

HOVNIANIAN ENTERPRISES INC
Form DEF 14A
February 10, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Information Required in Proxy Statement
Schedule 14A Information

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant **X**
Filed by a Party other than the Registrant **O**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Hovnianian Enterprises, Inc.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

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

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4. Proposed maximum aggregate value of transaction:

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

1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

HOVNANIAN ENTERPRISES, INC.

10 Highway 35, P.O. Box 500, Red Bank, N.J. 07701 (732) 747-7800

February 9, 2004

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders which will be held on Friday, March 5, 2004, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York. The meeting will start promptly at 10:30 a.m.

It is important that your shares be represented and voted at the meeting. Therefore, we urge you to complete, sign, date and return the enclosed proxy card in the envelope provided for this purpose or register your vote via the Internet or by telephone according to the instructions on the proxy card. Of course, if you attend the meeting, you may still choose to vote your shares personally even though you have previously designated a proxy.

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Important items to be acted upon at the meeting include the election of directors, ratification of the selection of independent accountants, approval of an amendment to the Company's amended Certificate of Incorporation, which would increase the number of authorized shares of the Company's common stock, approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan and approval of the Company's amended and restated 1999 Stock Incentive Plan.

We sincerely hope you will be able to attend and participate in the Company's 2004 Annual Meeting. We welcome the opportunity to meet with many of you and give you a firsthand report on the progress of your Company.

Sincerely yours,

/s/ Kevork S. Hovnanian

Kevork S. Hovnanian
Chairman of the Board

HOVNANIAN ENTERPRISES, INC.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
FEBRUARY 9, 2004**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Hovnanian Enterprises, Inc. will be held on Friday, March 5, 2004, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York at 10:30 a.m for the following purposes:

1. The election of directors of the Company for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified.
2. The ratification of the selection of Ernst & Young LLP as independent accountants to examine financial statements of the Company for the year ended October 31, 2004.
3. The approval of an amendment to the Company's amended Certificate of Incorporation to increase the total number of authorized shares of all classes of stock from 100,100,000 to 230,100,000, of which 200,000,000 shares will be Class A Common Stock, par value \$0.01 per share, and 30,000,000 shares will be shares of Class B Common Stock, par value \$0.01 per share, and 100,000 shares will be Preferred Stock, par value \$0.01 per share.
4. The approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan.
5. The approval of the Company's amended and restated 1999 Stock Incentive Plan.
6. The transaction of such other business as may properly come before the meeting and any adjournment thereof.

Only shareholders of record at the close of business on January 16, 2004 are entitled to notice of, and to vote at, the meeting. Accompanying this Notice of Annual Meeting of Shareholders is a proxy statement, a form of proxy and the Company's Annual Report for the year ended October 31, 2003.

Shareholders of record may appoint proxies to vote their shares in one of three ways:

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1. Via the Internet pursuant to the instructions on the proxy card;
2. Calling the toll-free number on the enclosed proxy card; or
3. Signing, dating and returning the enclosed proxy card in the envelope provided.

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

By order of the Board of Directors,
PETER S. REINHART
Secretary

February 9, 2004

If you are a shareholder of record and you plan to attend the Annual Meeting, please mark the appropriate box on your proxy card or so indicate when designating a proxy via the Internet or by telephone. If your shares are held by a bank, broker or other intermediary and you plan to attend, please send written notice to Hovnanian Enterprises, Inc., 10 Highway 35, P.O. Box 500, Red Bank, New Jersey 07701, Attention: Peter S. Reinhart, Secretary, and enclose evidence of your ownership (such as a letter from the bank, broker or intermediary confirming your ownership or a bank or brokerage firm account statement). The names of all those planning to attend will be placed on an admission list held at the registration desk at the entrance to the meeting. If you do not plan to attend the Annual Meeting, please designate a proxy by mail or via the Internet or by telephone. If you choose to vote by mail, please sign the proxy card and return it in the envelope so that your shares will be voted. The envelope requires no postage if mailed in the United States.

**HOVNANIAN ENTERPRISES, INC.
10 HIGHWAY 35
P.O. BOX 500
RED BANK, NEW JERSEY 07701**

PROXY STATEMENT

GENERAL

The accompanying proxy is solicited on behalf of the Board of Directors of Hovnanian Enterprises, Inc. (the Company, we, us, or our) for use at the Annual Meeting of Shareholders referred to in the foregoing notice and at any adjournment thereof. It is expected that this Proxy Statement and the accompanying proxy will be mailed on or about February 10, 2004 to each shareholder entitled to vote. A form of proxy and the Company's Annual Report for the year ended October 31, 2003 accompany this Proxy Statement.

