

NVR INC
Form DEF 14A
March 21, 2008

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

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 Rule 14a-11(c) or Rule 14a-12

NVR, INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

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

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

NVR, INC.
11700 Plaza America Drive
Reston, VA 20190
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on Tuesday, May 6, 2008
11:30 A.M. Eastern Standard Time

NVR, Inc. will hold its Annual Meeting of Shareholders at 11:30 A.M. (Eastern Standard Time) on Tuesday, May 6, 2008. We will hold the meeting at our corporate headquarters located at 11700 Plaza America Dr., Suite 500, Reston, Virginia, 20190.

We are holding the meeting for the following purposes:

1. To elect three nominees for director to serve three year terms and until their successors are duly elected and qualified;
2. To ratify the appointment of the accounting firm of KPMG LLP as our independent auditor for the year ending December 31, 2008; and
3. To transact other business that may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

The above items are fully described within the proxy statement, which is part of this notice. We have not received notice of any other matters that may properly be presented at the meeting.

Only shareholders of record at the close of business on March 3, 2008 will be entitled to vote at the meeting. Whether or not you plan to attend the meeting, you are urged to date and sign the enclosed proxy card and return it promptly in the accompanying envelope. You are invited to attend the meeting in person. If you do attend the meeting, you may withdraw your proxy and vote in person.

By order of the Board of Directors,

James M. Sack
Secretary and General Counsel

March 21, 2008

NVR, INC.
11700 Plaza America Drive
Suite 500
Reston, VA 20190
PROXY STATEMENT

This Proxy Statement, Proxy Card and the Annual Report for the year ended December 31, 2007 are being mailed to our shareholders on or about March 24, 2008 in connection with the solicitation on behalf of the Board of Directors of NVR, Inc., a Virginia corporation, of proxies for use at our Annual Meeting of Shareholders. The Annual Meeting will be held on Tuesday, May 6, 2008, at our corporate headquarters located at 11700 Plaza America Dr., Suite 500, Reston, Virginia, 20190, at 11:30 A.M., Eastern Standard Time, and at any and all postponements and adjournments thereof. Shareholders should contact NVR's Investor Relations Department at the forgoing address to obtain directions to be able to attend the Annual Meeting in person.

We bear the cost of proxy solicitation, including expenses in connection with preparing, assembling and mailing the proxy solicitation materials and all papers accompanying them. We may reimburse brokers or persons holding shares in their names or in the names of their nominees for their expenses in sending proxies and proxy material to beneficial owners. In addition to solicitation by mail, certain of our officers, directors and regular employees, who will receive no extra compensation for their services, may solicit proxies by telephone, facsimile transmission, internet or personally. We have retained Georgeson Inc. to assist in the solicitation of brokers, bank nominees and institutional holders for a fee of approximately \$4,000 plus out-of-pocket expenses.

All voting rights are vested exclusively in the holders of our common stock, par value \$.01 per share (the Common Stock). Only shareholders of record as of the close of business on March 3, 2008 (the Record Date) are entitled to receive notice of and to vote at the Annual Meeting. Shareholders include holders (the Participants) owning stock in our Profit Sharing Trust Plan and Employee Stock Ownership Plan (the Plans).

The accompanying proxy card should be used to instruct the person named as the proxy to vote the shareholder's shares in accordance with the shareholder's directions. The persons named in the accompanying proxy card will vote shares of Common Stock represented by all valid proxies in accordance with the instructions contained thereon. In the absence of instructions, shares represented by properly executed proxies will be voted **FOR** the election of those three persons designated hereinafter as nominees for Class III of our directors, **FOR** the ratification of KPMG LLP as our Independent Auditor for 2008, and in the discretion of the named proxies with respect to any other matters presented at the Annual Meeting.

With respect to the tabulation of proxies, for the election of directors and the ratification of the appointment of KPMG LLP as our independent auditor, abstentions and broker non-votes are counted for the purpose of establishing a quorum, but are not counted in the number of votes cast and will have no effect on the result of the vote.

Any shareholder may revoke his or her proxy at any time prior to its use by 1) filing with our Secretary, at 11700 Plaza America Drive, Suite 500, Reston, Virginia 20190, written notice of revocation, 2) duly executing a proxy bearing a later date than the date of the previously duly executed proxy, or 3) by attending the Annual Meeting and voting in person. Execution of the enclosed proxy will not affect your right to vote in person if you should later decide to attend the Annual Meeting.

The proxy card also should be used by Participants to instruct the trustee of the Plans how to vote shares of Common Stock held on their behalf. The trustee is required under the applicable trust agreement to establish procedures to ensure that the instructions received from Participants are held in confidence and not divulged, released or otherwise utilized in a manner that might influence the Participants' free exercise of their voting rights. Proxy cards representing shares held by Participants must be returned to the tabulator by May 1, 2008 using the enclosed return envelope and should not be returned to us. If shares are owned through the Plans and the Participant does not submit voting instructions by May 1, 2008, the trustee of the Plans will vote such shares in the same proportion as the voting instructions received from the other Participants. Participants who wish to revoke a proxy card will need to contact the trustee and follow its instructions.

As of the Record Date, we had a total of 5,261,961 shares of Common Stock outstanding, each share of which is entitled to one vote. The presence, either in person or by proxy, of persons entitled to vote a majority of the outstanding Common Stock is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Under our Restated Articles of Incorporation and Bylaws, holders of Common Stock are not entitled to vote such shares on a cumulative basis, including with respect to the voting for directors.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 6, 2008:

This Proxy Statement and our Annual Report for the year ended December 31, 2007 are available at www.edocumentview.com/nvr.

**Election of Directors
(Proposal 1)**

Our Board of Directors, or the Board, is divided into three classes, the classes being as equal in number as possible. At the 2008 Annual Meeting, the following persons constituting Class III of the directors have been nominated by the Board of Directors to be elected to hold office for a three year term and until their successors are duly elected and qualified:

Dwight C. Schar
Robert C. Butler
C. E. Andrews

Our Restated Articles of Incorporation state that the number of directors on our Board will be no less than seven and no more than thirteen, as established from time to time by Board resolution. Currently, our Board has established the size of the Board as ten.

