certificates submitted for exchange, whether because of a sale, transfer or other disposition of stock, will automatically be exchanged, based upon the determination by the Board of Directors, for registered shares in book-entry form or New Certificates.

If any certificates or shares held in book-entry form bear a restrictive or other legend, the registered shares in book-entry form or New Certificate will bear the same legend. If a shareholder is entitled to a payment in lieu of any fractional share interest, the payment will be made as described below under “Fractional Shares”.

Shareholders should not destroy any stock certificate(s) and should not submit any stock certificate(s) until requested to do so.

Effect of the Reverse Stock Split on Holders of Series A Preferred Stock and Series B Preferred Stock Purchase Rights

The proposed amendments to the Restated Certificate of Incorporation will not affect the Company’s 7.625% Series A Preferred Stock or the Depositary Shares representing 1/1,000th of a share of such Series A Preferred Stock.

If and when the Reverse Stock Split is effected, the number of Preferred Stock Purchase Rights, representing the right to purchase from the Company 1/10,000th of a share of Series B Junior Preferred Stock issuable pursuant to the Rights Agreement, dated as of August 14, 2008, as amended by Amendment No. 1 thereto, dated as of January 11, 2018, by and between the Company and Computershare Trust Company, N.A., as Rights Agent (as successor to

National City Bank), will contemporaneously be decreased in proportion to the Final Reverse Stock Split Ratio in accordance with Section 11 of such Agreement.

The Company has authorized 100,000 shares of Preferred Stock for issuance, of which 5,600 shares of 7.265% Series A Preferred Stock have been issued as of January , 2019. The Reverse Stock Split will not affect the authorized number of shares of Preferred Stock.

Fractional Shares

We will not issue fractional shares in connection with the Reverse Stock Split Amendments. Shareholders who would otherwise hold fractional shares because the number of shares of Class A Common Stock and/or Class B Common Stock they hold before the Reverse Stock Split is not evenly divisible by the Final Reverse Stock Split Ratio will be entitled to receive cash (without interest and subject to applicable withholding taxes) in lieu of such fractional shares as described below. The cash payment is subject to applicable U.S. federal and state income tax and state abandoned property laws. Shareholders will not be entitled to receive interest for the period of time between the Effective Time and the date payment is received.

In lieu of issuing fractional shares, the aggregate of all fractional shares otherwise issuable to the holders of Common Stock shall be issued to the transfer agent for the Common Stock, as exchange agent, for the accounts of all holders of record of Common Stock otherwise entitled to have a fraction of a share issued to them (together with the corresponding Series B Preferred Stock Purchase Rights). The sale of all fractional interests will be effected by the exchange agent as soon as practicable after the Effective Time on the basis of prevailing market prices of the Class A Common Stock at the time of sale. For the purposes of, and immediately prior to, any such sale, any fractional shares of Class B Common Stock, on instructions from the Company, will be converted into the same number of shares of Class A Common Stock pursuant to the Restated Certificate of Incorporation. After such sale and upon the surrender of the shareholders’ stock certificates, if any, the exchange agent will pay to such holders of record their pro rata share of the net proceeds (after customary brokerage commissions and other expenses) derived from the sale of the fractional interests. By voting in favor of the approval and adoption of the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment, shareholders will also have approved and expressly authorized the treatment of fractional shares set forth above.

After the Reverse Stock Split, a shareholder will have no further interest in the Company with respect to its fractional share interest and persons otherwise entitled to a fractional share will not have any voting, dividend or other rights with respect thereto except the right to receive a cash payment as described above.

In the case of any shares issuable pursuant to outstanding equity-based awards made under any of the Company's equity-based plans and arrangements, any fractional shares that would otherwise result from the Reverse Stock Split adjustments described above will be eliminated through rounding or as otherwise determined by the Compensation Committee of the Board of Directors in accordance with the terms of such equity-based plans and arrangements.

Authorized Shares

If and when the Reverse Stock Split is effected, the number of authorized shares of Class A Common Stock and Class B Common Stock will contemporaneously be decreased in proportion to the Final Reverse Stock Split Ratio. Reverse Stock Split Amendments A, B, C or D set forth above will decrease the number of authorized shares of Class A Common Stock from 400,000,000 to 40,000,000, 26,666,667, 20,000,000 or 16,000,000, respectively, and the number of authorized shares of Class B Common Stock from 60,000,000 to 6,000,000, 4,000,000, 3,000,000 or 2,400,000, respectively.

As a result of the decrease in authorized shares of Class A Common Stock and Class B Common Stock that will occur if and when the Reverse Stock Split is effected, the same proportion of authorized but unissued shares of Common Stock to shares of Common Stock authorized and issued (or reserved for issuance, including the treasury shares) would be maintained as of the Effective Date (except for any changes as a result of the treatment of fractional shares). If the Reverse Stock Split is abandoned or deemed to be abandoned by the Board of Directors, the decrease in the number of authorized shares will also be abandoned or deemed to be abandoned by the Board of Directors.

The Reverse Stock Split will not affect the authorized number of shares of Preferred Stock. See "Effect of the Reverse Stock Split on Holders of Series A Preferred Stock and Series B Preferred Stock Purchase Rights" above.

Accounting Matters

The proposed Reverse Stock Split Amendments will not affect the par value per share of Class A Common Stock or Class B Common Stock, each of which will remain at $0.01. As a result, as of the Effective Time, the stated capital attributable to Class A Common Stock and Class B Common Stock on our balance sheet will be decreased proportionately based on the Final Reverse Stock Split Ratio, and the additional paid-in capital account will be

credited with the amount by which the stated capital is decreased; therefore, total stockholders' equity deficit will remain unchanged as a result of the Reverse Stock Split. Reported per share net income or loss will be higher because there will be fewer shares of Class A Common Stock and Class B Common Stock outstanding.

Certain U.S. Federal Income Tax Consequences of the Reverse Stock Split

The following summary describes certain U.S. federal income tax consequences of the Reverse Stock Split to holders of our Common Stock. This summary does not address all of the U.S. federal income tax consequences that may be relevant to any particular holder of our Common Stock, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of taxpayers or that are generally assumed to be known by investors. This summary also does not address the tax consequences to (i) persons that may be subject to special treatment under U.S. federal income tax law, such as banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, "qualified foreign pension funds," partnerships (or other entities classified as partnerships for U.S. federal income tax purposes) and investors therein, "U.S. holders" (as defined below) whose functional currency is not the U.S. dollar, U.S. expatriates, persons subject to the alternative minimum tax, persons who acquired our Common Stock through the exercise of employee stock options or otherwise as compensation, traders in securities that elect to mark to market and dealers in securities or currencies, (ii) persons that hold our Common Stock as part of a position in a "straddle" or as part of a "hedging," "conversion" or other integrated investment transaction for U.S. federal income tax purposes, or (iii) persons that do not hold our Common Stock as "capital assets" (generally, property held for investment). This summary is based on the provisions of the Code, U.S. Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date hereof. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of the Reverse Stock Split. This summary does not address the Medicare tax on net investment income or the effects of any state, local or foreign tax laws.

Table of Contents

Each holder of our Common Stock should consult its own tax advisor regarding the U.S. federal, state, local and foreign income and other tax consequences of the Reverse Stock Split.

If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our Common Stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships that hold our Common Stock, and partners in such partnerships, should consult their own tax advisors regarding the U.S. federal income tax consequences of the Reverse Stock Split.

U.S. Holders. The discussion in this section is addressed to "U.S. holders". A "U.S. holder" is a beneficial owner of our Common Stock that is a citizen or individual resident of the United States, a corporation (or other entity classified as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof or the District of Columbia or a trust or estate the income of which is subject to U.S. federal income taxation regardless of its source. The Reverse Stock Split should be treated as a recapitalization for U.S. federal income tax purposes. Therefore, except as described below with respect to a cash payment from the exchange agent in lieu of fractional shares, no gain or loss will be recognized upon the Reverse Stock Split. Accordingly, the aggregate tax basis in the Common Stock received pursuant to the Reverse Stock Split should equal the aggregate tax basis in the Common Stock surrendered (excluding the portion of the tax basis that is allocable to any fractional share), and the holding period for the Common Stock received should include the holding period for the Common Stock surrendered. A U.S. holder who receives a cash payment from the exchange agent in lieu of a fractional share of our Common Stock pursuant to the Reverse Stock Split generally should recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the U.S. holder's tax basis in the shares of our Common Stock surrendered that is allocated to the fractional share of our Common Stock. The capital gain or loss should be long term capital gain or loss if the U.S. holder's holding period for our Common Stock surrendered exceeded one year at the Effective Time. The deductibility of net capital losses by individuals and corporations is subject to limitations.

U.S. holders that have acquired different blocks of our Common Stock at different times or at different prices are urged to consult their tax advisors regarding the allocation of their aggregate adjusted basis among, and the holding period of, our Common Stock.

U.S. Information Reporting and Backup Withholding. Information returns generally will be required to be filed with the Internal Revenue Service ("IRS") with respect to the receipt of a cash payment from the exchange agent in lieu of a fractional share of our Common Stock pursuant to the Reverse Stock Split, unless a U.S. holder is an exempt recipient. In addition, U.S. holders may be subject to a backup withholding tax (at the current applicable rate of 24%) on the payment of this cash if they do not provide their taxpayer identification numbers in the manner required or otherwise fail to comply with applicable backup withholding tax rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or allowed as a credit against the U.S. holder's federal income tax liability, if any, provided the required information is timely furnished to the IRS.