Shares represented by properly executed proxies, if such proxies are received in time and not revoked, will be voted in accordance with the specifications thereon. If no specifications are made, the persons named in the accompanying proxy will vote such proxy for the Board of Directors' slate of directors, for the ratification of selected independent accountants, for approval of an amendment to the Company's amended Certificate of Incorporation, which would increase the number of authorized shares of the Company's common stock, for the approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan, for the approval of the Company's amended and restated 1999 Stock Incentive Plan, and as recommended by the Board of Directors unless contrary instructions are given. Any person may revoke a previously designated proxy at any time before it is exercised by delivering written notice of revocation to the Secretary of the Company or by voting in person at the meeting. Please note that attendance at the meeting will not by itself revoke a proxy.

**VOTING RIGHTS AND SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The record date for the determination of shareholders entitled to vote at the meeting is the close of business on January 16, 2004. On January 16, 2004, the outstanding voting securities of the Company consisted of 23,126,252 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 7,332,779 shares of Class B Common Stock, each share entitling the holder thereof to ten votes.

Other than as set forth in the table below, there are no persons known to the Company to be the beneficial owner of shares representing more than 5% of the Company's Class A Common Stock or Class B Common Stock.

The following table sets forth as of January 16, 2004 the Class A Common Stock and Class B Common Stock of the Company beneficially owned by each director, each nominee for director, certain executive officers, all directors and executive officers of the Company as a group and holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company:

	Class A Common Stock		Class B Common Stock	
	Amount and Nature of Beneficial Ownership(1)	Percent of Class (2)	Amount and Nature of Beneficial Ownership(1)	Percent of Class (2)
Directors, Nominees for Directors, Certain Executive Officers, Directors and Executive Officers as a Group and Holders of More Than 5%				
Kevork S. Hovnanian(3)(5)	4,960,212	21.5%	5,843,837	79.8%
Ara K. Hovnanian(4)	1,233,800	5.2%	1,026,016	14.0%
Geaton A. DeCesaris, Jr.(6)	564,690	2.4%		
Arthur M. Greenbaum	6,868		1,500	
Kevin C. Hake	3,588			
Edward A. Kangas	11,867	.1%		
Desmond P. McDonald	10,867	.1%		
Peter S. Reinhart	39,032	.2%	85	
John J. Robbins	8,367			
J. Larry Sorsby	87,151	.4%		
Stephen D. Weinroth	29,617	.1%	2,250	
Capital Growth Management (7)	1,728,900	7.5%		
All directors and executive officers as a group (12 persons)	7,021,059	29.4%	6,873,688	93.4%

Notes:

- (1) The figures in the table in respect of Class A Common Stock do not include the shares of Class B Common Stock beneficially owned by the specified persons, which shares of Class B Common Stock are convertible at any time on a share for share basis to Class A Common Stock. The figures in the table represent beneficial ownership (including ownership of 759,500 Class A Common Stock Options currently exercisable or exercisable within 60 days) and sole voting power and sole investment power except as noted in notes (3), (4), (5) and (6) below.
- (2) Based upon the number of shares outstanding plus options for such director, nominee or holder.
- (3) Includes 113,250 shares of Class A Common Stock and 320,012 shares of Class B Common Stock as to which Kevork S. Hovnanian has shared voting power and shared investment power. Kevork S. Hovnanian's address is 10 Hwy 35, P.O. Box 500, Red Bank, New Jersey 07701.
- (4) Includes 35,217 shares of Class A Common Stock and 96,267 shares of Class B Common Stock as to which Ara K. Hovnanian has shared voting power and shared investment power. Ara K. Hovnanian's address is 10 Hwy 35, P.O. Box 500, Red Bank, New Jersey 07701.