Mr. Schar and Mr. Butler are current directors standing for reelection. Mr. Andrews is standing for election by our shareholders for the first time. Mr. Schar, NVR's Chairman, recommended Mr. Andrews to the Nominating Committee for consideration as a director. Each nominee has consented to serve as one of our directors if elected. Our Board of Directors has affirmatively determined that each of our Board of Directors proposed nominees is independent, with the exception of Mr. Schar who is NVR's Executive Chairman. Our Board does not contemplate that any of its proposed nominees listed above will become unavailable for any reason, but if any such unavailability should occur before the Annual Meeting, proxies may be voted for another nominee selected by the Board of Directors.

Vote Required

Each director shall be elected by a majority of the votes cast by the shares entitled to vote in the election at the Annual Meeting, assuming that a quorum is present. A majority of the votes cast means that the number of shares voted for a director must exceed the number of shares voted against that director. Unless marked otherwise, proxies received will be voted **FOR** the election of each of the three nominees named above. Shareholders may abstain from voting for any particular nominee by so indicating in the space provided on the attached proxy card. An abstention will not be counted as a vote cast for or against a director's election.

Pursuant to our Corporate Governance Guidelines, the Board expects a director to tender his or her resignation if he or she fails to receive the required number of votes for re-election. The Board shall nominate for election or re-election as director only candidates who agree to tender their resignation if they fail to receive the required number of votes for re-election. In addition, the Board shall fill director vacancies and new directorships only with candidates who agree to tender their resignation if they fail to receive the required number of votes for re-election.

The Nominating Committee shall promptly consider the resignation offer of any such director and recommend to the Board whether to accept the tendered resignation or reject it. The Board shall take action with respect to the Nominating Committee's recommendation no later than 90 days following the submission of any such resignation offer.

Following the Board's action regarding the Nominating Committee's recommendation, the Company shall promptly file a Current Report on Form 8-K with the Securities and Exchange Commission which shall detail the Board's decision regarding a tendered resignation. This disclosure shall include an explanation of the process by which the Board's decision was reached and the reasons for the Board's decision.

To the extent that one or more directors' resignations are accepted by the Board, the Nominating Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board.

The Board expects that any director who tenders his or her resignation pursuant to this Policy will not participate in the Nominating Committee recommendation or Board action regarding whether to accept or reject the tendered resignation. If, however, a majority of the members of the Nominating Committee fails to receive the required number of votes for re-election in the election, the independent directors who did not fail to receive the required number of votes for re-election in the election shall form a committee amongst themselves for the purposes of evaluating the tendered resignations and recommending to the Board whether to accept or reject them.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING FOR ALL OF THE FOREGOING NOMINEES AS DIRECTORS OF NVR.

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

We are committed to having sound corporate governance principles and practices. Having and acting on that commitment is essential to running our business efficiently and to maintaining our integrity in the marketplace. Our primary corporate governance documents, including our Corporate Governance Guidelines, Code of Ethics and all of our Board of Directors' committee charters, are available to the public on our internet website at <http://www.nvrinc.com>. This material is also available in print to any shareholder who makes a request in writing to the Company at the following address: NVR, Inc., Investor Relations, 11700 Plaza America Drive, Suite 500, Reston, VA 20190.

Board Structure and Committee Composition

Our Restated Articles of Incorporation state that the number of directors on our Board will be no less than seven and no more than thirteen, as established from time to time by Board resolution. As of the date of this Proxy Statement, the Board has ten members.

Dwight C. Schar, our executive chairman, leads our Board, which meets at least quarterly. In addition, our Corporate Governance Guidelines require that each year our Board name an independent lead director to chair meetings of our independent directors. The independent directors of our Board meet as a group at least annually. Our independent lead director position rotates annually between the Audit, Compensation, Corporate Governance and Nominating Committee chairmen. David A. Preiser, the Chairman of our Nominating Committee, served as our independent lead director for calendar year 2007. Manuel H. Johnson, the Chairman of our Audit Committee, assumed the independent lead director role for the 2008 calendar year.

Our Board has the following six committees: Audit, Compensation, Corporate Governance, Executive, Nominating, and Qualified Legal Compliance. Each committee, other than the Executive Committee, meets at least annually to review its Committee Charter. During 2007, the full Board of Directors met ten times, the Audit Committee met six times, the Compensation Committee met five times, the Nominating Committee met three times, the Corporate Governance Committee met twice, and the Qualified Legal Compliance Committee met once. The Executive Committee did not meet during 2007. Our independent directors met once during 2007 in executive session without the presence of non-independent directors and management. Each of our Board members attended at least 75% of our Board meetings and their respective Committee meetings during 2007. Further, each of our Board members and each then-standing director attended the 2007 annual meeting of shareholders. Our Board requires that our Board members attend each Board and Committee meeting in person. Our Board of Directors further requires that all current Board members and all nominees for election to our Board of Directors put forth in our proxy statement by our Board attend in person our annual meeting of shareholders, unless personal circumstances affecting such Board member or director nominee make such attendance impractical or inappropriate.

Board Member Information

The following sets forth certain pertinent information with respect to our current directors, including the nominees listed above.

