

HOVNANIAN ENTERPRISES INC  
Form DEF 14A  
February 07, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION**  
Washington, D.C. 20549  
**SCHEDULE 14A**

OMB APPROVAL  
OMB Number: 3235-0059

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

Filed by the Registrant   **x**  
Filed by a Party other than the Registrant   **o**

Check the appropriate box:

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

**HOVNANIAN ENTERPRISES, INC.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x** No fee required.
- o** 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:

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2. Aggregate number of securities to which transaction applies:

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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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5. Total fee paid:

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Fee paid previously with preliminary materials.

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

1. Amount Previously Paid:

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2. Form, Schedule or Registration Statement No.:

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3. Filing Party:

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4. Date Filed:

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**HOVNANIAN ENTERPRISES, INC.**

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

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**February 7, 2006**

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders which will be held on Wednesday, March 8, 2006, at the Chelsea Meeting Room of the Millenium Hilton Hotel, 55 Church Street, New York, New York 10007. 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, if applicable, 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.

Important items to be acted upon at the meeting include the election of directors and the ratification of the selection of an independent registered public accounting firm.

We sincerely hope you will be able to attend and participate in the Company's 2006 Annual Meeting. We welcome the opportunity to meet with many of you and give you a firsthand report on the progress of your Company.

Sincerely yours,

Kevork S. Hovnanian  
*Chairman of the Board*

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**HOVNIANIAN ENTERPRISES, INC.**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
FEBRUARY 7, 2006**

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NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Hovnanian Enterprises, Inc. will be held on Wednesday, March 8, 2006, at the Chelsea Meeting Room of the Millenium Hilton Hotel, 55 Church Street, New York, New York 10007 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, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2006; and
3. 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 17, 2006 are entitled to notice of, and to vote at, the meeting. Accompanying this Notice of Annual Meeting of Shareholders is a proxy statement, proxy card(s) and the Company's Annual Report for the year ended October 31, 2005.

Shareholders of record of both Class A Common Stock and Class B Common Stock, except for shareholders of record of Class B Common Stock held in nominee name, may appoint proxies to vote their shares in one of three ways:

1. Via the Internet pursuant to the instructions on the enclosed 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.

Shareholders of record of Class B Common Stock held in nominee name may appoint proxies to vote their shares by signing, dating and returning the enclosed proxy card in the envelope provided.

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All shareholders are urged to attend the meeting in person or by proxy. Shareholders who do not expect to attend the meeting in person are requested to complete, sign and date the enclosed proxy card and return it promptly in the pre-addressed envelope provided, or, if applicable, 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 7, 2006

If you are a shareholder of record and you plan to attend the Annual Meeting, please mark the appropriate box on your proxy card or, if applicable, so indicate when designating a proxy via the Internet or by telephone. If your shares are held by a bank, broker or other intermediary and you plan to attend, please send written notice to Hovnanian Enterprises, Inc., 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 other intermediary confirming your ownership or a bank or brokerage firm account statement). The names of all those planning to attend will be placed on an admission list held at the registration desk at the entrance to the meeting. If you do not plan to attend the Annual Meeting, please designate a proxy by mail or, if applicable, via the Internet or by telephone. If you choose to vote by mail, please sign and date the proxy card and return it in the pre-addressed envelope provided 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(s) will be mailed on or about February 7, 2006 to each shareholder entitled to vote. The Company's Annual Report for the year ended October 31, 2005 also accompanies 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 card(s) will vote the shares represented by such proxies for the Board of Directors' slate of directors, for the ratification of Ernst & Young LLP, the selected independent registered public accounting firm, and as recommended by the Board of Directors, unless contrary instructions are given. Any person may revoke a previously designated proxy at any time before it is exercised by delivering written notice of revocation to Peter S. Reinhart, the Secretary of the Company, or by voting in person at the Annual Meeting. Please note that attendance at the Annual Meeting will not by itself revoke a proxy.

All share and per share amounts in this Proxy Statement have been retroactively adjusted to reflect the Company's 2-for-1 stock split in the form of a 100% stock dividend of Class A Common Stock and Class B Common Stock which occurred in March 2004.