- ⁽⁵⁾ Includes 2,829,413 shares of Class B Common Stock held by the Kevork S. Hovnanian Family Limited Partnership, a Connecticut limited partnership (the Limited Partnership), beneficial ownership of which is disclaimed by Kevork S. Hovnanian. Kevork S. Hovnanian's wife, Sirwart Hovnanian, as trustee of the Sirwart Hovnanian 1994 Marital Trust, is the Managing General Partner of the Limited Partnership and as such has the sole power to vote and dispose of the shares of Class B Common Stock held by the Limited Partnership. Also includes 264,562 shares of Class B Common Stock

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held in trust for Mr. Hovnanian's daughter over which Sirwart Hovnanian, as trustee, shares with her daughter the power to dispose of and vote. In addition, includes 18,250 shares of Class A Common Stock and 55,450 shares of Class B Common Stock held in trust for Mr. Hovnanian's grandchildren, over which Sirwart Hovnanian, as trustee, has sole power to dispose of and vote and includes 95,000 shares of Class A Common Stock held in the name of Sirwart Hovnanian over which she has sole power to dispose of and vote. Mr. Hovnanian disclaims beneficial ownership of the shares described in the preceding three sentences.

- ⁽⁶⁾ Includes 275,680 shares of Class A Common Stock as to which Geaton A. DeCesaris, Jr. has shared voting power and shared investment power.
- ⁽⁷⁾ Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission as of February 7, 2003. Address: One International Place. Boston, MA 02110.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on the Company's review of the copies of such forms and amendments thereto it has received, we believe that with respect to the fiscal year ended October 31, 2003, all the Reporting Persons complied with all applicable filing requirements, except as follows: in January 2003, Geaton A. DeCesaris, Jr. received an option grant for 50,000 shares of Class A Common Stock in a transaction that was reported to the SEC, but not in a timely manner.

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(1) ELECTION OF DIRECTORS

The Company's restated By-laws provide that the Board of Directors shall consist of up to eleven directors who shall be elected annually by the shareholders. The Company's amended Certificate of Incorporation requires that, at any time when any shares of Class B Common Stock are outstanding, one-third of the directors shall be independent, as defined therein. The Board of Directors has determined that a Board of Directors consisting of the nine nominees listed below is the best composition in order to satisfy both the independence requirements of the Company's amended Certificate of Incorporation as well as the NYSE rules. Under the rules of the NYSE, listed companies, like us, who have a controlling shareholder are not required to have a majority of independent directors. Because Mr. K. Hovnanian and members of his immediate family hold more than 50% of the voting power of the Company, the Company is a controlled company within the meaning of the rules of the NYSE.

The following persons are proposed as directors of the Company to hold office until the next Annual Meeting of Shareholders and until their respective successors have been duly elected and qualified. In the event that any of the nominees for directors should become unavailable, it is intended that the shares represented by the proxies will be voted for such substitute nominees as may be nominated by the Board of Directors, unless the number of directors constituting a full Board of Directors is reduced. The Company has no reason to believe, however, that any of the nominees is, or will be, unavailable to serve as a director. Proxies cannot be voted for a greater number of persons than the number of nominees named below.

Board of Directors

Name	Age	Company Affiliation	Year First Became a Director
Kevork S. Hovnanian	80	Chairman of the Board, & Director of the Company.	1967
Ara K. Hovnanian	46	President, Chief Executive Officer, & Director of the Company.	1981
Geaton A. DeCesaris, Jr.	48	President of the Hovnanian Land Investment Group & Director of the Company.	2001
Arthur M. Greenbaum	78	Director of the Company.	1992
Edward A. Kangas	59	Director of the Company.	2002
Desmond P. McDonald	76	Director of the Company.	1982
John J. Robbins	64	Director of the Company.	2001
J. Larry Sorsby	48	Executive Vice President, Chief Financial Officer, & Director of the Company.	1998
Stephen D. Weinroth	65	Director of the Company.	1982

Board of Directors Directors Biographies

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

Mr. A. Hovnanian has been Chief Executive Officer since 1997 after being appointed President in 1988 and Executive Vice President in 1983; Mr. A. Hovnanian joined the Company in 1979 and has been a Director of the Company since 1981. In 1985, Governor Kean appointed Mr. Hovnanian to The Council on Affordable Housing and he was reappointed to the Council in 1990 by Governor Florio. In 1994, Governor Whitman appointed him as member of the Governor's Economic Master Plan Commission. Mr. Hovnanian serves as Member of the Advisory Council of PNC Bank, The Monmouth Real Estate Investment Corporation and is on the Boards of a variety of charitable organizations. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

Mr. DeCesaris, Jr. was elected as a Director of the Company in January 2001. Mr. DeCesaris, Jr. also serves as President of the Hovnanian Land Investment Group, established in the third quarter of 2003. Prior to this position, Mr. Decesaris, Jr. was President of Homebuilding Operations and Chief Operating Officer

since January 2001. Prior to joining the Company in 2001, Mr. DeCesaris, Jr. served as President, Chief Executive Officer and director of Washington Homes, Inc. (WHI) from August 1988 to January 2001 and as Chairman of the Board of Directors of WHI from April 1999 to January 2001.