Name	Age	Year First Elected or Appointed/ Term Expires
Dwight C. Schar (3*)	66	1993/2008
C. E. Andrews	56	N/A
C. Scott Bartlett, Jr. (1) (4) (6)	75	1993/2009
Robert C. Butler (1) (4) (5*) (6)	77	2002/2008
Timothy M. Donahue (2) (4)	59	2006/2009
Manuel H. Johnson (1*) (2) (5) (6*)(**)	59	1993/2010
William A. Moran (3)	61	1993/2009
David A. Preiser (2) (4*) (5)	51	1993/2010
George E. Slye (1) (3) (6)	77	1993/2008
John M. Toups (2*) (3) (5)	82	1993/2010
Paul W. Whetsell (2)(5)	57	2007/2010

(1) Member of
Audit
Committee

(2) Member of
Compensation
Committee

(3) Member of
Executive
Committee

(4) Member of
Nominating
Committee

(5)

Member of
Corporate
Governance
Committee

(6) Member of
Qualified Legal
Compliance
Committee

(*) Chairperson

(**) Independent
Lead Director

Dwight C. Schar has been Chairman of the Board since September 30, 1993. Mr. Schar served as the President and Chief Executive Officer of NVR from September 30, 1993 through June 30, 2005. Mr. Schar is also a director of Six Flags, Inc.

C. E. Andrews is being nominated for his first term as a director with NVR. Mr. Andrews is currently the president of SLM Corporation (Sallie Mae). He joined Sallie Mae in 2003 as the executive vice president of accounting and risk management, and held the title of chief financial officer from 2006 to 2007. Prior to joining Sallie Mae, Mr. Andrews spent approximately 30 years at Arthur Andersen. He served as managing partner for Arthur Andersen's mid-Atlantic region, and was promoted to global managing partner for audit and advisory services in 2002. Mr. Andrews serves on the boards of Junior Achievement (Chair), The Greater Washington Board of Trade, Inova Health Systems Foundation and Six Flags, Inc., where he is the Chair of the Audit Committee. He is also a member of the Advisory Boards of the R.B. Pamplin College of Business and Accounting Department at Virginia Tech.

C. Scott Bartlett, Jr. has been a director since September 30, 1993. Mr. Bartlett retired as an Executive Vice President of National Westminster Bank USA, now Bank of America, Inc., in 1990. Mr. Bartlett is also a director of Abraxas Petroleum Corporation where he serves as the chairman of the audit committee and serves on the nominating committee.

Robert C. Butler has been a director since May 1, 2002. Prior to his retirement, Mr. Butler served as Senior Vice President and Chief Financial Officer of Celgene Corporation from 1996 through 1998. Previously, Mr. Butler served as Chief Financial Officer of International Paper Co. In addition, Mr. Butler was the Chairman of the Financial Accounting Standards Advisory Council from 1997 through 2001. Mr. Butler is a director of Studio One Networks, Inc. He also serves on the Board of Trustees of COPE Center, Inc., a non-profit social services agency in New Jersey.

Timothy M. Donahue has been a director since January 1, 2006. Prior to his retirement, Mr. Donahue was Executive Chairman of Sprint Nextel Corporation from August 2005 to December 2006. He previously served as president and chief executive officer of Nextel Communications, Inc. He began his career with Nextel in January 1996 as president and chief operating officer. Before joining Nextel, Mr. Donahue served as northeast regional president for AT&T Wireless Services operations from 1991 to 1996. Prior to that, he served as president for McCaw Cellular's paging division in 1986 and was named McCaw's president for the U.S. central region in 1989. He is also a director of Eastman Kodak, Covidien Limited, and Tyco International LTD.

Manuel H. Johnson has been a director since September 30, 1993. Dr. Johnson has been co-chairman and senior partner in Johnson Smick International, Inc., an international financial policy-consulting firm, since 1990. From August 1, 1997 until December 2003, Dr. Johnson was the chairman of the Board of Trustees and president of the Financial Accounting Foundation, which oversees the Financial Accounting Standards Board. Also during 1997, Dr. Johnson was named a member of the Independence Standards Board (which was dissolved on July 31, 2001), formed jointly by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Dr. Johnson is a founder and co-chairman of the Group of Seven Council, an international commission supporting economic cooperation among the major industrial nations. He is a director of Morgan Stanley Funds and Evergreen Energy, Inc.

William A. Moran has been a director since September 30, 1993. Mr. Moran has been the chairman of Elm Street Development, Inc. (Elm Street) since 1996. Mr. Moran is currently a director and shareholder of Craftmark, Inc., a homebuilder in Virginia, Maryland, Pennsylvania and Delaware and Craftstar, Inc., which develops, invests in and periodically sells apartments, condominiums, single family homes and townhomes in Virginia and Maryland. Mr. Moran is also a director and shareholder of ESD, Inc.

David A. Preiser has been a director since September 30, 1993. Mr. Preiser has been a senior managing director and a member of the Board of Directors (now an advisory member) of the investment banking firm of Houlihan Lokey Howard & Zukin (Houlihan Lokey) since 2001. Prior to that date, Mr. Preiser was a managing director of Houlihan Lokey. Since January 1, 2005, Mr. Preiser has served as Chairman of Houlihan Lokey Howard and Zukin Europe, pursuant to which he leads Houlihan Lokey's European investment banking activities. Additionally, Mr. Preiser continues to hold the position of managing partner of Sunrise Capital Partners L.P., a distressed private equity fund affiliated with Houlihan Lokey since 1998, the investment strategy of which is to invest in bankrupt companies and turn-around situations. From 1990, Mr. Preiser had been active in coordinating Houlihan Lokey's real estate and financial restructuring activities as a managing director. Mr. Preiser is also a director of Jos. A. Bank Clothiers, Inc., Akrion, Inc., and AIT Holding Company, LLC.

George E. Slye has been a director since September 30, 1993. Mr. Slye's term as a director expires at the 2008 Annual Meeting and he is not standing for reelection.

John M. Toups has been a director since September 30, 1993. Prior to his retirement, Mr. Toups held various management positions with Planning Research Corporation from 1970 through 1987, for which he was chief executive officer from 1978 to 1987 and chairman from 1982 to 1987. He is also a director of Halifax Corporation, GTSI, Inc., Dewberry & Davis and Willdan Group, Inc.

Paul W. Whetsell has been a director since March 1, 2007. Mr. Whetsell has been the chairman of the board of Interstate Hotels and Resorts, Inc. (Interstate) since August 1998 and the president and chief executive officer of Capstar Hotel Company since 2006. From August 1998 until October 2003, he also served as the chief executive officer of Interstate and its predecessor. From August 1998 until May 2006, Mr. Whetsell served as the chairman and chief executive officer of Meristar Hospitality Corporation.