Non-U.S. Holders. The discussion in this section is addressed to “non-U.S. holders”. A non-U.S. holder is a beneficial owner of our Common Stock that is neither a U.S. holder nor a partnership (or other entity classified as a partnership for U.S. federal income tax purposes). Generally, except as described below with respect to a cash payment from the exchange agent in lieu of fractional shares, non-U.S. holders will not recognize any gain or loss upon the Reverse Stock Split. Any gain recognized with respect to a cash payment received from the exchange agent in lieu of a fractional share will not be subject to U.S. federal income tax unless (a) the gain is effectively connected with the conduct of a trade or business in the United States (and, if certain income tax treaties apply, is attributable to a non-U.S. holder’s permanent establishment in the United States), (b) with respect to non-U.S. holders who are individuals, the non-U.S. holder is present in the United States for 183 days or more in the relevant taxable year and certain other conditions are met or (c) the gain is subject to tax pursuant to the “FIRPTA” rules discussed below. A non-U.S. holder described in (a) above will be subject to tax on such gain in the same manner as if such non-U.S. holder were a United States person as described in the Code, and, if such non-U.S. holder is a corporation, such gain may be subject to a “branch profits tax” at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. An individual non-U.S. holder described in (b) above will be subject to a 30% (or such lower rate as may be specified by an applicable income tax treaty) tax on such gain, which gain may be offset by United States source capital losses even though the individual is not considered a resident of the United States.

Generally, a corporation is a “United States real property holding corporation” if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business (all as determined for U.S. federal income tax purposes). We believe that we are currently a “United States real property holding corporation” for U.S. federal income tax purposes.

Table of Contents

If we are, or have been at any time during the shorter of (i) the five-year period preceding the recognition of any gain with respect to any cash payment received in lieu of a fractional share of our Common Stock (as described below) and (ii) a non-U.S. holder's holding period for its Common Stock (such shorter period, the "relevant period"), a "United States real property holding corporation," a non-U.S. holder may be subject to U.S. federal income tax and/or withholding tax under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") with respect to any cash payment received in lieu of a fractional share of our Common Stock. Specifically, except as described below, a non-U.S. holder would generally be subject to U.S. federal income tax on any gain recognized with respect to such cash payment in the same manner as if such non-U.S. holder were a United States person as described in the Code (unless an applicable income tax treaty provides otherwise), although a non-U.S. holder that is a corporation would not be subject to the "branch profits tax" described above on any such gain. In addition, except as described below, a 15% withholding tax may apply to the cash payment received, although the payment would generally be exempt from such withholding tax if the Common Stock held by the non-U.S. holder is of a class that is "regularly traded" (as defined by applicable Treasury regulations) on an established securities market (such as the NYSE, where our Class A Common Stock is currently listed). Furthermore, the non-U.S. holder would generally be required to file a U.S. federal income tax return for the taxable year in which the gain is realized and subject to U.S. federal income tax as a result of our status as a "United States real property holding corporation."

Notwithstanding the foregoing discussion, a non-U.S. holder will be exempt from U.S. federal income and withholding tax on any cash payment received in lieu of a fractional share of our Common Stock if (i) at any time during the calendar year, any class of our Common Stock is "regularly traded" (as defined by applicable Treasury regulations) on an established securities market (such as the NYSE, where our Class A Common Stock is currently listed) and (ii) (x) if the Common Stock held by the non-U.S. holder is "regularly traded" on an established securities market, the non-U.S. holder does not actually or constructively own, and has not actually or constructively owned at any time during the relevant period, more than 5% of such regularly traded class of Common Stock or (y) if the Common Stock held by the non-U.S. holder is not "regularly traded" on an established securities market, on the date that the non-U.S. holder acquired such Common Stock it had a fair market value less than or equal to 5% of the fair market value of the regularly traded class of Common Stock.

Non-U.S. holders should consult their own tax advisors about how the FIRPTA rules would apply to them.

U.S. Information Reporting and Backup Withholding Tax. In general, backup withholding and information reporting will not apply to payment of cash from the exchange agent in lieu of a fractional share of our Common Stock to a non-U.S. holder pursuant to the Reverse Stock Split if the non-U.S. holder certifies under penalties of perjury that it is a non-U.S. holder and the applicable withholding agent does not have actual knowledge or reason to know to the contrary. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or allowed as a credit against the non-U.S. holder's U.S. federal income tax liability, if any, provided that certain required information is timely furnished to the IRS.

No Appraisal Rights

Under Delaware law, holders of Class A Common Stock and Class B Common Stock will not be entitled to dissenter's rights or appraisal rights with respect to the Reverse Stock Split Amendments.

Interests of Certain Persons in Proposal 5

Certain of our officers and directors have an interest in Proposal 5 as a result of their ownership of shares of Class A Common Stock and/or Class B Common Stock. However, we do not believe that our officers or directors have interests in Proposal 5 that are different from or greater than those of any of our other holders of Class A Common Stock and/or Class B Common Stock.

If Proposal 5 is Not Approved

If Proposal 5 is not approved, we may be unable to maintain the listing of Class A Common Stock on the NYSE, which could adversely affect the liquidity and marketability of Class A Common Stock. See "Purposes of the Reverse Stock Split Amendments" above.

Table of Contents

VOTE REQUIRED

Approval of the proposed Reverse Stock Split Amendments requires the affirmative vote of the holders, represented in person or by proxy at the 2019 Annual Meeting, of (1) a majority in voting power of the outstanding shares of Class A Common Stock and Class B Common Stock entitled to vote thereon, voting together, (2) a majority in voting power of the outstanding shares of Class A Common Stock entitled to vote thereon, voting as a separate class, and (3) a majority in voting power of the outstanding shares of Class B Common Stock entitled to vote thereon, voting as a separate class.

In determining whether this proposal has received the requisite number of affirmative votes, abstentions will count against the proposed Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment. Brokers may vote shares with respect to this proposal in the absence of client instructions, and thus there will be no broker non-votes with respect to this 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.

Our Board of Directors recommends that shareholders vote FOR the approval and adoption of the Reverse Stock Split Amendments as set forth in the Form of Certificate of Amendment.

Table of Contents

THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors (the "Committee") is the principal overseer of the Company's various policies and procedures related to executive compensation. The Committee meets at least four times a year and consults with outside compensation consultants as needed to assess industry trends and overall compensation issues. 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 annual report on Form 10-K 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, excluding the CEO, whose compensation is determined solely by the Compensation Committee and the Board of Directors.

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

Table of Contents

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

Outside Compensation Consultant

For fiscal 2018, 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 2018, FW Cook assisted the Committee with its review of the Company's annual bonus, long-term incentive and equity compensation plans for the CEO and other NEOs as well as its review of the compensation program for the non-employee Directors and the Compensation Committee's compensation risk assessment. FW Cook does not provide any other services to the Company unless approved by the Committee, and no such services were provided in fiscal 2018. 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 2018.

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, 2018.

COMPENSATION COMMITTEE

Stephen D. Weinroth, Chair

Robert B. Coutts

Edward A. Kangas

Joseph A. Marengi

Table of Contents

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended October 31, 2018, 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 2018.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

1. EXECUTIVE SUMMARY

The Company was limited in its ability to invest in land purchases in fiscal 2016 and 2017 due to significant debt maturities that we were unable to refinance and therefore had to pay at maturity. This reduction of investment has led to a decrease in community count and revenues in fiscal 2017 and 2018, which impacted our overall profitability. In the fourth quarter of fiscal 2016 and in July 2017, we were able to refinance certain of our debt maturities and in fiscal 2018 the Company entered into certain financing transactions which extended our debt maturities. These transactions provided us with the long-term capital needed to implement our strategy to invest in land to grow our business to achieve more significant profitability. However, there is typically a significant time lag from when the Company first controls lots until the time that it opens a community for sale. This timeline can vary significantly from a few months (in a market such as Houston) to three to five plus years (in a market such as New Jersey). Demonstrating the Company's progress towards growing its community count, the total number of lots controlled increased in the quarter ended October 31, 2018, as compared to the same period of the prior year, which is the fourth consecutive quarter for which we have experienced a year-over-year quarterly increase. We expect continued growth in lots controlled to ultimately lead to community count growth, increased deliveries, revenues and ultimately profit.

Our cash position in fiscal 2018 allowed us to spend $566.8 million on land purchases and land development during fiscal 2018, along with using $211.4 million of cash to pay down debt, and still have $325.6 million of liquidity, including $125 million of availability under our revolving credit facility, as of October 31, 2018. 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.

Despite our progress on our strategic initiatives and goals in 2018, the historical factors discussed above for fiscal 2016 and 2017 led to a decrease in our community count from 130 at October 31, 2017 to 123 at October 31, 2018, and as a result, for the year ended October 31, 2018 we experienced mixed operating results compared to the prior year. More specifically:

- Total revenues for fiscal 2018 were $1.99 billion, down 18.8% from $2.45 billion for fiscal 2017;
- Homebuilding revenues for unconsolidated joint ventures for fiscal 2018 increased 93.0% to $602.7 million compared with $312.2 million for fiscal 2017;
- During fiscal 2018, the dollar value of net contracts, including unconsolidated joint ventures, decreased 5.1% to $2.39 billion compared with $2.52 billion for fiscal 2017, and the number of net contracts, including unconsolidated joint ventures, decreased 5.9% to 5,586 homes for fiscal 2018 compared to 5,937 homes for fiscal 2017;

During fiscal 2018, consolidated deliveries were 4,847 homes compared with 5,602 homes during fiscal 2017, representing a decrease of 13.5%;

Contract backlog, including unconsolidated joint ventures, as of October 31, 2018 was $977.3 million for 2,192 homes, which was a decrease of 10.5% and 10.1%, respectively, compared to October 31, 2017;

Homebuilding gross margin percentage increased from 13.2% for the year ended October 31, 2017 to 15.2% for the year ended October 31, 2018. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, increased to 18.4% compared with 17.2% in fiscal 2017. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, is a non-GAAP measure. See page 44 of the Company's Annual Report on Form 10-K filed with the SEC on December 20, 2018 for a reconciliation of this measure to homebuilding gross margin percentage, the most directly comparable GAAP measure;

During fiscal 2018, total selling, general and administrative expenses were $228.8 million or 11.5% of total revenues, compared with $255.7 million, or 10.4% of total revenues, for fiscal 2017. For fiscal 2018, total selling, general and administrative expenses include a $10.2 million reduction recorded during the fourth quarter of fiscal 2018 to our construction defect reserves as a result of our annual actuarial estimate of our reserves. For fiscal 2017, total selling, general and administrative expenses include a $12.5 million increase recorded during the fourth quarter of fiscal 2017 related to litigation. Excluding these two adjustments, selling, general and administrative costs decreased $4.2 million for the year ended October 31, 2018 as compared to the prior year;

Pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax loss for fiscal 2017 of $45.2 million, which included a $34.9 million loss on extinguishment of debt during fiscal 2017 and a $12.5 million adjustment recorded during the fourth quarter of fiscal 2017 to our construction defect reserves related to litigation; and

Table of Contents

Total liquidity as of October 31, 2018 was $325.6 million, which was composed of $187.9 million of cash and cash equivalents, $12.7 million of restricted cash required to collateralize letters of credit and $125 million of availability under our secured revolving credit facility. As of October 31, 2017, total liquidity 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.

