

HOVNANIAN ENTERPRISES INC  
Form DEF 14A  
February 19, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 (Amendment No. )

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

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

HOVNANIAN ENTERPRISES, INC.

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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):

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

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which

the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount previously paid:

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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.**

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

February 19, 2008

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders, which will be held on Monday, March 31, 2008, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017. The meeting will start promptly at 10:30 a.m.

In accordance with the new Securities and Exchange Commission rule allowing companies to furnish proxy materials to their shareholders over the Internet, the Company is now primarily furnishing proxy materials to our shareholders of Class A Common Stock and registered shareholders of Class B Common Stock on the Internet, rather than mailing paper copies of the materials (including our Annual Report to Shareholders for fiscal 2007) to each shareholder. We believe that this new e-proxy process will expedite our shareholders' receipt of proxy materials, lower costs, and reduce the environmental impact of our annual meeting. If you received only a Notice Regarding the Availability of Proxy Materials (the "Notice") by mail or electronic mail, you will not receive a paper copy of these proxy materials unless you request one. Instead, the Notice will instruct you as to how you may access and review the proxy materials on the Internet. The Notice will also instruct you as to how you may access your proxy card to vote over the Internet, by telephone or by mail. If you received a Notice by mail or electronic mail and would like to receive a paper copy of our proxy materials, free of charge, please follow the instructions included in the Notice.

We anticipate that the Notice will be mailed to our shareholders on or about February 19, 2008, and will be sent by electronic mail to our shareholders who have opted for such means of delivery on or about February 21, 2008.

All shareholders of record of Class B Common Stock who hold in nominee name have been sent a full set of proxy materials, including a proxy card. As in the past, shareholders of record of Class B Common Stock held in nominee name will only be able to vote by returning the enclosed proxy card in the envelope provided for this purpose or by voting in person at the Company's 2008 Annual Meeting.

Attached to this letter is a Notice of Annual Meeting of Shareholders and Proxy Statement, which describes the business to be conducted at the meeting. We will also report on matters of current interest to our shareholders.

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

We sincerely hope you will be able to attend and participate in the Company's 2008 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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### PROXY VOTING METHODS

If at the close of business on February 4, 2008, you were a shareholder of record or held shares through a broker or bank, you may vote your shares as described below or you may vote in person at the Annual Meeting. To reduce our administrative and postage costs, we would appreciate if shareholders of Class A Common Stock and registered shareholders of Class B Common Stock would please vote through the Internet or by telephone, both of which are available 24 hours a day. You may revoke your proxies at the times and in the manners described on page 1 of the Proxy Statement. If you are a shareholder of record or hold shares through a broker or bank and are voting by proxy, your vote must be received by 11:59 p.m. (Eastern Daylight Time) on March 30, 2008 to be counted unless otherwise noted below.

To vote by proxy:

**Shareholders of Class A Common Stock and Registered Shareholders of Class B Common Stock:**

**BY INTERNET**

- Go to the website at [www.proxyvote.com](http://www.proxyvote.com) and follow the instructions, 24 hours a day, seven days a week.
- You will need the 12-digit Control Number included on your Notice Regarding the Availability of Proxy Materials to obtain your records and to create an electronic voting instruction form.

**BY TELEPHONE**

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

**BY MAIL**

- Request a proxy card from us by following the instructions on your Notice Regarding the Availability of Proxy Materials.
- When you receive the proxy card, mark your selections on the proxy card.
- Date and sign your name exactly as it appears on your proxy card.
- Mail the proxy card in the postage-paid envelope that will be provided to you.
- Mailed proxy cards must be received no later than March 30, 2008 to be counted before the Annual Meeting

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

- Nominees of shareholders of Class B Common Stock may only appoint proxies by signing, dating and returning the enclosed proxy card in the envelope provided.

- Shares of Class B Common Stock held in nominee name will be entitled to ten votes per share only if the beneficial owner voting instruction card and the nominee proxy card relating to such shares is properly completed and received not less than 3 nor more than 20 business days prior to the meeting date.