Board Independence

Our Board has established Director independence standards to assist us in determining director independence, the standards of which meet the independence requirements of the New York Stock Exchange's (NYSE) corporate governance listing standards (our common stock is listed on the NYSE). Our independence standards are included within our Corporate Governance Guidelines, which are available on our website at <http://www.nvrinc.com>, and as mentioned above, are available in print to any shareholder upon written request. Our Board considers all relevant facts and circumstances in making an independence determination. As required by the rules of the NYSE, to be considered independent under our independence standards, a director must be determined, by a resolution of our Board, to have no material relationship with us (other than as a director) directly or indirectly.

Our Board has affirmatively determined that Messrs. Andrews, Bartlett, Butler, Donahue, Johnson, Preiser, Toups, Slye and Whetsell are independent pursuant to our independent standards and, other than Mr. Andrews and Toups, have no relationship, material or otherwise, with us, directly or indirectly. Mr. Schar, our Executive Chairman, and Mr. Moran, an existing director who controls a company from which we acquire a small portion of our finished lots upon which to build our homes, have been determined by our Board not to be independent.

When our Board met to analyze the independence of its members, it analyzed two transactions that it considered immaterial to the independence of the director involved:

Mr. Toups is a director of Dewberry & Davis (Dewberry), a privately held professional services firm that provides engineering, surveying and environmental sciences services. Previously, the independent members of our Board (with Mr. Toups abstaining) authorized us to obtain services in the ordinary course of business from Dewberry, the services of which included engineering and surveying of certain finished lots upon which we build our homes. We obtained services from Dewberry during 2007.

Mr. Andrews is a director of Six Flags, Inc. (Six Flags), a publicly traded amusement park company. Previously, the independent members of our Board authorized us to incur services in the ordinary course of business from Six Flags. In 2007, we paid Six Flags \$20,000 for such services.

Board Committees

Audit Committee

We have a separately designated standing Audit Committee comprised of four members, each of whom satisfies the independence standards specified above and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (1934 Act). All current members of our Audit Committee are financially literate and are able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. Our Board has determined that Manuel H. Johnson, our current Audit Committee Chairman, qualifies as an audit committee financial expert as defined within Section 229-401(h) of the 1934 Act. This designation does not impose on Mr. Johnson any duties, obligations or liability that are any greater than are generally imposed on him as a member of our Audit Committee and our Board, and his designation as an audit committee financial expert pursuant to this Securities and Exchange Commission (SEC) requirement does not affect the duties, obligations or liability of any other member of our Audit Committee or our Board.

Our Audit Committee operates pursuant to a charter adopted by our Board that is available at <http://www.nvrinc.com>, and which is available in print to any shareholder upon written request. As enumerated in the Charter, our Audit Committee was established to assist our Board s oversight of (1) the integrity of our accounting and financial reporting processes, (2) our compliance with legal and regulatory requirements, (3) our independent external auditor s qualifications and independence, and (4) the performance of our internal audit function and of our independent external auditors. Among other things, our Audit Committee prepares the Audit Committee Report for inclusion in our proxy statement; annually reviews our Audit Committee Charter and the Audit Committee s performance; appoints, evaluates and determines the compensation of our independent external auditors; maintains written procedures for the receipt, retention and treatment of complaints on accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters; reviews substantiated complaints received from internal and external sources regarding accounting, internal accounting controls or auditing matters; and reviews reports from management regarding significant accounting, internal accounting controls, auditing, legal and regulatory matters. Our Audit Committee has the authority and available funding to engage any independent legal counsel and any accounting or other expert advisors, as our Audit Committee deems necessary to carry out its duties.

Compensation Committee

We have a separately designated standing Compensation Committee comprised of five members, each of whom satisfies our independence standards specified above. Our Compensation Committee operates pursuant to a charter adopted by our Board that is available at <http://www.nvrinc.com>, and which is available in print to any shareholder upon written request.

Description of Duties

Among other things, our Compensation Committee (1) reviews and determines all compensation of our Executive Chairman and our Chief Executive Officer (CEO) and, based in part on the recommendation of the Executive Chairman and the CEO, of all of our other executive officers; (2) periodically reviews and makes recommendations to the Board with respect to the compensation of our directors; (3) administers and interprets incentive compensation and stock option plans for our employees (except as otherwise described below); (4) assists in preparing the Compensation Discussion and Analysis and prepares our Compensation Committee Report for inclusion in our annual meeting proxy statement in accordance with applicable rules and regulations of the SEC; (5) makes recommendations to our Board about succession planning for our CEO, and in conjunction with the CEO, also considers succession planning for other of our key positions; (6) reviews and approves any employment agreements, or amendments thereto, with our Executive Chairman, CEO and other applicable executive officers; and (7) annually reviews our Compensation Committee Charter and the Compensation Committee s performance.

The Compensation Committee charter provides that the Committee may delegate its authority to one or more members of the Committee. Any person to whom authority is delegated must report any actions taken by him or her to the full Committee at its next regularly scheduled meeting. During 2007, the Compensation Committee did not delegate any of its authority to any individual member(s) of the Committee.

The Committee s charter also provides that the Compensation Committee may delegate to a senior executive officer of NVR the authority to grant options to non-executive employees, within limits prescribed by the full Board of Directors. Any options granted by a senior executive officer pursuant to delegated authority must be reported to the Compensation Committee at its next regularly scheduled meeting. Our Compensation Committee, by resolution, delegated authority to either Mr. Schar or Mr. Saville, and the Senior Vice President of Human Resources, jointly, to grant options to new and existing employees below the executive officer rank during 2007. The Senior Vice President of Human Resources was required to report any options granted pursuant to this delegated authority to the Compensation Committee at their next scheduled meeting after the delegated authority was exercised. We do not have a program, plan or practice in place to grant options in coordination with the release of material non-public information.