Mr. Greenbaum has been a Director of the Company since 1992. Mr. Greenbaum is a Senior Partner of Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, a law firm which he has been a part of since 1950. Mr. Greenbaum qualifies as an independent director, as defined in the Company's amended Certificate of Incorporation.

Mr. Kangas has been a Director of the Company since 2002. Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from December 1989 to May 2000, when he retired. He also serves on the Board of Tenet Healthcare Corporation, Inc. (NYSE) and is Chairman of the Board and member of the Finance, Compensation, and Audit Committees of the National Multiple Sclerosis Society. Mr. Kangas qualifies as an independent director, as defined in the Company's amended Certificate of Incorporation.

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Mr. McDonald has been a Director of the Company since 1982. Mr. McDonald was a Director of Midlantic Bank, N.A. from 1976 until December 1995, Executive Committee Chairman from August 1992 to December 1995 and President from 1976 to June 1992. He was also a Director of Midlantic Corporation until December 1995 and Vice Chairman from June 1990 to July 1992. Mr. McDonald qualifies as an independent director, as defined in the Company's amended Certificate of Incorporation.

Mr. Robbins has been a Director of the Company since January 2001. Mr. Robbins was a partner with Kenneth Leventhal & Company from 1973 to 1992 when he retired; at the time of his retirement, he was serving as managing partner of the New York office and on the executive committee. Mr. Robbins has been a Trustee of Keene Creditors Trust since 1996. He has been Director and Chairman of the Audit Committee of Raytech Corporation since May 1, 2003. Mr. Robbins qualifies as an independent director, as defined in the Company's amended Certificate of Incorporation.

Mr. Sorsby has been a Director of the Company since 1998, Chief Financial Officer of the Company since 1996, and Executive Vice President since November 2000. From March 1991 to November 2000, he was Senior Vice President, and from March 1991 to July 2000, he was Treasurer.

Mr. Weinroth has been a Director of the Company since 1982. Mr. Weinroth is a managing director and board

member of Kline, Hawkes & Co., a manager of private equity funds and a principal of Weinroth & Co. LLC, a merchant banking firm. From 1996 to 2003 he was a senior partner in Anderson, Weinroth & Co., L.P., a merchant banking firm. He is also Chairman of the Board Emeritus of Core Laboratories, N.V., a New York Stock Exchange-listed worldwide oil field services company. He has held such position since 2001 and prior thereto was Chairman of the Board from 1994-2001. Mr. Weinroth qualifies as an independent director, as defined in the Company's amended Certificate of Incorporation.

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

The members of the Audit Committee of the Board of Directors are Messrs. Kangas, McDonald, Robbins and Weinroth. The Audit Committee is chaired by Mr. McDonald and is responsible for reviewing and approving the scope of the annual audit undertaken by the Company's independent accountants and meeting with them to review the results of their work as well as their recommendations. The Audit Committee appoints the Company's independent accountants and also approves and reviews the fees of independent accountants.

The Vice President of Internal Audit for the Company reports directly to the Audit Committee on, among other things, the Company's compliance with certain Company procedures which are designed to enhance management's understanding of operating issues and the results of the Audit Department's approximately 46 audits annually of the various aspects of the Company's business. The Audit Committee authorizes staffing and compensation of the internal audit department. The Company's Chief Accounting Officer reports directly to the Audit Committee on significant accounting issues. During the year ended October 31, 2003, the Audit Committee met on four occasions and had eight telephonic meetings. For discussions related to Audit Committee meetings, see Report of the Audit Committee below.

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During the year ended October 31, 2003, the members of the Compensation Committee were Messrs. Weinroth and Kangas. The Compensation Committee is chaired by Mr. Weinroth and is active in reviewing salaries, bonuses and other forms of compensation for officers and key employees of the Company, in establishing salaries and in other compensation and personnel areas as the Board of Directors from time to time may request. For a discussion of the criteria used and factors considered by the Compensation Committee in reviewing and establishing executive compensation, see Report of the Compensation Committee below. During the year ended October 31, 2003, the Compensation Committee met on two occasions.