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 year 2017, the CEO's total direct compensation was in the bottom quartile when ranked against the Peer Group and 22.07% below the Peer Group median. No comparison is shown for fiscal 2018 because complete Peer Group chief executive officer compensation data was not available at the time of filing this Proxy Statement.

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 EBIT Return on Inventory and lowering or refinancing debt and 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 and options, which are tied to stock price performance, and half of the MSU awards have been subject to financial performance conditions (for awards made in fiscal 2018, community count and pre-tax profit levels) in addition to the stock price performance conditions applicable to all of the MSU awards. The rigor of the performance conditions related to the long-term incentive programs and MSU awards is demonstrated by the fact that the 2016 LTIP payout determined in 2018 was only 11.24% of target and certain portions of MSU awards either have been permanently forfeited or have paid out below target as discussed further below.

In recent years, the Committee has determined to weight the Company's variable compensation programs toward rigorous performance conditions with metrics such as liquidity, shareholder value preservation, debt reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin. As context for basing the Company's compensation programs on these metrics, 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 $1.1 billion. 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. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top half of its Peer Group for its last three fiscal years and, even though profitability has been a challenge, pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax

loss for fiscal 2017 of $45.2 million. In addition, the Company ranks second highest among its Peer Group in inventory turns and has substantially increased its land position which we expect to lead to delivery and revenue growth and ultimately improved profitability. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company achieves a profitability level at which it will determine to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. While total shareholder return for the Peer Group was negative during 2018, the Company's total shareholder return declined even more than the Peer Group due to our more highly leveraged balance sheet.

Table of Contents

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 2015 through 2017. No comparison is shown for fiscal 2018 because complete Peer Group chief executive officer median data was not available at the time of filing this Proxy Statement. For fiscal year 2017, the CEO's total direct compensation was in the bottom quartile when ranked against the Peer Group and 22.07% below the Peer Group median. The Committee intended for total direct compensation to be near the median of the Peer Group compensation in years in which 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 annualized 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.

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.

Table of Contents

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. As demonstrated by the chart, because the Summary Compensation Table reflects awards at the fair market value at the grant date, the actual value realized by the CEO upon vesting can differ significantly from the value reported in the Summary Compensation Table depending on the outcome of the Committee's rigorous performance conditions. For example, the 2014 and 2015 MSU grants are expected to be realized at less than target due to the impact of the stock price performance multiplier and half of the 2014 MSU grant has been permanently forfeited for the same reason. Similarly, 50% of the CEO's 2013 stock options, which would have been reflected in his realizable pay in 2015, were forfeited since the financial performance condition was not met. The other 50% of the CEO's 2013 stock options, which would have been reflected in his realizable pay in 2015, were underwater due to stock price performance. For 2018, the realizable pay shown for the CEO is significantly lower than the amount reported in the Summary Compensation Table in large part due to the decline of the Company's stock price between the grant date for the 2018 LTIP and equity awards and the end of the fiscal 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.*

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 or decrease in value as the Company's financial performance and stock price improve or decline. 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 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 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. In some markets, the Company is larger than some of the Peer Group companies even though it may be smaller nationally. The Committee

reviews the composition of the Peer Group on an annual basis and makes adjustments, if needed. For 2018, the Peer Group was adjusted to add TRI Pointe Group, Inc. in connection with the removal of CalAtlantic Group, Inc. due to its acquisition by Lennar Corporation. 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 the annualized value of 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.

Table of Contents

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 long-term incentive and 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 NEO.

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

Perquisites: In addition to typical medical, dental and life insurance benefits, the Company provides its NEOs certain other perquisites, such as an auto allowance, which recognize 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 2018, the Company conducted proactive investor outreach programs, including having its executives attend four investor conferences as well as other meetings with the investment community and meeting by teleconference or in person with more than 145 investors either one-on-one or in small groups. As a result, the Company’s executives met with institutional holders representing approximately 80% 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 who reported their findings from the investor feedback to the Board of Directors. None of these investors raised concerns about the Company’s compensation practices during such meetings.

Compensation Decisions for Fiscal 2018

The Committee's compensation decisions for fiscal 2018 reflected a conservative approach to fixed pay elements (base salary), the achievement of pre-established goals (annual bonuses) and long-term awards.

Base Salaries: For fiscal 2018, the Committee approved a 3.0% base salary increase for each of the CEO and CAO and a 3.7% base salary increase for the CFO in consideration of their individual performance and in line with the Company's ordinary course merit-based salary and cost of living increase practices. These increases in base salary were effective December 16, 2017. The COO's base salary was increased by 7.7% effective December 16, 2017 as required by the terms of his letter agreement. See "Details of Compensation Elements—Base Salaries" below for additional information on base salaries and "COO Letter Agreement" below for additional information related to the COO's letter agreement.

Table of Contents

Regular Annual Bonuses: Consistent with the achievement of specified financial or personal objectives, fiscal 2018 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 2018.

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 2018, 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. The Committee also granted each of the CEO and CFO 250,000 stock options with all of the stock options having an exercise price set 25% above the closing stock price on the grant date to provide an incentive linked with increased shareholder value as these executives have more significant responsibility for the Company's long-term strategy as compared to the other NEOs, as described further below under "Details of Compensation Elements—Stock Grants." 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.

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 the Company's strategic goals. As such, the Committee has weighted the Company's variable compensation programs toward rigorous performance conditions with metrics such as liquidity, shareholder value preservation, debt reduction, alternative capital raises, adjusted EBIT Return on Inventory and gross margin. In setting compensation, the Committee considered that from the beginning of 2009, the Company has reduced its debt by almost $1.1 billion, a significant achievement with respect to one of its most substantial goals over the last ten years but still has a significant debt burden. 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. Despite its over $1.1 billion reduction in debt since 2009, 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. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top half of its Peer Group for its last three fiscal years and, even though

profitability has been a challenge, pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax loss for fiscal 2017 of $45.2 million. In addition, the Company ranks second highest among its Peer Group in inventory turns and has substantially increased its land position which we expect to lead to delivery and revenue growth and ultimately improved profitability. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company achieves a profitability level at which it will determine to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. While total shareholder return for the Peer Group was negative during 2018, the Company's total shareholder return declined even more than the Peer Group due to our more highly leveraged balance sheet.

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

Primary Objectives for the Compensation Program

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

1. To fairly compensate its executives in a manner that is appropriate with respect to their individual performance, level of responsibilities, abilities and skills;

Table of Contents

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 the Company's strategic goals and objective financial measures of the Company.

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 strategic, 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 2018, 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:

Beazer Homes USA, Inc.	M.D.C. Holdings, Inc.	Taylor Morrison Home Corporation
D.R. Horton, Inc.	Meritage Homes Corporation	Toll Brothers, Inc.
KB Home	NVR, Inc.	TRI Pointe Group, Inc.
Lennar Corporation	Pulte Group, Inc.	

Due to the merger of Lennar Corporation with CalAtlantic Group, Inc., TRI Pointe Group, Inc. was added to the Peer Group for fiscal 2018 as the next closest comparable company. 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 industry 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 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. In some markets, the Company is larger than some of the Peer Group companies even though it may be smaller nationally. 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.

Table of Contents

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 2018 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 the reasons discussed above in the second paragraph of "Compensation Philosophy and Objectives," for fiscal 2018, the Committee sought to emphasize EBIT, liquidity, total revenue and the completion of alternative capital raises, each of which were components of the CEO and CFO's fiscal 2018 bonus formulas. In addition, the Committee determined that 50% of the MSUs granted 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 has achieved specified levels of community count at the end of fiscal 2020 and pre-tax profit in fiscal 2020, as discussed below.

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

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 2018, the Company conducted proactive investor outreach programs, including having its executives attend four investor conferences as well as other meetings with the investment community and meeting by teleconference or in person with more than 145 investors either one-on-one or in small groups. As a result, the Company's executives met with institutional holders representing approximately 80% 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 2018 advisory, non-binding "say-on-pay" proposal in connection with the discharge of its responsibilities. A substantial majority of our shareholders (96.5% of the votes cast by shareholders of Class A Common Stock and Class B Common Stock, voting together) approved the compensation of our named executive officers for fiscal 2017 described in our proxy statement for the 2018 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 2018. The Committee will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for the NEOs.

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.

Table of Contents

3. FISCAL 2018 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.

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 realizable 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 2018, variable compensation represented 85.7% of the CEO's Total Direct Compensation opportunity, an increase from 80.4% in fiscal 2017. 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 2018, 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 Committee also granted stock options to the CEO and CFO with all of such stock options having an exercise price set 25% above the closing stock price on the grant date. As a result, the CEO and CFO will not realize any value from these options unless the Company's stock price improves by at least 25%.