For a discussion of the role of Mr. Schar and Mr. Saville in recommending the amount or form of compensation paid to our named executive officers during 2007, see the Compensation Discussion and Analysis below.

Compensation Consultants

Pursuant to its charter, the Compensation Committee has the sole authority and available funding to obtain advice and assistance from compensation consultants, as well as internal or outside legal, accounting or other expert advisors, that it determines necessary to carry out its duties. We do not engage compensation consultants to set executive officer compensation each year. Rather, we engage consultants on an as needed basis as determined by our Compensation Committee. In 2007, we engaged Hewitt Associates to assist us in formulating the terms and structure of a long term incentive plan for adoption in 2008. Other than this assistance, Hewitt did not determine or recommend the amount or form of executive compensation during 2007.

Compensation Committee Interlocks and Insider Participation

During 2007, our compensation committee was comprised of Mr. Toups, Mr. Donahue, Mr. Johnson, Mr. Preiser and Mr. Whetsell, all of who are independent directors. None of our executive officers served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or our Compensation Committee; accordingly, there were no interlocks with other companies within the meaning of the SEC's proxy rules during 2007.

Nominating Committee

We have a separately designated standing Nominating Committee comprised of four members, each of whom satisfies our independence standards specified above. The Nominating Committee operates pursuant to a charter adopted by the Board that is available at <http://www.nvrinc.com>, and which is available in print to any shareholder upon request.

Among other things, the Nominating Committee (1) identifies individuals qualified to become Board members; (2) recommends that our Board select the director nominees for the next annual meeting of shareholders; (3) recommends to our Board names of individuals to fill any vacancies on our Board that arise between annual meetings of shareholders; (4) considers from time to time our Board committee structure and makeup; and (5) annually reviews our Nominating Committee Charter and the Nominating Committee's performance. Our Nominating Committee also has the sole authority and appropriate funding to obtain advice and assistance from executive search firms, and internal or outside legal, accounting or other expert advisors that it determines necessary to carry out its duties.

Attached as Appendix A are our Policies and Procedures for the Consideration of Board of Directors Candidates, including nominations submitted by our security holders. This material is also available at <http://www.nvrinc.com>. These policies and procedures include minimum qualifications for director nominees and the process for identifying and evaluating director nominees.

Corporate Governance Committee

We have a separately designated standing Corporate Governance Committee comprised of five members, each of whom satisfies our independence standards specified above. The Corporate Governance Committee operates pursuant to a charter adopted by our Board that is available at <http://www.nvrinc.com>. Our Corporate Governance Guidelines are also available at <http://www.nvrinc.com>. Each of these documents is available in print to any shareholder upon written request.

Among other things, the Corporate Governance Committee (1) develops and recommends to our Board a set of corporate governance principles; (2) annually reviews and assesses the adequacy of our Corporate Governance Guidelines, including ensuring that they reflect best practices where appropriate; and (3) annually reviews our Corporate Governance Committee Charter and the Corporate Governance Committee's performance. Our Corporate Governance Committee must obtain Board approval for funding to obtain advice and assistance from internal or outside legal, accounting or other expert advisors that it determines necessary to carry out its duties.

Qualified Legal Compliance Committee

Our Qualified Legal Compliance Committee (QLCC) is a separately designated standing committee, currently consisting of all of the members of our Audit Committee. It was established to assist our Board in fulfilling its responsibilities relating to oversight of legal compliance by our employees and us and to meet the requirements for a qualified legal compliance committee under Part 205 of the rules of the SEC (the Part 205 Rules). The composition of the QLCC is intended to comply with all independence requirements under the Part 205 Rules. Our QLCC operates pursuant to a charter adopted by our Board and is available at <http://www.nvrinc.com>, and is also available in print to any shareholder upon written request. Our QLCC annually reviews the QLCC Charter and the QLCC s performance.

Our QLCC has adopted written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation of securities laws or material breach of fiduciary duty or similar material violation by us, or our directors, officers, employees or agents (Material Violation) under the Part 205 Rules, and has the authority and responsibility (1) to inform our chief legal officer (CLO), CEO and chief financial officer (CFO) of any report of evidence of a Material Violation; (2) to determine whether an investigation is necessary regarding any report of evidence of a Material Violation and; (3) if our QLCC determines an investigation is necessary or appropriate, initiate such investigation; (4) to obtain a written report from our CLO or outside counsel conducting any such investigation at the investigation s conclusion; (5) to recommend, by majority vote, that we implement an appropriate response to evidence of a Material Violation and inform our Board, CEO, CLO and CFO of the results of any such investigation and the appropriate remedial measures to be adopted; and (6) acting by majority vote, to take all other appropriate action, including the authority to notify the SEC in the event that we fail in any material respect to implement an appropriate response that our QLCC has recommended that we take. Our QLCC has the authority and available funding to engage any independent legal counsel, accounting or other expert advisors as our QLCC deems necessary to carry out its duties.

Executive Committee

Our Executive Committee was established pursuant to our Bylaws to have such powers, authority and responsibilities as may be determined by a majority of our Board of Directors. Our Executive Committee has never met, nor has our Board ever delegated any powers, authority or responsibilities to the Executive Committee. Our Board of Directors intends to continue the practice of considering corporate matters outside the scope of our other existing Board committees at the full Board level.

Security Holder Communications with the Board of Directors

Our Policies and Procedures Regarding Security Holder Communications with the NVR, Inc. Board of Directors are available at <http://www.nvrinc.com>. This same policy is applicable to any interested party wanting to communicate to the non-management directors or Mr. Johnson, who is the lead independent director for 2008 meetings of our independent directors.

Transactions With Related Persons

During the year ended December 31, 2007, we entered into forward lot purchase agreements to purchase finished building lots for a total purchase price of approximately \$53,000,000 with Elm Street Development, Inc. (Elm Street), which is controlled by Mr. Moran. The independent members of our Board approved these transactions, and we expect to purchase these finished lots over the next three years at the contract prices. During 2007, NVR also purchased 186 developed lots at market prices from Elm Street for approximately \$37,000,000. Also during 2007, NVR terminated two forward lot purchase agreements entered into with Elm Street prior to 2007 and forfeited \$663,200 in lot deposits as liquidated damages.