The Company does not have a Nominating Committee. Under the rules of the NYSE, listed companies, like us, who have a controlling shareholder are not required to have a nominating committee. Because the Company does not have a nominating committee, 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 2005 Annual Meeting below. Possible nominees to the Board of Directors may be suggested by any director and given to the Chairman of the Board. The Company's restated By-laws provide that directors need not be shareholders. The Chairman of the Board of Directors, who is also the controlling shareholder, each year recommends a slate of directors to be nominated for election at the annual shareholders' meeting. The Board of Directors approves the slate of nominees. Vacancies on the Board of Directors, other than those resulting from removal by shareholders, may be filled by action of the Board of Directors after recommendation by the Chairman of the Board.

As of the 120th calendar day prior to February 3, 2004, the Board of Directors had not received any recommendation for the nomination of a candidate to the Board of Directors by any shareholder or group of shareholders that at such time held more than 5% of the Company's voting stock for at least one year.

The Company's Corporate Governance Guidelines (Guidelines) require that the Board of Directors conduct a self-evaluation at least annually, and as circumstances otherwise dictate. In conjunction with the self-evaluation, the Board of Directors reviews the qualifications and effectiveness of the existing Board of Directors and allows for each board member to make comments or recommendations regarding the qualifications and effectiveness of the existing Board of Directors or additional qualifications that may be required when selecting new board members. Among other factors, the Board of Directors generally considers the size of the Board of Directors best suited to fulfill its

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responsibilities, the Board of Directors' overall membership composition to ensure the Board of Directors has the requisite expertise and consists of persons with sufficiently diverse backgrounds, the independence of outside directors and other possible conflicts of interest of existing and potential members of the Board of Directors. The Company does not pay fees to any third party to identify or evaluate or assist in the identification or evaluation of potential director nominees.

During the year ended October 31, 2003, the Board of Directors held four regularly scheduled meetings and two telephonic meetings. In addition, the directors considered Company matters and had frequent communications with the Chairman of the Board of Directors and others apart from the formal meetings. Directors are expected to attend the Annual Meeting of Shareholders, but the Company does not have a formal policy with respect to attendance. Eight members of the Board of Directors attended the Annual Meeting of Shareholders held on March 7, 2003.

DIRECTOR COMPENSATION

In fiscal 2004, each director who is not an officer of the Company will be paid an annual retainer of \$40,000, 50% in cash and 50% in shares of Class A Common Stock. Pursuant to their annual retainer, each non-management director received 236 shares of Class A Common Stock on December 15, 2003. In addition, the non-management directors receive a fee of \$3,000 for each board meeting held in person and \$2,000 for a telephonic board meeting. Members of the Audit Committee and Compensation Committee receive \$5,000 for each meeting held in person and \$2,500 for a telephonic meeting. During the year ended October 31, 2003, Mr. McDonald received \$73,500, Mr. Greenbaum received \$36,000, Mr. Robbins received \$71,000, Mr. Weinroth received \$73,500, and Mr. Kangas received \$46,000. From time to time, non-management directors are also granted stock options, and in January of 2004, each non-management director received an award of 7,500 options to purchase Class A Common Stock. In addition, all directors are reimbursed for expenses related to their attendance at meetings of the Board of Directors and committee meetings.

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VOTE REQUIRED

The election of the nominees to the Company's Board of Directors for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified, requires the affirmative vote of the holders of a majority in voting power of all outstanding common stock, voting together.

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

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

(2) RATIFICATION OF THE SELECTION OF INDEPENDENT ACCOUNTANTS

The selection of independent accountants to examine financial statements of the Company made available or transmitted to shareholders and filed with the Securities and Exchange Commission for the year ended October 31, 2004 is submitted to this Annual Meeting of Shareholders for ratification. Ernst & Young LLP has been selected by the Audit Committee of the Company to examine such financial statements.

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

VOTE REQUIRED

Ratification of the selection of Ernst & Young LLP as our independent accountants to examine financial statements of the Company for the year ended October 31, 2004, requires the affirmative vote of the holders of a majority in voting power of all outstanding common stock, voting together.

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

Our Board of Directors recommends that shareholders vote FOR ratification of the selection of Ernst & Young LLP as our independent accountants.