Table of Contents

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 2018, the Committee adopted a 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 2018 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 fiscal 2018, the CEO and CAO each 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. Additionally, the Committee increased the CFO's salary to $700,000, a 3.7% salary increase, in light of the CFO's position as a key member of the senior executive team and in line with the Company's ordinary course merit-based and cost of living salary increase practices. Pursuant to the terms of his letter agreement, the Committee increased the COO's fiscal 2018 annual base salary by 7.7%. 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 NEOs are within the competitive range necessary to retain the executive officers' services.

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 2018 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 2018 annual bonus and the reasons the Committee feels that the incentive compensation paid to the NEOs is appropriate. Due to the reduced amount of realized compensation in the last several years as compared to more profitable years and the large percentage of the long-term compensation paid in the form of MSUs and options, all bonuses for fiscal 2018 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 $1.1 billion. 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. However, when measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top half of its Peer Group for its last three fiscal years and, even though profitability has been a challenge, pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax loss for fiscal 2017 of $45.2 million. In addition, the Company ranks second highest among its Peer Group in inventory turns and has substantially increased its land position which we expect to lead to delivery and revenue growth and ultimately improved profitability. Given the alternative choices of significant shareholder dilution or significantly reduced profitability, until the Company achieves a profitability level at which it will determine to further reduce debt, the Committee continues to believe it is in its shareholders' best interest to have management focus on preserving equity value. While total shareholder return for the Peer Group was negative during 2018, the Company's total shareholder return declined even more than the Peer Group due to our more highly leveraged balance sheet.

Table of Contents

In light of the Company’s 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 was replaced by a measure based on the Company’s earnings before interest and taxes (“EBIT”). The fiscal 2018 EBIT component of the bonus formulas for the CEO and CFO was based on achieving targeted levels of Company EBIT for fiscal 2018. If the Company’s financial performance exceeded the levels established under the EBIT component of the CEO and CFO’s bonus formulas for fiscal 2018, the Committee could extrapolate the amount of the bonus above these levels. For this purpose, “EBIT” is defined as income (loss) before interest and income tax expense and before income (loss) from unconsolidated joint ventures as reflected on the Company’s audited financial statements plus income (loss) before interest and income tax expense for the Company’s unconsolidated joint ventures as reflected on their respective financial statements for the twelve months ended October 31, 2018, excluding the impact of any items deemed by the Committee to be unusual or nonrecurring items (for example, losses from land impairments and losses from debt repurchases/debt retirement such as call premiums, above par purchase prices and related issuance costs or gains from debt repurchases). This element directly correlates with the Company’s strategic goal of improving profitability and interest coverage.

The Liquidity Balances component of the CEO and CFO’s bonus formulas was based on the number of fiscal 2018 quarter-ends in which Liquidity Balances were at or above $200 million. “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. This element of the bonus calculation directly correlates with the Company’s strategic goal of enhancing our liquidity in order to grow the Company in light of our challenges accessing the capital markets.

The 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, 2018. This element of the bonus calculation directly correlates with the Company’s strategic goal of growing its operations which is expected to lead to operating leverage and higher profitability.

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 (including, but not limited to, 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 2018. This element of the bonus calculation directly correlates with the Company’s strategic goal of enhancing our liquidity through innovative sources of additional capital in order to grow the Company in light of our challenges accessing the capital markets.

Table of Contents

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

Fiscal 2018

EBIT (in millions)	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than $200	$ 0	$ 0
$210	$ 250	$ 200
$220	$ 550	$ 310
$230	$ 850	$ 420
$240	$1,150	$ 530
$250	$1,550	$ 680
$260	$1,950	$ 830
$270	$2,350	$ 980
$280	$2,750	$1,130
$290	$3,150	$1,280
$300	$3,550	$1,430

PLUS

Number of Fiscal 2018 Quarter-Ends with Liquidity Balances At or Above $200 Million	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than 2	$ 0	$ 0
2	$350	$200
3	$550	$300
4	$750	$450

PLUS

Fiscal 2018 Total Revenue (in millions)	**CEO Bonus* (thousands)**	**CFO Bonus* (thousands)**
Less than $2,350	$ 0	$ 0
$2,350	$150	$ 75
$2,400	$300	$125
$2,450	$550	$200

PLUS

Alternative Capital Raises Closed During Fiscal 2018 (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 EBIT exceeds $300 million, the EBIT bonus may be extrapolated at the Committee's discretion, but is subject to the maximum bonus payable under the Short-Term Incentive Plan.*

Table of Contents

Fiscal 2018 EBIT was between target and maximum but Liquidity Balances, Total Revenue and Alternative Capital Raises results exceeded the maximum. Specifically, fiscal 2018 EBIT as defined under the bonus formulas for the CEO and CFO was $237.1 million, Liquidity Balances at the end of each of the four fiscal 2018 quarters were above $200 million, Total Revenue was $2,598.4 million and Alternative Capital Raises were $222.2 million. As a result, Mr. Hovnanian earned a cash bonus equal to $2,813,150, which represented approximately 53% of Mr. Hovnanian's maximum potential bonus. Mr. Sorsby earned a cash bonus equal to $1,323,155 which represented approximately 59% of Mr. Sorsby's maximum potential bonus. As stated above, while total shareholder return for the Peer Group was negative during 2018, the Company's total shareholder return declined even more than the Peer Group due to our more highly leveraged balance sheet. When measuring pure operating performance by the ratio of adjusted EBIT to inventory, the Company has performed in the top half of its Peer Group for its last three fiscal years and, even though profitability has been a challenge, pre-tax income for fiscal 2018 was $8.1 million, compared to pre-tax loss for fiscal 2017 of $45.2 million. In addition, the Company ranks second highest among its Peer Group in inventory turns and has substantially increased its land position which we expect to lead to delivery and revenue growth and ultimately improved profitability.

COO: Prior to his promotion to COO effective November 1, 2016, 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 2018 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 an 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% or more	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% or more	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% or more	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.*

Table of Contents

Fiscal 2018 Phoenix Group ROI was 19.86%, Phoenix Group Pre-tax Profit was $89.4 million, Phoenix Group Customer Satisfaction was 90.02% and Phoenix Group Mortgage Capture was 89.30%. As a result, Mr. Smith earned a cash bonus equal to $2,035,878.

CAO: The fiscal 2018 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 2018, 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 2018, the cap would be 60% of base salary. If the Company did not achieve positive Pre-tax Profit in fiscal 2018, 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 2018, the cap was 60% of base salary. If the Company did not achieve positive Pre-tax Profit in fiscal 2018, the cap was 30%.*

Mr. O’Connor’s fiscal 2018 personal objectives included continuing to participate in industry initiatives related to the adoption of new accounting standards, in particular, the new revenue recognition standard, which was effective for the Company on November 1, 2018; 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 leading a cross-functional project team to replace financial planning software that is becoming obsolete and must be upgraded. 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 which the company implemented November 1, 2018; 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 leading a cross functional team with respect to an update and replacement of the Company’s financial planning software.

Table of Contents

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 2018, but he earned a cash bonus for meeting his fiscal 2018 personal objectives in full (the "outstanding" category). Because the Company achieved positive Pre-tax Profit in 2018, Mr. O'Connor received a cash bonus of $222,093 (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 2018.

Eligibility for 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 2018, the Company's ROACE did not meet this threshold, so no retention bonuses were earned for fiscal 2018.

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 Existing Plan. In fiscal 2018, the Committee awarded both MSUs and stock options with a grant price 25% greater than the stock price on day of grant to the CEO and CFO, MSUs to the COO and fair market value stock options to the CAO. The CAO was eligible to elect to receive RSUs in lieu of stock options but chose to receive stock options.

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 Existing 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.

Table of Contents

Fiscal 2018 Equity Awards

In determining the fiscal 2018 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. As previously discussed, the Committee's outside compensation consultant, FW Cook, also assisted the Committee with respect to its review of the Company's compensation program for the CEO and other NEOs, including its equity awards. All equity awards granted to NEOs in fiscal 2018 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 the Company's senior management and other associates and external parties, such as significant lenders and important 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. The Committee also reviewed an independent analysis and valuation of what premium or discount, if any, a Class B Common Stock share would have relative to a Class A Common Stock share, taking into account selected transactions and companies offering dual-class stock. Such analysis found, on average, no premium associated with high voting stock even when such stock retained its high vote status upon a sale, which is in contrast to Class B Common Stock which must be converted to Class A Common Stock upon a sale. After such discussion and review and analysis thereof, the Committee determined that the value to the CEO of receiving Class B Common Stock was equal to the value if he had received Class A Common Stock and 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. There was a less than % change in the percentage of Hovnanian shareholder votes controlled by Ara Hovnanian caused by vesting, in 2018, of Hovnanian Class B Common Stock awards.

The Committee decided to award MSUs to the CEO, CFO and COO in fiscal 2018 because it believes MSUs provide a clear linkage to shareholder value creation and balance retention and performance objectives while providing more market leverage than time vested RSUs (although less market leverage than stock options).

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 2018, these financial performance conditions were based on the Company's pre-tax profit and community count 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 2021 and

the remaining annual installments commencing on the third anniversary of the grant date.

CEO: In fiscal 2018, the CEO was granted 600,000 target MSUs, the same target number of MSUs granted last year.

CFO: In fiscal 2018, the CFO was granted 170,000 target MSUs, the same target number of MSUs granted last year.

COO: In fiscal 2018, the COO was granted 80,000 target MSUs, the same target number of MSUs granted last year.

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 (a) 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 (b) 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 (i) if such percentage is less than 50%, then the Stock Performance Multiplier will equal zero and no shares will be granted and (ii) if such percentage exceeds 200%, then the Stock Performance Multiplier will be capped at 200% resulting in 100% 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. For example, due to this mechanism, the CEO and CFO received zero shares upon the vesting of 50% of their 2014 MSU and less than target for portions of their 2015 and 2016 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. For 2018, the Committee chose to add a “Community Count Multiplier” (as further defined below) as the performance condition to replace the “Gross Margin Multiplier.” The Committee chose the Community Count Multiplier because, as discussed above under “Executive Summary,” a key part of the Company’s investment strategy is to grow its business and increase its community count which is expected to lead to increased deliveries, revenues and ultimately profit.