During 2007, two of Mr. Saville's adult children, who both live independent of him, purchased homes from us for \$733,000 and \$285,000, respectively. The price and the terms of the sales were no less favorable than those that would have been entered into with an unrelated third party, and our independent Directors approved the sales.

During 2007, Mr. Bartlett's adult child, who lives independent of him, purchased one of our homes for \$343,000. The price and the terms of the sale were no less favorable than those that would have been entered into with an unrelated third party, and our disinterested, independent Directors approved the sale.

During 2007, two of Mr. Inman's adult children, who both live independent of him, entered into sales contracts to purchase two of our homes for \$760,000 and \$787,000, respectively. The sales are expected to close in 2008. The price and the terms of the sales were no less favorable than those that would have been entered into with an unrelated third party, and our independent Directors approved the sales.

During 2007, we had a marketing and promotional arrangement with certain entities controlled by or affiliated with the Washington Redskins National Football League franchise (the Redskins). Mr. Schar is a minority owner of the Redskins. Our independent directors approved this arrangement. In total, we incurred \$125,000 under this marketing and promotional arrangement.

Procedures for Approval of Related Person Transactions

All related person transactions affecting us that are potentially disclosable under Item 404(a) of Regulation S-K must be considered, reviewed and approved or ratified by the disinterested, independent directors of our Board, regardless of the type of transaction or amount involved. This requirement is contained within various written documents, including Section 7.05 of our Bylaws (available on our website at <http://www.nvrinc.com>), Sections 1 and 4 of our Code of Ethics (available on our website at <http://www.nvrinc.com>), and our internal Standards of Business Conduct, Human Resource and Financial Policies and Procedures.

Security Ownership of Certain Beneficial Owners and Management

The following tables sets forth certain information as to the beneficial ownership of Common Stock by each person known by us to be the beneficial owner of more than 5% of the outstanding Common Stock as of the dates indicated, and each director, director nominee and executive officer and by all directors and executive officers as a group as of March 3, 2008. Except as otherwise indicated, all shares are owned directly and the owner has sole voting and investment power with respect thereto.

Certain Beneficial Owners

Name and Address of Holder	Number of Shares	Percent of Class
Barclays Global Investors, N.A. 45 Fremont Street San Francisco, CA 94105	717,159(1)	13.6%
Pamet Capital Management, L.P./David Abrams 222 Berkeley Street, 22 nd Floor Boston, MA 02116	388,595(2)	7.4%
Neuberger Berman Inc. 605 Third Avenue New York, NY 10158	311,141(3)	5.9%

(1) Of the shares that were reported within a Schedule 13G filed February 6, 2008, the entity has sole power to vote or direct the vote of 627,201 shares and sole power to dispose or direct the disposition of 717,159 shares.

(2) Of the shares that were reported within a Schedule 13G filed February 13, 2008, the entity has sole power to vote or direct the vote and dispose or direct the disposition of 45 shares and

shared power to vote or direct the vote and dispose or direct the disposition of 388,550 shares.

- (3) Of the shares that were reported within a Schedule 13G filed February 12, 2008, the entity has sole power to direct the vote of 15,279 shares, shared power to direct the vote of 291,840 shares and shared power to dispose or direct the disposition of 311,141 shares.

Directors and Management

Name	Number of Shares	Percent of Class
Dwight C. Schar	498,924(1)	9.3%
C. E. Andrews		
C. Scott Bartlett, Jr.	7,730(2)	*
Robert C. Butler	6,800(3)	*
Timothy M. Donahue	200	*
Manuel H. Johnson	31,465(4)	*
William A. Moran	29,000(5)	*
David A. Preiser	7,550(6)	*
George E. Slye	8,500	*
John M. Toups	22,893(7)	*
Paul W. Whetsell	175	*
William J. Inman	109,012(8)	2.1%
Paul C. Saville	335,312(9)	6.2%
Dennis M. Seremet	77,941(10)	1.5%
Robert W. Henley	3,029(11)	*
All directors, director nominees and executive officers as a group (15 persons).	1,138,531	20.3%

* Less than 1%.

- (1) Includes 100,000 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan, 3,021 vested shares held by the NVR, Inc. Employee Stock Ownership Plan in trust, 242,653 vested shares held in a Deferred Compensation Rabbi Trust, 31,931 shares held as a discretionary investment in the NVR, Inc. Profit Sharing Plan, 1,000 shares owned by his wife and 200 shares owned by his children. Excludes 5,013 shares held in a Deferred Compensation Plan, which are not distributable until six months subsequent to separation of service.
- (2) Includes 5,375 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan and 555 shares owned by

his wife.

- (3) Includes 6,500 vested options issued under the NVR, Inc. 1998 Directors Long Term Stock Option Plan.
- (4) Includes 12,500 vested options issued under the NVR, Inc. 1998 Directors Long Term Stock Option Plan, 8,500 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan and 65 shares owned by his son.
- (5) Includes 4,250 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan.
- (6) Includes 3,500 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan.
- (7) Includes 12,500 vested options issued under the NVR, Inc. 1998 Directors Long Term Stock Option Plan, 8,500 vested

options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan and 43 shares owned by his wife.

- (8) Includes 86,384 vested shares held in a Deferred Compensation Rabbi Trust, 3,135 vested shares held by the NVR, Inc. Employee Stock Ownership Plan in trust, 22 shares held as a discretionary investment in the NVR, Inc. Profit Sharing Plan and 10,000 shares held in a Grantor Retained Annuity Trust.
- (9) Includes 72,500 vested options issued under the 1998 Management Long Term Stock Option Plan, 75,000 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan, 3,135 vested shares held by the NVR, Inc. Employee Stock Ownership Plan

in trust, 4,322 shares held as a discretionary investment in the NVR, Inc. Profit Sharing Plan, 60,000 shares held in a family LLC, 105,883 vested shares held in a Deferred Compensation Rabbi Trust and 2,000 shares owned by his children. Excludes 777 shares held in a Deferred Compensation Plan which are not distributable until six months subsequent to separation of service.