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

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The record date for the determination of shareholders entitled to vote at the meeting was the close of business on January 17, 2006. On January 17, 2006, the outstanding voting securities of the Company consisted of 47,049,409 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 14,673,399 shares of Class B Common Stock, each share entitling the holder thereof to ten votes. Other than as set forth in the table below, there are no persons known to the Company to be the beneficial owners of shares representing more than 5% of either the Company's Class A Common Stock or Class B Common Stock.

The following table sets forth as of January 17, 2006 (1) the Class A Common Stock and Class B Common Stock of the Company beneficially owned by holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company and (2) the Class A Common Stock, Class B Common Stock and Depositary Shares, each representing 1/1,000th of a share of 7.625% Series A Preferred Stock, of the Company beneficially owned by each Director, each nominee for Director, each executive officer named in the tables set forth under Executive Compensation below and all Directors and executive officers as a group:

Directors, Nominees for Director, Certain Executive Officers, Directors and Executive Officers as a Group and Holders of More Than 5%	Class A Common Stock (1)		Class B Common Stock (1)		Depositary Shares (1)(3)	
	Amount and Nature of Beneficial Ownership	Percent of Class (2)	Amount and Nature of Beneficial Ownership	Percent of Class (2)	Amount and Nature of Beneficial Ownership	Percent of Class
Kevork S. Hovnanian (4)	7,520,424	16.0%	11,238,939	76.6%		
Ara K. Hovnanian (5)	4,655,125	9.6%	2,555,419	17.4%		
Paul W. Buchanan (6)	65,000	0.1%				
Robert B. Coutts (11)						
Geaton A. DeCesaris, Jr. (7)(8)(9)(10)	945,995	2.0%				
Arthur M. Greenbaum	30,790	0.1%	3,000			
Kevin C. Hake	18,713					
Edward A. Kangas	37,508	0.1%				
Joseph A. Marengi (11)						
Desmond P. McDonald	39,647	0.1%				
John J. Robbins	34,332	0.1%				
J. Larry Sorsby	256,802	0.5%				
Stephen D. Weinroth	78,008	0.2%	4,500			
EARNEST Partners, L.L.C. (12)	8,714,886	18.5%			N/A	N/A
Tontine Management, L.L.C. and affiliates (13)	2,983,187	6.3%			N/A	N/A
All Directors and executive officers as a group (12 persons)	13,712,532	28.0%	13,801,858	94.0%	3,000	0.1%

<sup>(1)</sup> 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. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally attributes ownership to persons who have voting or investment power with respect to the relevant securities. Shares of Common Stock subject to options either currently exercisable or exercisable within 60 days are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person. Except as indicated by these footnotes, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all securities shown as beneficially owned by them.

Shares of Class A Common Stock subject to options currently exercisable or exercisable within 60 days include the following: A. Hovnanian (1,287,500), P. Buchanan (30,000), G. DeCesaris, Jr., (225,000), A. Greenbaum (21,667), K. Hake (10,000), E. Kangas (13,000), D. McDonald (27,333), J. Robbins (17,333), J. Sorsby (185,000), S. Weinroth (23,000), and all Directors and executive officers as a group (1,846,083). No shares of Class B Common Stock are subject to options currently exercisable or exercisable within 60 days.

<sup>(2)</sup> Based upon the number of shares outstanding plus options currently exercisable or exercisable within 60 days held by each such Director, nominee, executive officer or holder.