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 Community Count 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 have 135 open-for-sale communities and achieve pre-tax profit that is 200% higher than the annualized average of the 12 quarters ending April 30, 2018, as discussed below.

Table of Contents

The “Community Count Multiplier” will be determined as follows by reference to the number of open-for-sale communities, including those for the Company’s unconsolidated joint ventures, as of October 31, 2020 as disclosed in the Company’s SEC filings. If the Company does not have at least 126 open-for-sale communities as of October 31, 2020, the CEO, CFO and COO will receive zero shares upon the vesting of this portion of the MSU awards due to the negative Community Count Multiplier. In order to avoid a reduction in the payout of this portion of their target MSUs, the Company must have at least 135 open-for-sale communities and, under the Stock Performance Multiplier, must maintain or increase shareholder value between the grant date and the vesting date as described above.

Fiscal Year End 2020 Community Count	**Applicable Community Count Multiplier***
125 (or less)	0%
130	50%
135 (or more)	100%

** The applicable Community Count 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, 2020, 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 positive pre-tax profit in fiscal 2020, the CEO, CFO and COO will receive zero shares upon the vesting of this portion of the MSU awards due to the negative Pre-Tax Profit Multiplier. To incentivize growth in Pre-tax Profit over current levels, the Committee set the multiplier so that the Company must achieve pre-tax profit in fiscal 2020 that is 200% higher than the annualized average of the 12 quarters ending April 30, 2018 in order to avoid a reduction in the payout of this portion of their target MSUs. Under the Stock Price Performance Multiplier, the Company must also maintain or increase shareholder value between the grant date and the vesting date as described above.

Fiscal Year 2020 Pre-tax Profit	**Applicable Pre-Tax Profit**

	Multiplier*
$0 (or less)	0%
50% higher than annualized average of the 12 quarters ending April 30, 2018	50%
200% higher (or greater) than the annualized average of the 12 quarters ending April 30, 2018	100%

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

In addition, the Compensation Committee approved a special grant of 250,000 stock options for each of the CEO and CFO. The Committee’s goals in granting these awards were threefold: (1) to motivate these key executives to increase shareholder value; (2) to further align the executives’ interests with those of the Company’s shareholders and (3) to ensure the Company retains these key executives. To accomplish these three objectives, the option grants for the CEO and CFO will cliff vest at the end of four years based on continued employment with no accelerated vesting for retirement or disability. Furthermore, the exercise price for these stock options is set 25% above the closing stock price on the date of grant to require a significant increase in shareholder value before the executives receive any value from these stock options. The Committee believes that these special stock option grants will have a significant impact by focusing our top two executives on maximizing performance and shareholder value, while at the same time ensuring they remain with the Company.

Table of Contents

CAO: The CAO received a fiscal 2018 grant of 25,000 stock options, which was comparable to his fiscal 2017 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 but elected to receive stock options. These stock options 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.

Long-Term Incentive Programs

2016 Long-Term Incentive Program

In fiscal 2016, the Company adopted a Long-Term Incentive Program (the "2016 LTIP") under the Existing 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 was entirely performance-based and was 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, the Committee believed that using reductions of interest expense as a percentage of homebuilding revenues as a financial measure could 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 was a participant in the 2016 LTIP and their award payouts were 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 ended on October 31, 2018 (that is, the performance period covered fiscal 2016, 2017 and 2018). After the performance period, the awards remain subject to time vesting conditions during fiscal 2019 and 2020. Like MSUs and other LTIP awards, in accordance with the Committee's intentions, the payout under the 2016 LTIP was determined based on the Company's performance.

For each of the NEOs other than the COO, award payouts were 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 was 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 increased or decreased by the time the award was 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 as a 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 with respect to the cash payout portions are 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 time vesting restrictions during 2019 and 2020.

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.

Table of Contents

The following table illustrates the percentage of the target award that would have been achieved at each performance level. Awards are interpolated on a linear basis between performance levels but are not 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

For the period from fiscal 2016 through fiscal 2018, the Company achieved $66.9 million in pre-tax profit and fiscal 2018 interest expense as a percent of fiscal 2018 homebuilding revenue was 8.11%, resulting in a payout of only 11.24% of the target award which is reflective of the rigorous goals the Committee established for the 2016 LTIP. 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, 2020.

1. 50% of the award vested on October 31, 2018 and was paid 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.

2018 Long-Term Incentive Program

In fiscal 2018, the Company adopted a Long-Term Incentive Program (the “2018 LTIP”) under the Existing 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 2018 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 Average Adjusted EBIT Return on Inventory. The Committee chose these metrics to align and incentivize the NEOs to focus on gaining operating efficiencies and improving our bottom line. In particular, using Average Adjusted EBIT Return on Inventory as a financial measure can incentivize increasing EBIT or increasing inventory turns.

Each of the NEOs is a participant in the 2018 LTIP and his award payout, 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, 2017 (the beginning of fiscal 2018) and will end on October 31, 2020 (that is, the performance period covers fiscal 2018, 2019 and 2020). After the performance period, the awards remain subject to vesting conditions during fiscal 2021 and 2022. Like MSU and other LTIP awards, in accordance with the Committee’s intentions, the payout under the 2018 LTIP will be determined based on the Company’s performance. Although in recent years the Company made LTIP grants approximately every three years, in 2018 the Committee determined that, beginning in 2018, it would consider LTIP grants more frequently while also reducing the amount of the grants. The Committee believes that this approach will enable it to impose rigorous performance metrics that are most relevant to the Company’s most current strategic goals.

Table of Contents

Award payouts, if any, will be based on a specific target multiple of each participant's base salary in effect on January 1, 2018. 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 2018 LTIP, the Committee required that 50% of the payout be in the form of cash. All stock awards under the 2018 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	1.3500	50% cash / 50% shares
CFO	0.9000	50% cash / 50% shares
COO	0.9000	50% cash / 50% shares
CAO	0.5625	50% cash / 50% shares

Although the Committee views both the stock and cash portions of the 2018 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 2018 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 2020 (which coincides with the end of the performance period) even though any payments remain subject to vesting restrictions during 2021 and 2022.

For purposes of the 2018 LTIP, "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 thirty-six month period ending October 31, 2020, 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. "Average Adjusted EBIT Return on Inventory" is defined as the average of the quotients resulting from dividing (A) Adjusted EBIT by (B) Average Inventory for each of fiscal years 2018, 2019 and 2020. "Adjusted EBIT" is determined from the Company's audited financial statements, 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. "Average Inventory" equals the average of the ending inventory balances from the Company's audited balance sheet, excluding capitalized interest and consolidated inventory not owned, for each of the five consecutive fiscal quarters ending with the last quarter of the fiscal year.

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:

		Average Adjusted EBIT Return on Inventory for Fiscal 2018, Fiscal 2019 and Fiscal 2020						
		10.50% or less	**12.00%**	**13.50%**	**15.00%**	**16.50%**	**18.00%**	**19.50% or more**
Cumulative Pre-tax Profit for Fiscal 2018 through Fiscal 2020 (in millions)	**$100 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
	$75	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
	$50	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
	$25	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 $25	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

Table of Contents

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, 2020:

1. 60% of the award will become vested on October 31, 2020 and would be payable in January 2021;
2. 20% of the award will become vested on October 31, 2021 and would be payable in January 2022; and
3. 20% of the award will become vested on October 31, 2022 and would be payable in January 2023;

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.

Other Employee Benefits

The Company provides 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 annual base salary is $700,000. 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 Existing 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.

Table of Contents

5. ACTIONS FOR FISCAL 2019

The Committee approved a 3.0% base salary increase, effective December 15, 2018, for each of Messrs. Hovnanian, Sorsby and Smith, in line with the Company's ordinary course merit-based salary and cost of living increase practices. The Committee increased Mr. O'Connor's salary to $400,000 effective December 15, 2018, an 8.1% increase, in light of the CAO's position as a key member of the senior executive team.

The Committee determined that for fiscal 2019, the bonus formulas for the CEO and CFO would remain the same as fiscal 2018 except that they will also include a component based on opening new communities during fiscal 2019. The COO's bonus formula will change to mirror the CFO's bonus formula in fiscal 2019.

The Committee determined that the fiscal 2019 bonus formula for Mr. O'Connor will be the same as fiscal 2018, although his personal objectives were updated to reflect key goals for fiscal 2019.

The Committee has been considering making an LTIP grant in 2019. Although prior to 2018 the Company made LTIP grants approximately every three years, in 2018 the Committee determined that beginning in 2018, it would consider making LTIP grants more frequently while also reducing the amount of the grants. The Committee believes that this approach will enable it to impose rigorous performance metrics that are most relevant to the Company's most current strategic goals.

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 were previously 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 2018, 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.

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 are currently in compliance with the guidelines.

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

Table of Contents

EXECUTIVE COMPENSATION

1. SUMMARY COMPENSATION TABLE

The following table summarizes the compensation for the fiscal years ended October 31, 2018, October 31, 2017 and October 31, 2016 of the CEO, CFO and each of the other persons serving as an executive officer as of October 31, 2018. These four individuals compose our named executive officers ("NEOs").