- (10) Includes 7,000 vested options issued under the 1998 Management Long Term Stock Option Plan, 25,000 vested options issued under the NVR, Inc. 2000 Broad-Based Stock Option Plan, 3,017 vested shares held by the NVR, Inc. Employee Stock Ownership Plan in trust, 2,047 shares held as a discretionary investment in

the NVR, Inc.
Profit Sharing
Plan and 40,527
vested shares
held in a
Deferred
Compensation
Rabbi Trust.

- (11) Includes 1,750
vested options
issued under the
NVR, Inc. 2000
Broad-Based
Stock Option
Plan, 1,031
vested shares
held by the
NVR, Inc.
Employee Stock
Ownership Plan
in trust and 248
shares held as a
discretionary
investment in
the NVR, Inc.
Profit Sharing
Plan.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the 1934 Act requires our directors and executive officers and persons who own more than 10% of our Common Stock to file reports of ownership and changes in ownership of such stock with the SEC and the national securities exchange upon which our shares are publicly traded. Directors, executive officers and greater than 10% shareholders are required by SEC regulations to furnish us with copies of all such forms filed. To our knowledge, based solely on a review of the copies of such reports furnished to us during 2007 and written representations that no other reports were required, all directors, executive officers and greater than 10% shareholders complied with all applicable Section 16(a) filing requirements.

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934 OR INCORPORATED BY REFERENCE IN ANY DOCUMENT SO FILED.

Report of the Audit Committee

NVR's Audit Committee is solely comprised of independent directors as defined by our independence standards (see above) and in the applicable SEC rules, and operates pursuant to a charter adopted by our Board, which is available at <http://www.nvrinc.com>.

Our management has primary responsibility for preparing our financial statements and establishing financial reporting systems and internal controls. Management also has the responsibility of reporting on the effectiveness of our internal controls over financial reporting. Our independent external auditor, KPMG LLP, is responsible for expressing opinions on the conformity of our audited financial statements with accounting principles generally accepted in the United States of America and on the effectiveness of our internal control over financial reporting. In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements and management's assessment of the effectiveness of our internal controls over financial reporting with management, and reviewed and discussed KPMG LLP's audit opinions with KPMG LLP;
2. The Audit Committee has discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards (SAS) 61 (*Codification of Statements on Auditing Standards*, AU 380), SAS 99 (*Consideration of Fraud in a Financial Statement Audit*) and SEC rules discussed in Final Releases 33-8183 and 33-8183a;
3. The Audit Committee has received the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committee), and has discussed with KPMG LLP their independence; and
4. Based on the reviews and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC.

The undersigned, constituting all of the members of the Audit Committee, have submitted this report to the Board of Directors.

Manuel H. Johnson (Chairman), C. Scott Bartlett, Jr., Robert C. Butler, and George E. Slye

COMPENSATION DISCUSSION AND ANALYSIS

General Compensation Philosophy and Objectives

Our general compensation philosophy for our named executive officers is to place significant focus on, and reward achievement of, long-term objectives, which is necessary considering the industry in which we operate. Residential real estate projects often take a substantial period of time to mature. A typical community in which we sell and build homes may take anywhere between one year and five years to build out completely. For us to be successful, it is necessary for us to acquire control of land upon which to build our homes from land developers several years in advance of our sales and construction efforts. The homebuilding industry is cyclical and exhibits peaks and troughs over a long-term period. Because we need to effectively manage our business over lengthy project time periods and during different stages of the homebuilding economic cycle, we believe that the bulk of our named executive officers compensation should be predicated upon our long-term results of operations, and not on short-term quarterly or annual measures. We do this by limiting short-term cash compensation opportunities and emphasizing long-term earning opportunities through ownership of our common stock. Specifically, we:

pay cash compensation to our named executive officers based on their positions, and in amounts that we believe to be lower than comparable positions in other publicly traded companies within our industry;

cap the annual cash bonus opportunity of our named executive officers at 100% of their base salary, and do not provide any opportunity to exceed that amount for short-term quarterly or annual performance in excess of our expectation from our business plan; and

issue our named executive officers periodic (though not annual) grants of fixed-price stock options that vest over a long-term vesting schedule. Historically, we have layered our option grants such that each named executive officer has one grant that is within a three- to four-year holding period before vesting begins, and another grant that is actively vesting over a four-year period.

A long-term equity interest in our company by our named executive officers is the major thrust of our philosophy. We believe that providing the bulk of their compensation in the form of fixed price stock options with a long-term vesting schedule is an effective way to retain their services, and the services of all of our other management employees compensated in the same manner, over a long-term period. Additionally, each stock option agreement contains non-compete provisions that protect our interests. Retention of our experienced management team, which includes our named executive officers, has been and will continue to be one of our most key strategic goals in managing our business. To encourage further equity ownership, we give each of our named executive officers, at their choice, the opportunity to defer any salary or annual bonus awards due to them into our deferred compensation plan. All deferred amounts must be invested solely in our common stock and paid out only after separation of service. We also require our named executive officers to continuously hold our common stock with a market value of four to eight times their respective base salaries (see the *Deferred Compensation Plan and Stock Holding Requirement* discussions below, respectively). We believe that fostering a long-term focus through equity compensation and ownership effectively aligns our named executive officers' interest with those of our shareholders.

Fiscal year 2007 represented a difficult year for NVR. As stated above, the homebuilding industry is cyclical and in 2007 NVR, like other U.S. homebuilders, experienced a continuation of a downturn in the U.S. housing market. As a result, the compensation paid to our named executive officers during 2007 generally reflected our current business environment. Base salaries were frozen for 2007, Mr. Schar, our executive Chairman, waived his 2007 salary and bonus opportunity, no annual bonus was paid to three of the four named executive officers eligible for bonus, and no long-term equity grants were made, each as described more fully below. The Compensation Committee, upon the recommendation of Mr. Schar and Mr. Saville, believed this was appropriate given our performance, stock price and resulting shareholder returns during this downturn in our industry.