- (3) *Each Depositary Share represents 1/1,000th of a share of 7.625% Series A Preferred Stock.*
- (4) *Includes 4,833,826 shares of Class B Common Stock held by the Kevork S. Hovnanian Family Limited Partnership, a Connecticut limited partnership (the "Limited Partnership"), 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 529,124 shares of Class B Common Stock 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 190,000 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 two sentences.*
- (5) *Includes 1,235,107 shares of Class A Common Stock and 269,893 shares of Class B Common Stock held in a grantor retained annuity trust for Kevork S. Hovnanian (the "GRAT") for which Ara K. Hovnanian is trustee and has a potential remainder interest, and 232,892 shares of Class A Common Stock and 189,832 shares of Class B Common Stock held in family related accounts and trusts as to which Ara K. Hovnanian has shared voting power and shared investment power. Ara K. Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential pecuniary interest in the GRAT and such other accounts and trusts. Ara K. Hovnanian's address is 10 Hwy 35, P.O. Box 500, Red Bank, New Jersey 07701.*
- (6) *Includes 35,000 shares of Class A Common Stock are held jointly with his spouse, Gail R. Buchanan. Paul W. Buchanan and Gail R. Buchanan share voting and investment power with respect to such shares.*
- (7) *Includes 214 shares of Class A Common Stock held jointly with his spouse, Josephine A. DeCesaris. Geaton A. DeCesaris, Jr. and Josephine A. DeCesaris share voting and investment power with respect to such shares.*
- (8) *Includes 200,000 shares of Class A Common Stock held by the DeCesaris Family LLC #1 and 289,566 shares of Class A Common Stock held by the DeCesaris Family LLC #3; beneficial ownership of which is disclaimed for both entities by Geaton A. DeCesaris, Jr. except to the extent of his pecuniary interest therein.*
- (9) *Includes 21,458 shares of Class A Common Stock held by Five Queens, Inc., a subchapter S corporation owned by Geaton A. DeCesaris, Jr.'s children and of which he is the President and 20,000 shares of Class A Common Stock held by the Geaton A. DeCesaris Charitable Remainder Unitrust of which he is the trustee and beneficiary, beneficial ownership of which is disclaimed by Geaton A. DeCesaris, Jr. except to the extent of his pecuniary interest therein.*
- (10) *Includes 27,870 shares of Class A Common Stock held by The Geaton & Joanne DeCesaris Family Foundation, Inc. over which Geaton A. DeCesaris, Jr.'s spouse may be deemed to share voting and investment power. Beneficial ownership of such shares is disclaimed by Mr. Decesaris.*
- (11) *Director nominee for March 8, 2006 Annual Shareholders Meeting.*
- (12) *Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 2, 2006. As of December 31, 2005, EARNEST Partners, L.L.C. had sole voting power with respect to 147,295 shares, shared voting power with respect to 3,117,091 shares and sole investment power with respect to 8,714,886 shares of Class A Common Stock. Address: 75 Fourteenth Street, Suite 2300, Atlanta, GA 30309.*
- (13) *Based solely upon information contained in a statement on Schedule 13G jointly filed with the Securities and Exchange Commission on September 19, 2005 by Tontine Partners L.P., Tontine Management, L.L.C., Tontine Overseas Associates, L.L.C. and Jeffrey L. Gendell. Tontine Partners L.P. and Tontine Management, L.L.C. each have shared voting and investment power with respect to 1,584,288 shares of Class A Common Stock, Tontine Overseas Associates, L.L.C. has shared voting and investment power with respect to 1,278,959 shares of Class A Common Stock and Mr. Gendell has sole voting and investment power with respect to 120,000 shares of Common Stock and shared voting and investment power with respect to 1,278,959 shares of Class A Common Stock. Address: 55 Railroad Avenue, 3<sup>rd</sup> Floor, Greenwich, Connecticut 06830.*

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

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

Based solely on the Company's review of the copies of such forms and amendments thereto it has received, the Company believes that with respect to the fiscal year ended October 31, 2005, all the Reporting Persons complied with all applicable filing requirements, except as follows: (1) John J. Robbins reported on his Form 5 with respect to fiscal year 2005 two gifts of shares made by his spouse that should have been reported on a Form 5 for the prior fiscal year and (2) Ara K. Hovnanian reported on his Form 5 with respect to fiscal

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year 2005 a sale of shares held by a trust for the benefit of the family of one of his sisters, which sale was made at the direction of one of the other trustees but should have been reported earlier.

### (1) ELECTION OF DIRECTORS

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

Under the rules of the NYSE, listed companies, like us, who have a controlling shareholder are not required to have a majority of independent directors, as defined by NYSE rules. Because Mr. K. Hovnanian and members of his immediate family hold more than 50% of the voting power of the Company, the Company is a controlled company within the meaning of the rules of the NYSE.

The Board of Directors has determined that a Board of Directors consisting of the 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.