**YOUR VOTE IS IMPORTANT. THANK YOU FOR VOTING.**

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**HOVNIANIAN ENTERPRISES, INC.**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
FEBRUARY 19, 2008**

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NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Hovnianian Enterprises, Inc. will be held on Monday, March 31, 2008, at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017 at 10:30 a.m. for the following matters:

1. The election of directors of the Company for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified;
2. The ratification of the selection of Ernst & Young LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2008;
3. The approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan;
4. The approval of the Company's 2008 Stock Incentive Plan, which is intended to supersede and replace the Company's amended and restated 1999 Stock Incentive Plan;
5. The approval of the Company's amended and restated 1983 Stock Option Plan; and
6. The transaction of such other business as may properly come before the meeting and any adjournment thereof.

**The Board of Directors recommends that you vote FOR each of the nominees listed in proposal 1 and FOR proposals 2, 3, 4 and 5.**

Only shareholders of record at the close of business on February 4, 2008 are entitled to notice of, and to vote at, the Annual Meeting. Accompanying this Notice of Annual Meeting of Shareholders is a proxy statement, proxy card(s) and the Company's Annual Report for the year ended October 31, 2007.

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

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

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

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

February 19, 2008

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If you are a shareholder of record and you plan to attend the Annual Meeting, please mark the appropriate box on your proxy card or, if applicable, so indicate when designating a proxy via the Internet or by telephone. If your shares are held by a bank, broker or other intermediary and you plan to attend, please send written notice to Hovnianian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, Attention: Peter S. Reinhart, Secretary, and enclose evidence of your ownership (such as a letter from the bank, broker or other intermediary confirming your ownership or a bank or brokerage firm account statement). The names of all those planning to attend will be placed on an admission list held at the registration desk at the entrance to the meeting.

If you do not plan to attend the Annual Meeting, please designate a proxy by mail or, if applicable, via the Internet or by telephone. If you choose to vote by mail, please complete, sign and date the enclosed proxy card and return it promptly so that your shares will be voted. If you have received a hard copy of the proxy materials, the enclosed envelope requires no postage if mailed in the United States.

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

**PROXY STATEMENT**

**GENERAL**

The accompanying proxy is solicited on behalf of the Board of Directors of Hovnanian Enterprises, Inc. (the "Company", "we", "us", or "our") for use at the Annual Meeting of Shareholders referred to in the foregoing notice and any adjournment thereof.

Shares represented by properly executed proxies, that are received or executed in time and not revoked will be voted in accordance with the specifications thereon. If no specifications are made, the persons named in the accompanying proxy card(s) will vote the shares represented by such proxies for the Board of Directors' slate of directors, for the ratification of the selection of Ernst & Young LLP, an independent registered public accounting firm, to examine the financial statements of the Company for the year ending October 31, 2008 for the approval of the Company's amended and restated Senior Executive Short-Term Incentive Plan, for the approval of the Company's 2008 Stock Incentive Plan, which is intended to supersede and replace the Company's amended and restated 1999 Stock Incentive Plan, for the approval of the Company's amended and restated 1983 Stock Option 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 Peter S. Reinhart, Secretary, by delivering a later-dated proxy, or by voting in person at the Annual Meeting. Please note that attendance at the Annual Meeting will not by itself revoke a proxy.

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

The record date for the determination of shareholders entitled to vote at the meeting was the close of business on February 4, 2008. As of that date, the outstanding voting securities of the Company consisted of 47,872,901 shares of Class A Common Stock, each share entitling the holder thereof to one vote, and 14,647,062 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 February 4, 2008 (1) the Class A Common Stock and Class B Common Stock of the Company beneficially owned by holders of more than 5% of either the Class A Common Stock or the Class B Common Stock of the Company and (2) the Class A Common Stock, Class B Common Stock and Depositary Shares of the Company beneficially owned by each Director, each nominee for Director, each executive officer named in the tables set forth under "Executive Compensation" below and all Directors and executive officers as a group:

	Class A Common Stock		Class B Common Stock		Depository S
	(1)		(1)		(1)(3)
	Amount and	Percent	Amount and	Percent	Amount and
Directors, Nominees for Director, Certain Executive Officers, Directors and Executive Officers as a Group and Holders of More Than 5%	Nature of Beneficial Ownership	of Class (2)	Nature of Beneficial Ownership	of Class (2)	Nature of Beneficial Ownership
Kevork S. Hovnanian (4)	7,419,810	15.50%	12,276,319	83.81%	