**(3) APPROVAL OF AN AMENDMENT TO THE COMPANY S AMENDED
CERTIFICATE OF INCORPORATION TO INCREASE THE
NUMBER OF AUTHORIZED SHARES OF COMMON STOCK.**

On December 15, 2003, subject to shareholder approval, the Board of Directors authorized an amendment to our amended Certificate of Incorporation to increase the number of authorized shares of all classes of stock from 100,100,000 shares to 230,100,000 shares, consisting of 200,000,000 shares of Class A Common Stock (the Class A Common Stock), 30,000,000 shares of Class B Common Stock (the Class B Common Stock) and, together with the Class A Common Stock, the Common Stock) and 100,000 shares of Preferred Stock. We are not proposing an increase to the number of authorized shares of Preferred Stock. If approved by the shareholders, the first paragraph of paragraph Fourth of our amended Certificate of Incorporation would be amended to provide as follows:

FOURTH: The total number of shares of all classes of stock which the Corporation shall have the authority to issue is 230,100,000, of which 200,000,000 shares shall be Class A Common Stock having a par value of one cent (\$0.01) per share, 30,000,000 shares shall be Class B Common Stock having a par value of one cent (\$0.01) per share and 100,000 shares shall be Preferred Stock having a par value of one cent (\$0.01) per share.

REASONS FOR THE PROPOSAL

Our Board of Directors believes that the number of shares of Common Stock that are available for issuance is not sufficient. We are currently authorized to issue 87,000,000 shares of Class A Common Stock and 13,000,000 shares of Class B Common Stock.

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As of the Record Date, 30,459,031 shares of Common Stock were issued and outstanding and 16,379,722 shares of Common Stock were reserved for (1) conversions of our Class B Common Stock into shares of Class A Common Stock in connection with sales of our Class B Common Stock, (2) issuance upon exercise of outstanding stock options and stock awards and (3) stock options and stock awards that may be granted in the future under our stock option or other incentive programs. As a result, there are currently only 53,161,247 shares of Common Stock available for issuance.

The Board of Directors believes that it is advisable and in our best interest and in the best interest of our shareholders to have a greater number of authorized shares of Common Stock. The additional shares will be available for issuance from time to time at the discretion of the Board of Directors, normally without further shareholder action (except as may be required for a particular transaction by applicable law, requirements of regulatory agencies or by NYSE rules), for any proper corporate purpose including, among other things, stock splits, stock dividends, future acquisitions of property or securities of other corporations, to issue under stock option or other incentive programs, convertible debt financings and equity financings. No shareholder has any preemptive rights regarding future issuances of any shares of Common Stock.

As previously announced, if our shareholders approve the amendment to our amended Certificate of Incorporation that is the subject of this proposal, we intend to effect a 2-for-1 stock split whereby we will distribute to the holders of our outstanding Class A Common Stock one share of Class A Common Stock and to the holders of our outstanding Class B Common Stock one share of Class B Common Stock. The Board of Directors believes that this stock split is advisable and in our best interest and in the best interest of our shareholders. However, unless the number of shares of Common Stock we are authorized to issue is increased, we will not be able to carry out this stock split. Except for this stock split and issuances of Common Stock in connection with stock options and stock awards that may be granted in the future under our stock option or other incentive programs, the Company does not have any current plans, understandings or agreements for the issuance or use of the proposed additional shares of Common Stock.

The issuance of additional shares of Common Stock could dilute the earnings and book value allocable to each share of Common Stock. Also, if we were to sell or otherwise issue authorized but unissued Common Stock at a time when a takeover is pending or threatened, the issuance of additional Common Stock could discourage the takeover by making it more expensive for the person who wants to take us over to obtain control of us. However, Mr. K. Hovnanian, the Chairman of our Board of Directors, and certain members of his family, have the power to cast a majority of the votes that can be cast by the holders of all our currently outstanding Common Stock, voting together. The proposed amendment to the amended Certificate of Incorporation is not being recommended in response to any specific effort of which we are aware to obtain control of the Company, nor is the Board of Directors currently proposing to shareholders any anti-takeover measures.

VOTE REQUIRED

Approval of the proposed amendment to our amended Certificate of Incorporation requires the affirmative vote of the holders of (1) a majority in voting power of all outstanding Common Stock, voting together, (2) a majority in voting power of all outstanding Class A Common Stock and (3) a majority in voting power of all outstanding Class B Common Stock.

Mr. K. Hovnanian and certain members of his 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 of the proposed amendment to our amended Certificate of Incorporation.