Mr. Arthur Greenbaum and Mr. Desmond McDonald have decided not to stand for re-election as Directors of the Company. Mr. Greenbaum has served as a Director since 1992 and Mr. McDonald has served as a Director since 1982 and as Chairman of the Company's Audit Committee since its inception in 1992 through July 2005. The Company is nominating Mr. Robert B. Coutts and Mr. Joseph A. Marengi to serve on the Company's Board of Directors. Biographies for Mr. Coutts and Mr. Marengi are provided below under Board of Directors Nominees Biographies .

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

#### Board of Directors

Name	Age	Company Affiliation	Year First Became a Director
Kevork S. Hovnanian	82	Chairman of the Board & Director	1967
Ara K. Hovnanian	48	President, Chief Executive Officer & Director	1981
Robert B. Coutts	55	Director Nominee	Nominee 2006
Geaton A. DeCesaris, Jr.	50	President of the Hovnanian Land Investment Group & Director	2001

Name	Age	Company Affiliation	Year First Became a Director
Edward A. Kangas	61	Director	2002
Joseph A. Marengi	52	Director Nominee	Nominee 2006
John J. Robbins	66	Director	2001
J. Larry Sorsby	50	Executive Vice President, Chief Financial Officer & Director	1997
Stephen D. Weinroth	67	Director	1982

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### Board of Directors Nominees Biographies

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

Mr. A. Hovnanian has been Chief Executive Officer since 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. Mr. A. Hovnanian is the son of Mr. K. Hovnanian.

Mr. Coutts is an Executive Vice President of Lockheed Martin Corporation (NYSE) and is responsible for the Corporation's Electronic Systems business area, with sales greater than \$10 billion. Mr. Coutts was President and CEO of the former Electronics Sector of Lockheed Martin. He was elected an officer by the Board of Lockheed Martin in December 1996. Mr. Coutts held management positions with General Electric Corporation (NYSE) from 1972-1993, and was with GE Aerospace when it became part of Lockheed Martin in 1993. Mr. Coutts is a member of the boards of directors of several Lockheed Martin subsidiaries (LM Integrated Systems, Inc., LM United Kingdom, LM Espana, and LM Sippican Holdings, Inc.). Mr. Coutts is also currently the CEO and Deputy Chairman of the Association of the U.S. Army (AUSA) Council of Trustees; a member of the Board of Governors of Wesley Theological Seminary; and the Board of Overseers, College of Engineering, Tufts University.

Mr. DeCesaris, Jr. has served as President of the Hovnanian Land Investment Group since July 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 Chairman, President, and Chief Executive Officer of Washington Homes, Inc. Mr. DeCesaris, Jr. was honored as the Washington, D.C. area's Entrepreneur of the Year in the real estate category in 1994, sponsored by Inc. magazine and Ernst & Young LLP. Mr. DeCesaris, Jr. also serves on the Board of Anne Arundel Medical Center Foundation, as well as other charitable organizations, and as Trustee of Mount Saint Mary's University. Mr. DeCesaris, Jr. was elected as a Director of the Company in January 2001.

Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from December 1989 to May 2000, when he retired. He also serves on the Boards of Electronic Data Systems, Inc. (NYSE), Eclipsys, Inc. (NASDAQ), Tenet Healthcare Corporation, Inc. (NYSE), and Oncology Therapeutics Network, Inc. Mr. Kangas is also Chairman of the Board of the National Multiple Sclerosis Society. Mr. Kangas was elected as a Director of the Company in September 2002, is Chairman of the Company's Audit Committee and a member of the Company's Compensation Committee.

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Mr. Marengi serves as Senior Vice President for Dell Inc.'s (NASDAQ) Americas business, which includes the U.S. Consumer Business and Dell International Services (DIS). Mr. Marengi joined Dell in July 1997 from Novell Inc. (NASDAQ) where he was President and Chief Operating Officer. He joined Novell in 1989 and moved through successive promotions to become Executive Vice President of worldwide sales and field operations. For 10 years prior to joining Novell, Mr. Marengi served in various other executive, sales and information management positions. Mr. Marengi also serves on the Corporate Advisory Board of the USC Marshall School of Business and is a member of the Board for Dell Financial Services.