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Ara K. Hovnanian (5)	5,464,989	10.99%	1,376,415	9.16%	
Paul W. Buchanan (6)	86,250	0.18%			
Robert B. Coutts	7,737	0.02%			
Edward A. Kangas	66,187	0.14%			
Joseph A. Marengi	17,737	0.04%			
Peter S. Reinhart	52,714	0.11%			3,000
John J. Robbins	55,293	0.12%			
J. Larry Sorsby	360,552	0.75%			
Stephen D. Weinroth	106,687	0.22%	4,500	.03%	
Ameriprise Financial, Inc. (7)	2,783,890	5.91%			N/A
Barclays Global Investors, NA. (8)	3,059,667	6.42%			N/A
Capital Group International, Inc. (9)	3,903,900	8.2%			N/A
EARNEST Partners, LLC (10)	5,352,802	11.2%			N/A
FMR Corp. (11)	8,028,900	17.04%			N/A
Franklin Mutual Advisors (12)	2,556,220	5.4%			N/A
State Street Bank and Trust Company (13)	2,978,834	6.2%			N/A
Tontine Management, L.L.C. and affiliates (14)	3,041,777	6.38%			N/A
All Directors and executive officers as a group (11 persons)	13,664,595	27.27%	13,657,234	90.84%	3,000

<sup>(1)</sup> The figures in the table with respect to Class A Common Stock do not include the shares of Class B Common Stock beneficially owned by the specified persons. Shares of Class B Common Stock are convertible at any time on a share for share basis to Class A Common Stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally attributes ownership to persons who have or share voting or investment power with respect to the relevant securities. Shares of Common Stock 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 in these footnotes, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all securities shown as beneficially owned by them. Shares of Class A Common Stock subject to options currently exercisable or exercisable within 60 days include the following: K. Hovnanian (0), A. Hovnanian, (1,750,000), P. Buchanan (46,250), R. Coutts (1,667) E. Kangas (30,666), J. Marengi (1,667), P. Reinhart (21,250), J. Robbins (31,666), J. Sorsby 288,750), S. Weinroth (40,666), and all Directors and executive officers as a group (2,233,833). Shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days include the following: A. Hovnanian (387,500).

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<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.

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

<sup>(4)</sup> 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 (the "Marital Trust"), is the managing general partner of the Limited Partnership and as such has the sole power to vote and dispose of the shares of Class B Common Stock held by the Limited Partnership. Also includes 190,000 shares of Class A Common Stock and 376,265 shares of Class B Common Stock shares held in the name of Sirwart Hovnanian or the Marital Trust and over which Ms. Hovnanian has sole power to dispose of and vote shares. Mr. Hovnanian disclaims beneficial ownership of such shares.

<sup>(5)</sup> Includes 157,271 shares of Class A Common Stock and 250,000 shares of Class B Common Stock held in a grantor retained annuity trust (the "AKH GRAT") for which Ara K. Hovnanian is trustee, 282,116 shares of Class A Common Stock and 431,394 shares of Class B Common Stock held in family related trusts as to which Ara K. Hovnanian has shared voting power and shared investment power and 37,374 shares of Class A Common Stock and 122,274 shares of Class B Common Stock held by Mr. Hovnanian's wife and children. Ara K. Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential pecuniary interest in the AKH GRAT and such other accounts and trusts.

<sup>(6)</sup> Includes 40,000 shares of Class A Common Stock that are held jointly with Mr. Buchanan's spouse, Gail R. Buchanan. Paul W. Buchanan and Gail R. Buchanan share voting and investment power with respect to such shares.

<sup>(7)</sup> Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2007. As of December 31, 2006, Ameriprise Financial, Inc. had sole voting power with respect to zero shares, shared voting power with respect to 29,840 shares and shared investment power with respect to 2,783,890 shares of Class A Common Stock. Address: 145 Ameriprise Financial Center, Minneapolis, Minnesota 55474.