Summary Compensation Table

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($) (2)	Option Awards ($) (3)	Non-Equity Incentive Plan Compensation ($) (4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (5)	All Other Compen-sation ($) (6)	Total ($) (7)
Ara K. Hovnanian,	2018	1,229,922	—	2,507,073	250,942	3,002,850	32,517	459,335	7,482,639
President, Chief	2017	1,193,965	—	1,698,000	—	2,020,552	27,596	318,643	5,258,756
Executive Officer and Chairman of the Board	2016	1,159,059	—	3,000,576	235,474	2,418,033	19,683	379,368	7,212,193
J. Larry Sorsby,	2018	699,558	—	790,150	250,942	1,394,687	20,594	148,815	3,304,746
Executive Vice	2017	675,330	—	481,101	—	796,536	11,127	116,555	2,080,649
President and Chief Financial Officer	2016	655,587	—	899,039	235,474	875,512	7,564	140,018	2,813,194
Lucian T. Smith III,	2018	696,346	—	538,600	—	2,097,685	12,047	140,089	3,484,767
Chief Operating	2017	639,423	—	226,400	—	1,768,725	6,085	63,986	2,704,619

Officer

Brad G. O'Connor,	2018	370,210	—	104,106	27,719	245,885	5,574	55,880	809,374
Vice President -	2017	359,388	—	14,063	15,751	215,624	3,047	53,246	661,119
Chief Accounting Officer and Corporate Controller	2016	348,881	—	211,715	78,194	209,344	1,960	55,049	905,143

(1) ***<u>"Salary" Column</u>.*** *Messrs. Hovnanian, Sorsby, Smith and O'Connor received a salary increase effective December 16, 2017. These increases occurred after the beginning of fiscal 2018, resulting in a prorated base salary for fiscal 2018.*

(2) ***<u>"Stock Awards" Column</u>.*** *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. For fiscal 2018, this column reflects the aggregate grant date fair value of the share portion of the 2018 LTIP awards for Messrs. Hovnanian, Sorsby, Smith and O'Connor based upon the probable outcome of the performance conditions as of the grant date and, for Messrs. Hovnanian, Sorsby and Smith, the aggregate grant date fair value of the MSUs granted to them in fiscal 2018. The maximum values of the share portion of the 2018 LTIP would be $2,075,182, $787,499, $787,499 and $260,266 for Messrs. Hovnanian, Sorsby, Smith and O'Connor, respectively. 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 2018 LTIP award levels included in the table above are subject to performance over a three-year period (fiscal 2018, 2019 and 2020) and, if earned, awards are subject to vesting restrictions that extend through the end of fiscal 2022. 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, 2018. 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 2016, 2017 and 2018 are subject to vesting restrictions that extend through June 10, 2021, June 9, 2022 and June 8, 2023, respectively.*

Table of Contents

(3) ***"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, 2018. The fiscal 2016 and 2018 option awards for Messrs. Hovnanian and Sorsby have an exercise price set 33 1/3% and 25%, respectively, 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.*

(4) ***"Non-Equity Incentive Plan Compensation" Column.*** *This column represents the performance-based annual bonus awards earned by the NEOs in the fiscal year indicated and the cash portion of the 2016 LTIP award earned by the NEOs in fiscal 2018. The cash portions of the fiscal 2018 annual bonus awards for Messrs. Hovnanian, Sorsby, Smith and O'Connor were $2,813,150, $1,323,155, $2,035,878 and $222,093, respectively. The cash portions of the 2016 LTIP awards earned by the NEOs in fiscal 2018 for Messrs. Hovnanian, Sorsby, Smith and O'Connor were $189,700, $71,532, $61,807 and $23,792, respectively.*

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

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

For fiscal 2018, 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 2018 Perquisites that Exceeded the Greater of $25,000 or 10% of Total Perquisites**		
Name	**Total Fiscal 2018 Perquisites ($)**	**Types of Perquisites (a)**	**Personal Use of the Company's Fractional Aircraft Share ($) (b)**	**Personal Use of Company's Automobiles ($) (c)**	**Auto Allowance, Car Maintenance and Fuel ($) (d)**
Ara K. Hovnanian	187,576	(1) (2) (4) (5) (6) (7)	101,416	38,864	N/A
J. Larry Sorsby	35,600	(3) (4) (5)	N/A	N/A	28,674
Lucian T. Smith III	29,951	(3) (4)	N/A	N/A	29,519

Brad G. O’Connor	16,988	(3) (4) (5)	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 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.*

Table of Contents

(d) *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 2018:

Fiscal 2018 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	4,443	16,500	250,816
J. Larry Sorsby	4,443	16,500	92,272
Lucian T. Smith III	3,035	16,500	90,603
Brad G. O'Connor	1,323	16,500	21,069

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

Fiscal 2018 Total Compensation (Supplemental Table). *The Fiscal 2018 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 2018, but values stock awards, option awards and deferred compensation earnings for the fiscal year differently, as explained in footnotes (a), (b), (c) and (d) below.*

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

Fiscal 2018 Total Compensation (Supplemental Table)

Name	Fiscal 2018 Salary ($)	Fiscal 2018 Cash Bonus ($)	Fiscal 2018 Stock Vested (excluding LTIP) ($) (a)	Value of Options Granted in Fiscal 2018 ($) (b)	2016 LTIP Cash Realized ($) (c)	Nonqualified Deferred Compensation Earnings ($) (d)	2018 All Other Compen-sation ($)	Total of All Columns of Supplemental Table ($)
Ara K. Hovnanian	1,229,922	2,813,150	543,161	—	183,620	34,542	459,335	5,263,730
J. Larry Sorsby	699,558	1,323,155	108,636	—	69,240	—	148,815	2,349,404
Lucian T. Smith III	696,346	2,035,878	84,702	N/A	59,826	—	140,089	3,016,841
Brad G. O’Connor	370,210	222,093	—	—	23,029	—	55,880	671,212

(a) *“Fiscal 2018 Stock Vested (excluding LTIP)” column, for Messrs. Hovnanian and Sorsby, represents the portion of the MSU awards granted to them on June 12, 2015 and June 10, 2016 that vested in fiscal 2018, at the stock price on the date of vesting. For Mr. Smith, this column represents the portion of the MSU award granted to him on June 10, 2016 that vested in fiscal 2018, plus the portion of the RSU awards granted to him on June 14, 2013, June 13, 2014, June 12, 2015 and August 3, 2015 that vested in fiscal 2018, at the stock price on the date of vesting.*

(b) *The “Value of Options Granted in Fiscal 2018” column is based on the intrinsic value or degree to which the stock option was “in-the-money” for options granted in fiscal 2018 as of the grant date, instead of the grant date fair values of option awards granted in fiscal 2018, as discussed under footnote (3) to the Summary Compensation Table above.*

Table of Contents

(c) *Reflects the cash portion of the 2016 LTIP awards that was realized in fiscal 2018 on the basis of performance through October 31, 2018 vesting through October 31, 2018 under the terms of the award, which was paid in January 2019. These amounts are included in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table along with the cash portion of the performance-based annual bonus awards earned by the NEOs in fiscal 2018.*

(d) *Reflects above-market portions of deferred compensation earnings realized in fiscal 2018 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	2018	1,229,922	2,813,150	183,620	(a)	4,226,692
	2017	1,193,965	2,020,552	283,084	(b)	3,497,601
	2016	1,159,059	2,418,033	538,158	(b)	4,115,250
J. Larry Sorsby	2018	699,558	1,323,155	69,240	(a)	2,091,953
	2017	675,330	796,536	103,636	(b)	1,575,502
	2016	655,587	875,512	197,018	(b)	1,728,117
Lucian T. Smith III	2018	696,346	2,035,878	59,826	(a)	2,792,050
	2017	639,423	1,768,725	56,271	(b)	2,464,419
Brad G. O'Connor	2018	370,210	222,093	23,029	(a)	615,332
	2017	359,388	215,624	27,575	(b)	602,587
	2016	348,881	209,344	52,424	(b)	610,649

(a) *Reflects the cash portion of the 2016 LTIP awards that was realized in fiscal 2018 on the basis of performance through October 31, 2018 vesting through October 31, 2018 under the terms of the award, which was paid in January 2019. These amounts are included in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table along with the cash portion of the performance-based annual bonus awards earned by the NEOs in fiscal 2018.*

(b) *Reflects the cash portions of the 2013 LTIP awards that were realized in fiscal 2016 and fiscal 2017 on the basis of performance through October 31, 2015, and vesting through the end of the fiscal year, which were paid in January 2017 and January 2018, respectively. These amounts were included in the "Bonus" column of the Summary Compensation Table in fiscal 2015.*

Table of Contents

2. GRANTS OF PLAN-BASED AWARDS IN FISCAL 2018

The following table summarizes both:

(1) The potential equity and non-equity incentive plan awards that could have been or could be earned by each of the NEOs at the defined levels of “Threshold,” “Target” and “Maximum” based on the performance-based awards granted to the NEOs in fiscal 2018; and

(2) All other plan-based awards, such as stock options and non-performance-based RSUs, granted in fiscal 2018.

Each of the following columns is described in the footnotes below the table.