Mr. Robbins was a Managing Partner of the New York Office of Kenneth Leventhal & Company and Executive Committee Partner, retiring from the firm in 1992. He was made a Partner of Kenneth Leventhal & Company in 1973. Mr. Robbins has been a Trustee of Keene Creditors Trust since 1996. He has also been a Director and the Chairman of the Audit Committee of Raytech Corporation since May 2003. Mr. Robbins was elected as a Director of the Company in January 2001, and is a member of the Company's Audit Committee.

Mr. Sorsby has been Chief Financial Officer of the Company since 1996 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. Sorsby was elected as a Director of the Company in 1997.

Mr. Weinroth is a Managing Member of Hudson Capital Advisors, LLC, a private equity merchant banking firm, and a Managing Director and Board Member of Kline Hawkes & Co., a manager of private equity funds. From 1989 to 2003, he served as co-Chairman and head of the Investment Committee at First Britannia Mezzanine N.V., a European private investment firm. He is Chairman of the Board Emeritus of Core Laboratories, N.V. (NYSE), a global oil field service company where he was Chairman of the Board. He is Vice Chair of the Central Asian American Enterprise Fund and Chairman of the Board of The Joyce Theatre Foundation Inc., as well as a Trustee of the Horace Mann School. Mr. Weinroth has been a Director of the Company since 1982, and is a member of the Company's Audit and Compensation Committees.

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

During the year ended October 31, 2005, the Board of Directors held four regularly scheduled meetings and two telephonic meetings. In addition, 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 8, 2005.

### Audit Committee

During the year ended October 31, 2005, the members of the Audit Committee of the Board of Directors were Messrs. Kangas, McDonald, Robbins and Weinroth. The Audit Committee is currently chaired by Mr. Kangas and is responsible for reviewing and approving the scope of the annual audit undertaken by the

Company's independent registered public accounting firm and meeting with them to review the results of their work as well as their recommendations. The Audit Committee appoints the Company's independent registered public accounting firm and also approves and reviews their fees.

The Vice President of Internal Audit for the Company reports directly to the Audit Committee on, among other things, the Company's compliance with certain Company procedures which are designed to enhance management's understanding of operating issues and the results of the Audit Department's annual audits of the various aspects of the Company's business. In fiscal 2005, the Audit Department performed twenty-eight Sarbanes-Oxley Section 404 reviews and issued six traditional audit reports. 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, 2005, the Audit Committee met on five occasions and held eight telephonic meetings. For additional information related to the Audit Committee, see Report of the Audit Committee below.

## Compensation Committee

During the year ended October 31, 2005, the members of the Compensation Committee of the Board of Directors were Messrs. Weinroth and Kangas. The Compensation Committee is currently chaired by Mr. Weinroth and is active in reviewing and determining salaries, bonuses, and other forms of compensation for the Company's executive officers, key management employees, and non-employee Directors, 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 determining executive compensation, see Report of the Compensation Committee below. During the year ended October 31, 2005, the Compensation Committee met on one occasion and held three telephonic meetings.

## Corporate Governance

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 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 retained The Directorship Search Group (the DSG ), an independent board and executive search firm, to assist it in identifying candidates to serve as Directors of the Company, for which services the Company paid a fee. The DSG conducted extensive research and independent interviews of potential candidates in order to assess their qualifications in accordance with the Company's criteria. The DSG then referred certain of such candidates to the Company for further review.

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 2007 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 120<sup>th</sup> calendar day prior to February 7, 2006, 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.

On December 12, 2005, the Board of Directors approved the establishment of a Corporate Governance Committee, although the Company is not required to have such committee since it meets the NYSE definition of a controlled company. Members of the Committee are Mr. Kangas and Mr. Weinroth. The Corporate Governance Committee is primarily responsible for reviewing the Company's existing Corporate Governance Guidelines and further developing such guidelines and other policies and procedures which enhance the Company's commitment to corporate governance. The Committee is governed by its Charter which contains the Committee's additional responsibilities.

## DIRECTOR COMPENSATION

Each non-employee Director is paid an annual retainer of \$40,000, 50% in cash and 50% in shares of Class A Common Stock (approximately 387 shares of Class A Common Stock each in fiscal year 2005). In addition, non-employee Directors receive an additional retainer of \$20,000 for each Board Committee on whi