<sup>(8)</sup> Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 5, 2008. As of December 31, 2007, Barclays Global Investors, NA and its affiliated entities reported sole voting and dispositive power as follows: (i) Barclays Global Investors, NA had sole voting power with respect to 785,196 shares and sole investment power with respect to 943,539 shares of Class A Common Stock (Address: 45 Fremont Street, San Francisco, California 94105), (ii) Barclays Global Fund Advisors had sole voting power and investment power with respect to 2,099,529 shares of Class A Common Stock (Address: 45 Fremont Street, San Francisco, California 94105), (iii) Barclays Global Investors, Ltd had no voting power or investment power with respect to shares of Class A Common Stock (Address: Murray House, 1 Royal Mint Court, London EC3N 4HH), (iv) Barclays Global Investors Japan Trust and Banking Company Limited had no voting power or investment power with respect to shares of Class A Common Stock (Address: Ebisu Prime Square Tower 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-8402 Japan), (v) Barclays Global Investors Japan Limited had sole voting power and investment power with respect to 16,599 shares of Class A Common Stock (Address: Ebisu Prime Square Tower 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-8402 Japan), (vi) Barclays Global Investors Canada Limited had no voting power or investment power with respect to shares of Class A Common Stock (Address: Brookfield Place, 161 Bay Street, Suite 2500, PO Box 614, Toronto, Canada Ontario M5J 2S1), (vii) Barclays Global Investors Australia Limited had no voting power or investment power with respect to shares of Class A Common Stock (Address: Level 43, Grosvenor Place, 225 George Street, PO Box N43, Sydney, Australia NSW 1220), and (viii) Barclays Global Investors (Deutschland) AG had no voting power or investment power with respect to shares of Class A Common Stock (Address: Apianstrasse 6, D-85774, Unterföhring, Germany). The shares reported are held by the companies in trust accounts for the economic benefit of the beneficiaries of those accounts.

<sup>(9)</sup> Based solely upon information contained in a statement on Schedule 13G filed with the Securities and Exchange Commission on February 1, 2008. As of December 31, 2007, Capital Group International, Inc., as the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the securities, had sole voting power with respect to 3,291,600 shares and sole investment power with respect to 3,903,900 shares of Class A Common Stock. Capital International Limited, as the investment manager of various institutional accounts, had sole voting power with respect to 2,963,700 shares and sole investment power with respect to 3,374,000 shares of Class A Common Stock. Address: 11100 Santa Monica Blvd., Los Angeles, California 90025.

<sup>(10)</sup> Based solely upon information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission on January 31, 2008. As of December 31, 2007, EARNEST Partners, L.L.C. had sole voting power with respect to 1,824,199 shares, shared voting power with respect to 1,440,581 shares and sole investment power with respect to 5,352,802 shares of Class A Common Stock. Address: 1180 Peachtree Street NE, Suite 2300, Atlanta, Georgia 30309.

<sup>(11)</sup> Based solely upon information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2007. As of December 31, 2007, FMR Corp. had sole voting power with respect to 700 shares, and each of FMR Corp. and Edward C. Johnson 3d had shared voting power with respect to zero shares and sole investment power with respect to 8,028,900 shares of Class A Common Stock. Address: 82 Devonshire Street, Boston, MA 02109.

<sup>(12)</sup> Based solely upon information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission on January 30, 2008. As of December 31, 2007, Franklin Mutual Advisors, LLC had sole voting power and sole investment power with respect to 2,556,220 shares of Class A Common Stock. Address: 101 John F. Kennedy Parkway, Short Hills, New Jersey 07078.

<sup>(13)</sup> Based solely upon information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission on February 12, 2008. As of December 31, 2007, State Street Bank and Trust Company, acting in various fiduciary capacities, had sole voting and investment power with respect to 2,978,834 shares of Class A Common Stock. Address: State Street Financial Center, One Lincoln Street, Boston, Massachusetts 02111.

<sup>(14)</sup> Based solely upon information contained in a statement on Schedule 13G/A jointly filed with the Securities and Exchange Commission on January 25, 2008 by Tontine Partners L.P., Tontine Management, L.L.C., Tontine Overseas Associates, L.L.C, Tontine Capital Partners, L.P., Tontine Capital Management, L.L.C. and Jeffrey L. Gendell. As of December 31, 2007, Tontine Partners L.P. and Tontine Management, L.L.C. each had shared voting and investment power with respect to 463,016 shares of Class A Common Stock, Tontine Overseas Associates, L.L.C. had shared voting and investment power with respect to 2,318,579 shares of Class A Common Stock, Tontine Capital Partners, L.P. had shared voting and investment power with respect to 260,182 shares of Class A Common Stock, Tontine Capital Management, L.L.C. had shared voting and investment power with respect to 612,482 shares of Class A Common Stock and Mr. Gendell had shared voting and investment power with respect to 3,041,777 shares of Common Stock. Address: 55 Railroad Avenue, Greenwich, Connecticut 06830.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors, persons who own more than 10% of a registered class of the Company's equity securities and certain entities associated with the foregoing ("Reporting Persons") to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission (the "SEC") and the New York Stock Exchange (the "NYSE"). 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, 2007, all the Reporting Persons complied with all applicable filing requirements, except that a Form 4 was filed late on behalf of Mr. Ara K. Hovnanian for the disposition of a total of 9,775 shares of Class A Common Stock held by a trust for the family of one of his sisters of which he is one of the trustees and has a potential remainder interest.