Grants of Plan-Based Awards in Fiscal 2018

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ($)			Estimated Future Payouts Under Equity Incentive Plan Awards (#)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stoc and Option Award
Name	**Grant Date**	**Threshold**	**Target**	**Maximum**	**Threshold**	**Target**	**Maximum**	**(#)**	**(#)**	**(8)**	**($) (9)**
Ara K.	(1)	0	1,900,000	5,300,000							
Hovnanian	12/01/17 (2)				0	294,352	735,880				830,07

	12/01/17(3)	0	830,073	2,075,183						
	06/08/18(4)							250,000	2.44	250,94
	06/08/18(5)				150,000	300,000	600,000			834,00
	06/08/18(6)				0	75,000	300,000			421,50
	06/08/18(7)				0	75,000	300,000			421,50
J. Larry Sorsby	(1)	0	945,000	2,255,000						
	12/01/17(2)				0	111,702	279,255			315,00
	12/01/17(3)	0	315,000	787,500						
	06/08/18(4)							250,000	2.44	250,94
	06/08/18(5)				42,500	85,000	170,000			236,30
	06/08/18(6)				0	21,250	85,000			119,42
	06/08/18(7)				0	21,250	85,000			119,42
Lucian T. Smith III	(1)	0	—	—						
	12/01/17(2)				0	111,702	279,255			315,00
	12/01/17(3)	0	315,000	787,500						
	06/08/18(5)				20,000	40,000	80,000			111,20
	06/08/18(6)				0	10,000	40,000			56,200
	06/08/18(7)				0	10,000	40,000			56,200
Brad G. O'Connor	(1)	74,031	222,093	222,093						
	12/01/17(2)				0	36,917	92,293			104,10
	12/01/17(3)	0	104,106	260,265						
	06/08/18(4)							25,000	1.95	27,719

(1) ***Regular Bonuses for CEO and CFO.*** *As described above under "Regular Bonuses" in the Compensation Discussion and Analysis, the fiscal 2018 bonus formula for the CEO and CFO was based on the EBIT, Liquidity Balances, Total Revenue and Alternative Capital Raises calculation method. These NEOs would not earn any bonus if (1) EBIT in fiscal 2018 was below $200 million, (2) Liquidity Balances were above $200 million for fewer than two fiscal 2018 quarter-ends, (3) Total Revenue was less than $2.35 billion and (4) Alternative Capital Raises in fiscal 2018 were $0. Because bonus amounts above that level in EBIT, Liquidity Balances, Total Revenue and Alternative Capital Raises, however, would be interpolated, $0 has been disclosed at the "threshold" level for purposes of the above table for these NEOs.*

For purposes of the above table presentation, the bonus earned at the "target" level for the CEO and CFO would be the amount that could be earned if (1) EBIT for fiscal 2018 was $230 million, (2) Liquidity Balances were above $200 million for three fiscal 2018 quarter-ends, (3) Total Revenue for fiscal 2018 was $2.40 billion and (4) Alternative Capital Raises in fiscal 2018 were $75 million.

The bonus earned at the "maximum" level for the CEO and CFO would be the amount that could be earned if (1) EBIT for fiscal 2018 was $300 million or more, (2) Liquidity Balances were above $200 million for all four fiscal 2018 quarter-ends, (3) Total Revenue for fiscal 2018 was $2.45 billion or more, and (4) Alternative Capital Raises in fiscal 2018 were $100 million or more.

Regular Bonus for the COO. *As described above under "Regular Bonuses" in the Compensation Discussion and Analysis, the fiscal 2018 bonus formula for the COO was based on the Phoenix Group ROI, Phoenix Group Customer Satisfaction and Phoenix Group Mortgage Capture calculation method. The COO would not earn any bonus if (1) Phoenix Group ROI was less than zero, (2) Phoenix Group Customer Satisfaction was below 85% and (3) Phoenix Group Mortgage Capture was below 75%. Because bonus amounts above that level in Phoenix Group Customer Satisfaction and Phoenix Group Mortgage Capture, however, would be interpolated, $0 has been disclosed at the "threshold" level for purposes of the above table for this NEO.*

For purposes of the above table presentation, the bonus earned at the "target" level for the COO would be the amount that could be earned if (1) Phoenix Group ROI was 15%, (2) Phoenix Group Customer Satisfaction was 88%, and (3) Phoenix Group Mortgage Capture was 80%. The COO's Phoenix Group ROI results would provide for a payment of 1.65% of Phoenix Group Pre-tax Profit and, because Phoenix Group Pre-tax Profit was not determinable at the time the fiscal 2018 bonus formula was established, no target amount is reflected for the COO in the above table.

The bonus earned at the "maximum" level for the COO would be the amount that could be earned if (1) Phoenix Group ROI was 25% or more, (2) Phoenix Group Customer Satisfaction was 91% or more, and (3) Phoenix Group Mortgage Capture was 85% or more. The COO's Phoenix Group ROI results would provide for a payment of 2.20% of Phoenix Group Pre-tax Profit and, because Phoenix Group Pre-tax Profit was not determinable at the time the fiscal 2018 bonus formula was established, no maximum amount is reflected for the COO in the above table.

Regular Bonus for the CAO. *As stated above under "Regular Bonuses" in the Compensation Discussion and Analysis, the fiscal 2018 bonus formula for Mr. O'Connor was based on both the ROACE calculation method and the "Meeting Personal Objectives" method, subject to a cap equal to the maximum percentage of base salary he could achieve under the personal objectives portion of his bonus formulas. If the Company achieved positive Pre-tax Profit in fiscal 2018 the cap was 60% of base salary. If the Company did not achieve positive Pre-tax Profit in fiscal 2018, the cap was 30%.*

For purposes of the above table presentation, the "threshold" level is defined as when the ROACE percentage and Pre-tax Profit are at or below zero and the "threshold" achievement of the personal objectives established for Mr. O'Connor at the beginning of the fiscal year (as described above in the Compensation Discussion and Analysis under "Regular Bonuses") is achieved. Based on the "threshold" level of ROACE performance, Mr. O'Connor would not have earned a bonus payout for fiscal 2018 based on the ROACE percentage, but based upon the "threshold" achievement of his personal objectives, Mr. O'Connor would have earned bonus payout of 20% of his base salary. As

a result, for fiscal 2018, Mr. O'Connor at "threshold" would have earned a cash bonus of $74,031.

For purposes of the above table presentation, the "target" level assumes the Company's ROACE percentage is at 15%, the Company achieves positive Pre-tax Profit and the "target" or a "substantial" percentage of the personal objectives established for Mr. O'Connor at the beginning of the fiscal year is achieved. Since the payouts based on his "target" level would exceed the maximum percentage of base salary he could achieve under the personal objectives portion of his bonus formula, the bonus for Mr. O'Connor at this level would be capped. The applicable cap of 60% of base salary for Mr. O'Connor would result in a cash bonus of $222,093.

For purposes of the above table presentation, the "maximum" level is defined as when the Company achieves positive Pre-tax Profit, the maximum award earned under the ROACE calculation method is achieved and all or an "outstanding" percentage of the personal objectives established for Mr. O'Connor at the beginning of the fiscal year is achieved. The maximum bonus payable under the ROACE calculation is capped at a 20% ROACE level for Mr. O'Connor. Since the payout based on the maximum level would exceed the maximum percentage of base salary he could achieve under the personal objectives portion of his bonus formula, the bonus for Mr. O'Connor would be capped. The applicable cap of 60% of base salary for Mr. O'Connor would result in a cash bonus of $222,093.

Table of Contents

(2) ***2018 LTIP Stock Awards.*** *Represents the share portion of each NEO's 2018 LTIP award. As discussed in the Compensation Discussion and Analysis, Mr. Hovnanian's share award was granted in the form of rights to receive shares of Class B Common Stock and share portions of the 2018 LTIP awards for the remaining NEOs were granted in the form of rights to receive Class A Common Stock.*

For purposes of the above table presentation, the "threshold" level is defined as when cumulative Pre-Tax Profit is $25 million or less and the Average Adjusted EBIT Return on Inventory is 10.50% or less. Because payout levels above that level, however, would be interpolated, $0 has been disclosed as the "threshold" level. The "target" level is defined as when cumulative Pre-Tax Profit is $50 million and the Average Adjusted EBIT Return on Inventory is 13.50%. The "maximum" level is defined as when cumulative Pre-Tax Profit is $100 million or more and the Average Adjusted EBIT Return on Inventory is 19.50% or more. The grant date fair value of the share portion of the 2018 LTIP awards is determined under FASB ASC Topic 718 on the basis of the expected outcome as of the grant date.

As a condition of earning each portion of the 2018 LTIP awards, except in the case of death, disability, qualified retirement (as defined below) or a qualifying termination in the case of a change in control, the NEO must be employed through the vesting dates. In the event of death prior to the end of the performance period, the NEO's beneficiary would be eligible for a pro rata award in January 2021 based on results for the full performance period and the number of full months of service during the performance period. In the event of death following the end of the performance period, the NEO's beneficiary would be eligible to receive any unpaid, earned portion of the award. In the event of termination due to disability prior to the end of the performance period, the NEO would be eligible to receive a pro rata award on the scheduled payout dates based on results for the full performance period and the number of full months of service during the performance period. In the event of termination due to disability following the end of the performance period, the NEO would be eligible to receive any unpaid, earned portions of the award on the scheduled payout dates as if there were no termination of employment. In the event of a qualified retirement following the end of the performance period, the NEO would be eligible to receive any unpaid, earned portions of the award on the scheduled payout dates as if there was no termination of employment. "Retirement" means termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its subsidiaries of more than three years' duration. In the event of a qualifying termination in the case of a change in control prior to the end of the performance period, the award would be deemed earned at the target level and would become immediately vested and payable to the NEO. In the event of a qualifying termination in the case of a change in control following the end of the performance period, any unpaid, earned portions of the award would become immediately vested and payable to the NEO.

(3) ***2018 LTIP Cash Awards.*** *Represents the cash portion of each NEO's 2018 LTIP award. For purposes of the above table presentation, the "threshold" level is defined as when cumulative Pre-Tax Profit is $25 million or less and the Average Adjusted EBIT Return on Inventory is 10.50% or less. Because payout levels above that level, however, would be interpolated, $0 has been disclosed as the "threshold" level. The "target" level is defined as when cumulative Pre-Tax Profit is $50 million and the Average Adjusted EBIT Return on Inventory is 13.50%. The "maximum" level is defined as when cumulative Pre-Tax Profit is $100 million or more and the Average Adjusted EBIT Return on Inventory is 19.50% or more.*

The cash portion of the 2018 LTIP award is subject to the continued employment conditions described in the proceeding footnote.