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**(4) APPROVAL OF THE COMPANY'S AMENDED AND RESTATED
SENIOR EXECUTIVE SHORT-TERM INCENTIVE PLAN**

Shareholders are being asked to consider and approve proposals to amend the amended and restated Senior Executive Short-Term Incentive Plan (the Bonus Plan) to:

- (1) increase the maximum amount of a Bonus Award (as defined below) that may be granted to any Participant (as defined below) in the Bonus Plan with respect to any fiscal year of the Company from \$10 million to a formula, pursuant to which the maximum amount of such an Bonus Award cannot exceed the greater of (x) \$15 million and (y) 2-1/2% of the Company's income before income taxes as reported in the Company's audited consolidated financial statements prepared for the year in respect of which the Bonus Award is to be paid;
- (2) increase the number of shares available for issuance under the Bonus Plan from 2,500,000 shares of our common stock to 5,000,000 shares of our common stock;
- (3) provide that the Bonus Plan will expire on March 5, 2009 (such that the Bonus Plan will only have a term of five years from the date of this Annual Meeting of Shareholders), such that no new Bonus Awards may be granted after such expiration date (although Bonus Awards granted prior to such expiration date will remain in effect and be subject to the terms of the Bonus Plan);
- (4) clarify that the Bonus Plan may not be amended to increase the number of shares of our common stock available for issuance under the Bonus Plan or to increase the maximum amount of a Bonus Award that may be granted to any Participant in the Bonus Plan with respect to any fiscal year of the Company without shareholder approval of any such increases;
- (5) clarify that the shares of our common stock that are available for issuance under the Bonus Plan and subject to issuance under any Bonus Awards may be adjusted in number or kind to reflect the effects of any stock split, stock dividend, corporate transaction or change in the capital structure of our Company, as well as to clarify the effects a change in control of our Company could have on any outstanding Bonus Awards;
- (6) change the jurisdiction under which the Bonus Plan and any Bonus Awards granted under the Bonus Plan will be governed from the State of New York to the State of Delaware; and
- (7) make certain other non-material conforming changes to the Bonus Plan in order to provide for the foregoing.

The Bonus Plan, as amended, is set forth in Appendix A hereto.

The Bonus Plan provides for annual bonus awards calculated using a pre-established formula, which is based on the Company's overall performance. The Company has experienced increased profitability and growth for the year ended October 31, 2003 in comparison to previous years. Therefore, the Company believes that the current limit on the maximum amount of any one Bonus Award (both in dollar value and number of shares) is not sufficient to meet the purpose of the Bonus Plan, which is to promote the interests of the Company and its shareholders by providing incentives in the form of periodic bonus awards (Bonus Awards) to certain senior executive employees of the Company and its affiliates, thereby motivating such executives to attain corporate performance goals set forth in the Bonus Plan, while preserving for the benefit of the Company and its subsidiaries the associated U.S. federal income tax deduction. In connection with preserving this benefit, the Company has proposed to limit the term of the Bonus Plan to a period of five years from the date of this Annual Meeting of Shareholders, to ensure that any extension of the term of the Bonus Plan will be approved by shareholders at a later date, therefore ensuring that the Company meets certain requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), which section governs the tax deductibility of

performance-based compensation, as the Bonus Awards granted under the Bonus Plan are intended to be.

The Company's Compensation Committee (the Committee) has approved the amendments to the Bonus Plan.

For a discussion of the Bonus Plan, see Material Features of the Bonus Plan below and Annual Bonus Program below.

MATERIAL FEATURES OF THE BONUS PLAN

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

PURPOSE

The purpose of the Bonus Plan is to promote the interests of the Company and its shareholders by providing incentives in the form of Bonus Awards to certain senior executive employees of the Company and its affiliates, thereby motivating such executives to attain corporate performance goals set forth in the Bonus Plan while preserving for the benefit of the Company and its subsidiaries the associated U.S. federal income tax deduction under Section 162(m) of the Code.

ADMINISTRATION

The Bonus Plan is administered by a committee of two or more individuals who are each non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or any successor thereto, outside directors as defined under Section 162(m) of the Code 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, unless otherwise determined by the Company's Board of Directors to act as such a committee. The Compensation Committee, or its delegate, may select senior executives of the Company and its affiliates who are covered employees, as defined in Section 162(m) of the Code, or who the Company anticipates may be covered employees of the Company and its subsidiaries (the Participants), to be granted Bonus Awards under the Bonus Plan. For the fiscal year ended October 31, 2003, approximately four covered employees were selected by the Committee to participate in the Bonus Plan.