### (1) ELECTION OF DIRECTORS

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

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

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

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

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### Board of Directors

Name	Age	Company Affiliation	Year First Became a Director
Kevork S. Hovnanian	84	Chairman of the Board & Director	1967
Ara K. Hovnanian	50	President, Chief Executive Officer & Director	1981
Robert B. Coutts	57	Director	2006
Edward A. Kangas	63	Director	2002
Joseph A. Marengi	54	Director	2006
John J. Robbins	68	Director	2001



J. Larry Sorsby	52	Executive Vice President, Chief Financial Officer & Director	1997
Stephen D. Weinroth	69	Director	1982

### Board of Directors □ Nominees □ Biographies

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

Mr. A. Hovnanian has been Chief Executive Officer since July 1997 after being appointed President in 1988 and Executive Vice President in 1983. Mr. A. Hovnanian joined the Company in 1979 and has been a Director of the Company since 1981. Mr. 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). Mr. Coutts was President and COO of the former Electronics Sector of Lockheed Martin. He was elected an officer by the Board of Lockheed Martin in December 1996. Mr. Coutts held management positions with General Electric Corporation (NYSE) from 1972-1993, and was with GE Aerospace when it became part of Lockheed Martin in 1993. Mr. Coutts is a member of the boards of directors of several Lockheed Martin subsidiaries (LM Integrated Systems, Inc., LM United Kingdom, Sandia Corporation) and of The Stanley Works (NYSE). Mr. Coutts is also currently the CEO and Deputy Chairman of the Association of the U.S. Army (AUSA) Council of Trustees; and a member of the Board of Overseers, College of Engineering, Tufts University. He was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is a member of the Company's Compensation Committee.

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

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Mr. Marengi, since July 2007, serves as a Venture Partner for Austin Ventures. Prior to that date, Mr. Marengi served as senior vice president for Dell Inc.'s (NASDAQ) Commercial Business Group. In this role, Mr. Marengi was responsible for the Dell units serving medium business, large corporate, government, education and healthcare customers in the United States. Mr. Marengi joined Dell in July 1997 from Novell Inc. (NASDAQ), where he was president and chief operating officer. He joined Novell in 1989 and moved through successive promotions to become executive vice president of worldwide sales and field operations. He is also an outside Director for Quantum Corporation (NYSE). He was elected Director of Hovnanian Enterprises, Inc. in March 2006 and is member of the Company's Corporate Governance Committee.

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

Mr. Sorsby has been Chief Financial Officer of the Company since 1996 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. He is also Chairman of the Board of Cyalume Technologies, Inc., a manufacturer of military and safety equipment. From 1989 to 2003, he served as co-Chairman and head of the Investment Committee at First Britannia Mezzanine N.V., a European private investment firm. He is Chairman of the Board Emeritus of Core Laboratories, N.V. (NYSE), a global oil field service company where he had previously been Chairman of the Board. He has been Vice Chair of the Central Asian American Enterprise Fund, and is Vice Chairman of its successor the US Central Asia Education Foundation, and Chairman of the Board of The Joyce Theatre Foundation Inc., as well as a Trustee of the Horace Mann School. Mr. Weinroth has been a Director of the Company since 1982, is a member of the Company's Audit Committee, and Chairman of the Company's Compensation and Corporate Governance Committees.

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

During the year ended October 31, 2007, the Board of Directors held four regularly scheduled meetings and three telephonic meetings. In addition, Directors considered Company matters and had frequent communications with the Chairman of the Board of Directors and others outside of formal meetings. Directors are expected to attend the Annual Meeting of Shareholders, but the Company does not have a formal policy with respect to attendance. All of the eight members of the Board of Directors attended the Annual Meeting of Shareholders held on March 7, 2007.