(4) ***Stock Option Award for CEO, CFO and COO.*** *For Messrs. Hovnanian and Sorsby, these rows represent stock options granted to them in fiscal 2018. As discussed in the Compensation Discussion and Analysis, Mr. Hovnanian's stock options were granted in the form of rights to receive shares of Class B Common Stock and Mr. Sorsby's stock options were granted in the form of rights to receive Class A Common Stock. These options have an exercise price set 25% above the closing stock price on the date of grant and cliff vest on the fourth anniversary of the grant with no acceleration upon retirement or disability.*

Stock Option Awards for CAO. *For Mr. O'Connor, this row represents the number of stock options granted to him in fiscal 2018. These stock options generally vest in four equal installments, commencing on the second anniversary of the grant date.*

Table of Contents

MSU Awards Not Subject to Financial Performance Conditions. *Represents the portion of the MSU awards granted to Messrs. Hovnanian, Sorsby and Smith in fiscal 2018 that is not subject to financial performance conditions in addition to the stock price performance condition applicable to all MSU awards. As discussed in the Compensation Discussion and Analysis, Mr. Hovnanian's MSU award was granted in the form of rights to receive shares of Class B Common Stock and the MSU awards for Messrs. Sorsby and Smith were granted in the form of rights to receive shares of Class A Common Stock.*

(5) *For purposes of the above table presentation, the "threshold" level is defined as the level at which 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 is equal to 50% of 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. The "target" level is defined as when 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 is equal to 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. The "maximum" level is defined as when 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 is 200% or more of 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.*

(6) ***Financial Performance-Based MSU Awards – Community Count.*** *Represents the portion of the MSU awards granted to Messrs. Hovnanian, Sorsby and Smith in fiscal 2018 that is subject to a community count condition in addition to the stock price performance conditions applicable to all MSU awards. As discussed in the Compensation Discussion and Analysis, Mr. Hovnanian's MSU award was granted in the form of rights to receive shares of Class B Common Stock and the MSU awards for Messrs. Sorsby and Smith were granted in the form of rights to receive shares of Class A Common Stock.*

For purposes of the above table presentation, the "threshold" level is defined as when the number of open-for-sale communities as of October 31, 2020 is 125 or less and 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 is equal to 50% of 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. The "target" level is defined as when the number of open-for-sale communities as of October 31, 2020 is 130 and 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 is equal to 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. The "maximum" level is defined as when the number of open-for-sale communities as of October 31, 2020 is 135 or more and 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 is greater than or equal to 200% of 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. Because payout calculations of the "threshold" level would be interpolated, $0 has been disclosed at the "threshold" level for purposes of the above table for this portion of the MSU awards.

(7) ***Financial Performance-Based MSU Awards – Pre-Tax Profit.*** *Represents the portion of the MSU awards granted to Messrs. Hovnanian, Sorsby and Smith in fiscal 2018 that is subject to a pre-tax profit condition in addition to the stock price performance conditions applicable to all MSU awards. As discussed in the*

Compensation Discussion and Analysis, Mr. Hovnanian's MSU award was granted in the form of rights to receive shares of Class B Common Stock and the MSU awards for Mr. Sorsby and Mr. Smith were granted in the form of rights to receive shares of Class A Common Stock.

For purposes of the above table presentation, the "threshold" level is defined as when fiscal 2020 pre-tax profit is $0 or less and 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 is equal to 50% of 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. The "target" level is defined as when fiscal 2020 pre-tax profit is 50% higher than the annualized average of the 12 quarters ending April 30, 2018 and 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 is equal to 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. The "maximum" level is defined as when fiscal 2020 pre-tax profit is 200% higher than the annualized average of the 12 quarters ending April 30, 2018 (or greater) and 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 is greater than or equal to 200% of 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. Because payout calculations of the "threshold" level would be interpolated, $0 has been disclosed at the "threshold" level for purposes of the above table for this portion of the MSU awards.

Table of Contents

(8) ***"Exercise or Base Price of Option Awards" Column.*** *The option exercise price for the stock options granted to Messrs. Hovnanian and Sorsby was set 25% above the closing price per share of the Company's Class A Common Stock on the NYSE on the day of the option grants. The option exercise price for the stock options granted to Mr. O'Connor is the closing price per share of the Company's Class A Common Stock on the NYSE on the day of the option grant.*

(9) ***"Grant Date Fair Value of Stock and Option Awards" Column.*** *The grant date fair value of the stock option and RSU grants 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, 2018. The value for options was calculated based on the Black-Scholes option pricing model in which the option fair value as of the grant date (June 8, 2018) was determined to be $1.11 for at-market options granted to Mr. O'Connor and $1.00 for the above-market options granted to Messrs. Hovnanian and Sorsby. The grant date fair value of all MSU awards was determined under FASB ASC Topic 718 using a Monte Carlo simulation model which simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. The grant date fair value of the MSUs that are subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSU awards was determined under FASB ASC Topic 718 on the basis of the probable outcome of the performance conditions as of the grant date, which was the maximum achievement of the financial performance conditions.*

Table of Contents

3. OUTSTANDING EQUITY AWARDS AT FISCAL 2018 YEAR-END

The following table shows all unexercised stock options, unvested RSUs, unearned and/or unvested MSUs and unvested share portions of the 2016 LTIP and 2018 LTIP held at the end of fiscal 2018 by the NEOs.

Outstanding Equity Awards at Fiscal 2018 Year-End

		OPTION AWARDS					STOCK AWARDS			
Name	**Grant Date (1)**	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock that have not vested (#)**	**Market Value of Shares or Units of Stock that have not vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares or other Rights that have not vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Sha or other Rights that have not vested ($)**
Ara K. Hovnanian	06/12/09	750,000 (2)	—	—	2.55	06/11/19	—	—	—	—
	06/11/10	375,000	—	—	4.73	06/10/20	—	—	—	—
	06/10/11	337,500 (3)	—	—	1.93	06/09/21	—	—	—	—
	06/08/12	600,000	—	—	2.88	06/07/22	—	—	—	—
	06/14/13	300,000	—	—	6.28	06/13/23	—	—	—	—
	06/13/14	—	—	—	—	—	—	—	37,500 (4)	54,750 (4)
	06/13/14	—	—	—	—	—	—	—	37,500 (5)	54,750 (5)
	06/12/15	—	—	—	—	—	—	—	75,000 (6)	109,500 (6)
	06/12/15	—	—	—	—	—	—	—	70,558 (7)	103,015 (7)
	12/14/15	—	—	—	—	—	— (8)	— (8)	—	—
	06/10/16	—	250,000 (9)	—	2.27	06/09/26	—	—	—	—
	06/10/16	—	—	—	—	—	—	—	225,000 (10)	328,500 (10
	06/10/16	—	—	—	—	—	—	—	150,000 (11)	219,000 (11
	06/10/16	—	—	—	—	—	—	—	150,000 (12)	219,000 (12
	06/09/17	—	—	—	—	—	—	—	300,000 (13)	438,000 (13
	06/09/17	—	—	—	—	—	—	—	0 (14)	0 (14
	06/09/17	—	—	—	—	—	—	—	0 (15)	0 (15
	12/01/17	—	—	—	—	—	—	—	735,880 (16)	1,074,385 (16
	06/08/18	—	250,000 (17)	—	2.44	06/07/28	—	—	—	—
	06/08/18	—	—	—	—	—	—	—	300,000 (18)	438,000 (18
	06/08/18	—	—	—	—	—	—	—	0 (19)	0 (19

	06/08/18	—		—		—	—	—	—		—		0	(20)	0	(20
J. Larry Sorsby	06/12/09	150,000	(2)	—		—	2.55	06/11/19	—		—		—		—	
	06/11/10	75,000		—		—	4.73	06/10/20	—		—		—		—	
	06/10/11	67,500	(3)	—		—	1.93	06/09/21	—		—		—		—	
	06/08/12	120,000		—		—	2.88	06/07/22	—		—		—		—	
	06/14/13	60,000		—		—	6.28	06/13/23	—		—		—		—	
	06/13/14	—		—		—	—	—	—		—		7,500	(4)	10,950	(4)
	06/13/14	—		—		—	—	—	—		—		7,500	(5)	10,950	(5)
	06/12/15	—		—		—	—	—	—		—		15,000	(6)	21,900	(6)
	06/12/15	—		—		—	—	—	—		—		14,112	(7)	20,604	(7)
	12/14/15	—		—		—	—	—	—	(8)	—	(8)	—		—	
	06/10/16	—		250,000	(9)	—	2.27	06/09/26	—		—		—		—	
	06/10/16	—		—		—	—	—	—		—		45,000	(10)	65,700	(10
	06/10/16	—		—		—	—	—	—		—		30,000	(11)	43,800	(11
	06/10/16	—		—		—	—	—	—		—		30,000	(12)	43,800	(12
	06/09/17	—		—		—	—	—	—		—		85,000	(13)	124,100	(13
	06/09/17	—		—		—	—	—	—		—		0	(14)	0	(14
	06/09/17	—		—		—	—	—	—		—		0	(15)	0	(15
	12/01/17	—		—		—	—	—	—		—		279,255	(16)	407,712	(16
	06/08/18	—		250,000	(17)	—	2.44	06/07/28	—		—		—		—	
	06/08/18	—		—		—	—	—	—		—		85,000	(18)	124,100	(18
	06/08/18	—		—		—	—	—	—		—		0	(19)	0	(19
	06/08/18	—		—		—	—	—	—		—		0	(20)	0	(20
Lucian T. Smith III	06/12/09	22,500		—		—	2.55	06/11/19	—		—		—		—	
	06/11/10	20,000		—		—	4.73	06/10/20	—		—		—		—	
	06/08/12	25,000		—		—	2.16	06/07/22	—		—		—		—	
	06/13/14	—		—		—	—	—	3,125		4,563		—		—	
	06/12/15	—		—		—	—	—	6,250		9,125		—		—	
	08/03/15	—		—		—	—	—	80,000		116,800		—		—	
	12/14/15	—		—		—	—	—	39,620	(8)	57,845	(8)	—		—	
	06/10/16	—		—		—	—	—	—		—					