BONUS AWARDS

A Participant's Bonus Award shall be determined based on the achievement of written performance goals approved by the Committee. Within 90 days after the start of a designated performance period (or, if less, the number of days which is equal to 25% of such performance period), the Committee will establish the objective performance goals for each Participant. The performance goals will be based on one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share; (v) book value per share; (vi) stock price; (vii) return on stockholders' equity; (viii) expense management; (ix) return on investment before or after the cost of capital; (x) improvements in capital structure; (xi) profitability of an identifiable business unit or product; (xii) maintenance or improvements of profit margins; (xiii) market share; (xiv) revenues or sales; (xv) cost; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent cost of capital); and (xix) return on assets.

Prior to the payment of any Bonus Award, the Committee, or its delegate, will certify that the applicable performance goals have been met. In connection with such certification, the Committee, or its delegate, may decide to pay amounts, which are less than the Bonus Award otherwise payable for achievement of the applicable performance goals. The Committee may base the decision to reduce the Bonus Award on any criteria it deems relevant. Payment of a Bonus 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. The Bonus Plan provides that the Committee shall determine, in its discretion, whether a Bonus Award shall be payable in cash, common stock of the Company, or a combination thereof, which may include, without limitation, permitting a Participant to elect, in the calendar year prior to the year in which a Bonus Award may otherwise become payable to a Participant under the Bonus Plan, to defer receipt of all or any portion of such Bonus Award into a right to receive shares of common stock of the Company at a future date (such right, a Deferred Share Unit); *provided, however*, that the number of shares of common stock of the Company that may be issued under the Bonus Plan, as amended, will be 5,000,000.

EFFECT OF CERTAIN EVENTS ON BONUS PLAN AND BONUS AWARDS

As amended, 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 may make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of common stock or other securities that may be issued as set forth in the Bonus Plan or pursuant to outstanding Bonus Awards and/or (ii) any other affected terms of such Bonus Awards. Except as otherwise provided in a Bonus Award agreement, in the event of a Change in Control (as defined in the 1999 Stock Incentive Plan (as amended and restated)), 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 Bonus Award.

LIMITATIONS

As amended, the Bonus Plan will provide that the maximum Bonus Award to any Participant with respect to any fiscal year shall be the greater of (x) \$15 million and (y) 2-1/2% of the Company's income before income taxes, as reported in the Company's audited consolidated financial statements for the year in respect of which the Bonus Award is to be payable or distributed, as applicable.

AMENDMENT AND TERMINATION

The Committee may at any time amend, suspend or terminate the Bonus Plan in whole or in part. As amended, and notwithstanding the foregoing, no amendment, suspension or termination of the Bonus Plan shall be made which (i) without the Participant's consent, impairs any of the rights or obligations under any Bonus Award theretofore granted to a Participant under the Bonus Plan, (ii) without the approval of the shareholders of the Company (except upon the occurrence of an event described above in Effect of Certain Events on Bonus Plan and Bonus Awards) increases the total number of shares of common stock available for issuance under the Bonus Plan or changes the maximum amount of any Bonus Award which may be payable or distributed to any Participant; *provided, however*, that the Committee may amend the Bonus Plan in such manner as it deems necessary to permit the granting of Bonus Awards meeting the requirements of the Code or other applicable laws.

NONTRANSFERABILITY OF BONUS AWARDS

A Participant's rights and interest under the Bonus Plan generally may not be assigned, transferred, or encumbered, except in the event of a Participant's death or as may be approved by the Committee. No Bonus Award under the Bonus Plan will be construed as giving any employee a right to continued employment with the Company or its subsidiaries.

PARTICIPANTS OF THE BONUS PLAN

For the year ended October 31, 2003, the Committee granted the following Bonus Awards to the following Participants under the Bonus Plan: Bonus Awards for a total of 4 participants (4 participants in the Executive Officers Group, no participants in the Non-Executive Director Group, and no participants in the Non-Executive Officer Employee Group). Additional information is provided in the table below.

**Senior Executive Short-Term Incentive Plan Bonus Awards
for the Fiscal Year ended October 31, 2003**

Name And Position	Bonus Awards Dollar Value ⁽¹⁾	Restricted Stock Awards; Dollar Value (\$) (Aggregate) ⁽²⁾
Ara K. Hovnanian, CEO	6,989,600	2,566,080
Kevork S. Hovnanian, Chairman of the Board	6,128,000	
Geaton A. DeCesaris, Jr., President of the Hovnanian Land Investment Group		