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### **Audit Committee**

During the year ended October 31, 2007, the members of the Audit Committee of the Board of Directors were Messrs. Kangas, Robbins and Weinroth. The Audit Committee is currently chaired by Mr. Kangas and is responsible for reviewing and approving the scope of the annual audit undertaken by the Company's independent registered public accounting firm and meeting with them to review the results of their work as well as their recommendations. The Audit Committee selects the Company's independent registered public accounting firm and also approves and reviews their fees. During the year ended October 31, 2007, the Audit Committee met on four occasions and held seven telephonic meetings. The Audit Committee also authorizes staffing and compensation of the internal Audit Department. The Vice President of Internal Audit for the Company reports directly to the Audit Committee on, among other things, the Company's compliance with certain Company procedures which are designed to enhance management's understanding of operating issues and the results of the Audit Department's annual audits of the various aspects of the Company's business. In fiscal 2007, the Audit Department performed twenty-eight Sarbanes-Oxley Section 404 reviews and issued six traditional audit reports. The Company's Chief Accounting Officer reports directly to the Audit Committee on significant accounting issues. For additional information related to the Audit Committee, see "The Audit Committee" below.

### **Compensation Committee**

During the year ended October 31, 2007, the members of the Compensation Committee of the Board of Directors were Messrs. Weinroth, Kangas, and Coutts (appointed in September 2007). The Compensation Committee is currently chaired by Mr. Weinroth and is responsible for reviewing salaries, bonuses, and other forms of compensation for the Company's executive officers, key management employees, and non-employee Directors, and is active in other compensation and personnel areas as the Board of Directors from time to time may request. For a discussion of the criteria used and factors considered by the Compensation Committee in reviewing and determining executive compensation, see "The Compensation Committee" and "Compensation Discussion and Analysis" below. During the year ended October 31, 2007, the Compensation Committee met on three occasions and held seven telephonic meetings.

### **Corporate Governance**

On December 12, 2005, the Board of Directors approved the establishment of a Corporate Governance Committee, although the Company is not required to have such committee because it is a controlled company under the rules of the NYSE. During the year ended October 31, 2007, the members of the Corporate Governance Committee of the Board of Directors were Messrs. Weinroth, Kangas and Marengi (appointed in September 2007). The Corporate Governance Committee is responsible for reviewing and recommending corporate governance matters and other Board-related policies. The Corporate Governance Committee also oversees the annual performance evaluation of the Board and its Committees, the Board's periodic review of the Company's Corporate Governance Guidelines ("Guidelines") and compliance with the Company's Related Person Transaction Policy. During the year ended October 31, 2007, the Corporate Governance Committee met on four occasions and

held no telephonic meetings.

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

The Company does not have a Nominating Committee. The Company is not required to have such a committee because it is a controlled company under the rules of the NYSE. Therefore, the Company does not have a specific policy regarding shareholder nominations of potential directors to the Board of Directors, other than through the process described under "Shareholder Proposals for the 2009 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

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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, which is then approved by the Board of Directors. Vacancies on the Board of Directors, other than those resulting from removal by shareholders, may be filled by action of the Board of Directors after recommendation by the Chairman of the Board.

As of the 120th calendar day prior to January 29, 2008, the Board of Directors had not received any recommendation for the nomination of a candidate to the Board of Directors by any shareholder or group of shareholders that at such time held more than 5% of the Company's voting stock for at least one year.

#### **VOTE REQUIRED**

The election of the nominees to the Company's Board of Directors for the ensuing year, to serve until the next Annual Meeting of Shareholders of the Company, and until their respective successors may be elected and qualified, requires that each director be elected by a majority of the votes cast by the shareholders of Class A Common Stock and Class B Common Stock, voting together, represented in person or by proxy at the 2008 Annual Meeting. In determining whether each director has received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as a vote against the director. Broker non-votes will have no impact on such matter because shares that have not been voted by brokers are not considered "shares present" for voting purposes.

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 AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The selection of an independent registered public accounting firm to examine financial statements of the Company made available or transmitted to shareholders and filed with the SEC for the year ending October 31, 2008 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. Even if the selection is ratified, the Audit Committee may, in its discretion, direct the appointment of a new independent registered public accounting firm at any time during the fiscal year if the Audit Committee determines that such a change would be in the best interests of the Company and our stockholders.

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

#### **VOTE REQUIRED**

Ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm to examine financial statements of the Company for the year ending October 31, 2008, requires the affirmative vote of the majority of the shares of Class A Common Stock and Class B Common Stock, voting

together, present in person or by proxy at the 2008 Annual Meeting. In determining whether the proposal has received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as a vote against the proposal. Broker non-votes will have no impact on such matter because shares that have not been voted by brokers are not considered "[shares present]" for voting purposes.

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 the Company's independent registered public accounting firm.**

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

Shareholders are being asked to consider and approve the amended and restated Senior Executive Short-Term Incentive Plan (as amended and restated, the "[Bonus Plan]") which:

- (1) extends the term of the Bonus Plan from its currently scheduled expiration date of March 5, 2009 to provide that the Bonus Plan will instead expire on the date of the Company's first shareholders' meeting that occurs during 2013, such that no new Bonus Awards (as defined below) 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); and
- (2) makes certain technical changes, clarifications and language improvements, including changes intended to address recent changes in tax laws related to deferred compensation arrangements and certain changes in accounting rules.

The Bonus Plan 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 performance. The Company has proposed to limit the term of the Bonus Plan to a period ending upon the Company's first shareholders' meeting that occurs during 2013, 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, which the Bonus Awards granted under the Bonus Plan are intended to be.

The Company's Board of Directors has approved the amended and restated Bonus Plan.

For a discussion of the Bonus Plan, see "[Material Features of the Bonus Plan]" 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 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 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 under Section 162(m) of the Code. For the fiscal year ended October 31, 2007, three senior executives were selected by the Compensation Committee to participate in the Bonus Plan.

#### **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 "[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, 2007,

three covered employees were selected by the Committee to participate in the Bonus Plan.

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### **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: (1) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (2) net income; (3) operating income; (4) earnings per share of common stock of the Company; (5) book value per share; (6) return on stockholders' equity; (7) expense management; (8) return on investment before or after the cost of capital; (9) improvements in capital structure; (10) profitability of an identifiable business unit or product; (11); maintenance or improvements of profit margins; (12) stock price; (13) market share; (14) revenues or sales; (15) costs; (16) cash flow; (17) working capital; (18) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (19) 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 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 to defer receipt of all or any portion of such Bonus Award (in a manner consistent with Sections 162(m) and 409A of the Code) 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 total number of shares of common stock of the Company that may be issued under the Bonus Plan, as amended, will be 10,000,000 (giving effect to the Company's March 26, 2004 stock split).

### **Effect of Certain Events on Bonus Plan and Bonus 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 (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 2008 Hovnanian Enterprises, Inc. Stock Incentive 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 Bonus Award.

### **Limitations**

The Bonus Plan provides that the maximum Bonus Award to any Participant with respect to any fiscal year shall be the greater of (x) \$15 million or (y) 2.5% 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. 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 the 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, hypothecated or encumbered, except in the event of a Participant's death. No Bonus Award under the Bonus Plan will be construed as giving any employee a right to continued employment with the Company or its affiliates.

### Participants of the Bonus Plan

For the fiscal year ending October 31, 2008, three Participants have been selected by the Committee to participate in the Bonus Plan (three Participants in the Executive Officers Group, no Participants in the Non-Executive Director Group, and no Participants in the Non-Executive Officer Employee Group). The following table sets forth information on Bonus Awards that would be received for the year ending October 31, 2008 based on the written performance goals for the Participants for fiscal 2008 and financial results for the year ended October 31, 2007.

### Senior Executive Short-Term Incentive Plan Bonus Awards

Name And Position	Bonus Awards Dollar Value (1)	Restricted Stock Awards; Dollar Value (\$)(Aggregate) (2)
Kevorg S. Hovnanian, Chairman of the Board	□	□
Ara K. Hovnanian, President and Chief Executive Officer	□	□
J. Larry Sorsby, Executive Vice President and Chief Financial Officer	□	□
Paul W. Buchanan, Senior Vice President and Chief Accounting Officer	N/A	N/A
Peter S. Reinhart, Senior Vice President and General Counsel	N/A	N/A
Executive Officer Group	□	□
Non-Executive Director Group	N/A	N/A
Non-Executive Officer Employees Group	N/A	N/A

<sup>(1)</sup> Bonus Awards may be paid in cash or in shares of common stock of the Company.

<sup>(2)</sup> A portion of earned bonuses may, at the Committee's discretion, be paid in the form of deferred shares that vest in four equal annual installments beginning on the second November 1st following the fiscal year during which the service giving rise to the deferred share award was performed, subject to rounding and continued employment with the Company. Deferred share award recipients who have reached age 58 or who have completed at least 20 years of service for the Company, however, will be fully vested in all shares relating to a deferred share award on the later of (1) the January 15th following the fiscal year during which the service giving rise to the deferred share is performed or (2) the date on which age 58 is reached or 20 years of service is completed.

### VOTE REQUIRED

In order for the amended and restated Senior Executive Short-Term Incentive Plan to be approved, the NYSE rules require that a majority of the outstanding shares of Class A Common Stock and Class B Common Stock, voting together, are voted on the proposal and that the majority of the shares of common stock voting on the proposal vote to approve the Senior Executive Short-Term Incentive Plan. If you fail to vote, your shares will not be considered "shares present" for voting purposes, which may cause less than the requisite majority of the outstanding shares of common stock to be voted on the matter. If you hold your shares through a broker, your broker will not be permitted to vote your shares on this matter without your specific voting instructions.

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 approval of the Amended and Restated Senior Executive Short-Term Incentive Plan.**

**(4) APPROVAL OF THE 2008 HOVNANIAN ENTERPRISES, INC.  
STOCK INCENTIVE PLAN**

Shareholders are being asked to consider and approve a proposal to adopt the 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (the "2008 Plan"). The 2008 Plan is intended to supersede and replace the amended and restated 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan (the "1999 Plan") such that all equity-based awards previously granted under the 1999 Plan that remain outstanding shall be governed pursuant to the terms of the 2008 Plan, and the shares that currently remain available for future grants under the 1999 Plan will instead become available for grants under the 2008 Plan. Other than the previously reserved shares under the 1999 Plan, no new shares will be reserved for issuance under the 2008 Plan. The terms of the 2008 Plan generally follow the terms of the 1999 Plan, with the following changes:

1. whereas the 1999 Plan had been scheduled to expire on March 5, 2009, the term of the 2008 Plan will run until February 6, 2018, such that no new Awards (as defined below) may be granted after such expiration date (although Awards granted prior to such expiration date will remain in effect and be subject to the terms of the 2008 Plan);
2. a provision has been added to the 2008 Plan that would permit "repricing" of stock options (i.e., lowering the exercise price of previously granted stock options) and similar corporate actions if (and only if) the repricing or similar corporate action is approved by at least a majority of the independent directors on our Board of Directors; and
3. the 2008 Plan reflects certain technical changes, clarifications and language improvements, including changes intended to address recent changes in tax laws related to deferred compensation arrangements and certain changes in accounting rules.

The 2008 Plan is set forth in Appendix B hereto.

The 1999 Plan would expire on March 5, 2009 and the Board of Directors has determined that it is in the best interest of the Company to continue to have a compensation plan for officers, directors and other key employees of the Company and its affiliates in order to align the interests of the Company's directors, employees and shareholders in the enhancement of shareholder value. In addition, the Board of Directors believes that the flexibility to reprice stock options and to take similar corporate actions is, in light of current market conditions, an important incentive tool for retention and motivation.

For a discussion of the 2008 Plan, see "Material Features of the 2008 Plan" below.

The Company's Board of Directors has approved the adoption of the 2008 Plan and recommends that shareholders vote for the approval of the 2008 Plan.

**Material Features of the 2008 Plan**

The following is a brief summary of the material features of the 2008 Plan. Because this is only a summary, it does not contain all the information about the 2008 Plan that may be important to you and is qualified in its entirety to the full text of the 2008 Plan as set forth in Appendix B hereto.

**Purpose**

The purpose of the 2008 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 2008 Plan (and including, without limitation, Awards granted under the 1999 Plan). All employees, directors and consultants of the Company and its affiliates are eligible to participate in the 2008 Plan if they are selected by the Compensation Committee of the Board of Directors (the "Committee") to participate in the 2008 Plan (any such individual, a "Participant"). For the fiscal year ended October 31, 2007, approximately 290 employees, five directors (includes non-employee directors only), and no consultants were selected by the Committee to participate in the 1999 Plan (which the 2008 Plan is intended to supersede and replace).

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**Administration**

The 2008 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 Securities Exchange Act of 1934, as amended, "outside directors" within the meaning of 162(m) of the Internal Revenue Code of 1986, as amended (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; 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 CEO is serving as a member of the Board of Directors, the Board of Directors may by specific resolution constitute the CEO as a "committee of one" with the authority to grant Awards covering up to 1,000,000 shares (giving effect to the Company's March 26, 2004 stock split) 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 2008 Plan and to such other terms and conditions, not inconsisten