Compensation Determination Process

As a general matter, Mr. Saville and our Senior Vice President of Human Resources make recommendations to the Compensation Committee, which are generally accepted, with respect to the amount of each element of compensation paid to each named executive officer, other than Mr. Schar and Mr. Saville, during the fiscal year. These recommendations are partially based on salary information for comparable positions at other large, publicly traded homebuilding and mortgage companies, as well as Mr. Saville's subjective assessment of each officer's overall performance during the prior year. The Committee reviews this same salary information, as provided by Mr. Saville and our Senior Vice President of Human Resources, as well as comparative financial measures (our financial and operating performance compared to information publicly-available on our industry peers) for purposes of determining the compensation paid to Mr. Schar and Mr. Saville.

Elements of Compensation

Base Salary

As discussed above and upon the recommendation of Mr. Saville, for 2007, we froze the base salaries at 2006 levels for Messrs. Saville, Seremet, Inman and Henley to reflect the current downturn in the homebuilding industry. In addition, at Mr. Schar's request, we amended his employment agreement on December 21, 2006 to reduce his 2007 base salary and annual bonus opportunity to \$0. On November 6, 2007, and again at Mr. Schar's request, we executed a second amendment to reduce his 2008 base salary and bonus opportunity to \$0, as well.

Annual Cash Bonus

2007 Annual Bonus

The objective of the annual cash bonus portion of the total compensation package is to focus each of the named executive officers on the attainment of annual goals necessary to achieve our five-year business plan. These annual goals are consistent with the current year's portion of our five-year business plan. We have never exercised discretion in awarding bonuses in amounts different, either higher or lower, from the amount calculated by our actual results relative to the preset performance target and attainment ranges. The named executive officers can earn no more than 100% of their base salary as a bonus award, which is earned once the cap is attained. Attainment of greater than the cap has no impact on the amount of the bonus award earned. The annual bonus is payable in cash, and may be deferred at the election of the named executive officer. See the *Deferred Compensation Plans* discussion below.

For 2007, to properly focus the named executive officers on managing the downturn currently being experienced in the homebuilding industry, we added a financial target, increased the threshold and tightened the attainment ranges under the annual cash bonus plan as compared to 2006. The annual bonus opportunity remained capped at 100% of base salary for the named executive officers, with the exception of Mr. Schar, who, as noted above, requested that his bonus opportunity for 2007 be reduced to \$0.

The annual bonus opportunity in 2007 for Mr. Saville, Mr. Seremet and Mr. Henley was based 80% upon our consolidated pre-tax profit (before consolidated annual bonus and stock-based compensation expense but after all other charges) and 20% based on the number of new orders (net of cancellations) that we generated compared to the consolidated pre-tax profit and new orders within our 2007 annual business plan. While our named executive officers have historically had their bonus opportunity tied solely to a consolidated pre-tax profit measure, the new orders measure was added for 2007 to properly focus our named executive officers on driving new orders during the downturn.

Mssrs. Saville and Seremet were to begin earning the consolidated pre-tax profit portion of their annual bonus award once the target was at least 100% attained (the threshold). The full amount of the consolidated pre-tax profit portion of their annual bonus award was to be earned ratably from 100% up to 105% of the target attainment. Mssrs. Saville and Seremet were to begin earning the new orders unit portion of their annual bonus award once the target was at least 85% attained. The full amount of the new orders unit portion of their annual bonus award was to be earned ratably from 85% up to 100% of the target attainment.

Mr. Henley was to begin earning the consolidated pre-tax profit portion of his annual bonus award once the target was at least 80% attained. The full amount of the consolidated pre-tax profit portion of his annual bonus award was to be earned ratably from 80% up to 105% of the target attainment. Mr. Henley was to begin earning the new orders unit portion of his annual bonus award once the target was at least 85% attained. The full amount of the new orders unit portion of his annual bonus award was to be earned ratably from 85% up to 100% of the financial target attainment.

Mr. Inman's annual bonus opportunity in 2007 was based 55% upon our mortgage banking operations pre-tax profit (before annual bonus expense, stock-based compensation expense and certain corporate overhead cost allocations), 25% upon return on invested capital in the mortgage operations and 20% upon our new orders (net of cancellations). Mr. Inman's bonus was based upon these metrics because he is President of NVR Mortgage Finance, Inc. and thus he has primary responsibility for our mortgage operations business. In addition, however, the Committee, as recommended by Mr. Saville, felt it was important for Mr. Inman to be focused on driving new orders as well, similar to the other named executive officers. Mr. Inman began earning the mortgage banking pre-tax profit and return on invested capital portions of his annual bonus award once the target was at least 100% attained. The full amount of the mortgage banking pre-tax profit and return on invested capital portions of his annual bonus award was earned ratably from 100% up to 105% of the target attainment. Mr. Inman began to earn the new orders unit portion of his annual bonus award once the target was at least 85% attained. The full amount of the new orders unit portion of his annual bonus award was earned ratably from 85% up to 100% of the target attainment.

Because we failed to meet any of the thresholds for consolidated pre-tax profit and new orders, Mssrs. Saville, Seremet or Henley did not earn any annual bonus in 2007. Mr. Inman earned approximately 24% of his maximum incentive opportunity. For Mr. Inman's bonus paid for 2007, see the *Non-Equity Incentive Plan Compensation* column of the *Summary Compensation Table* below. See the *Grants of Plan-Based Awards Table* below for the actual performance targets for 2007.

2008 Annual Bonus

We have lead the industry in weathering the homebuilding market downturn. We were one of only two profitable homebuilders for fiscal year 2007 among the top 12 homebuilders on a national level. Despite that, our named executive officers, with the exception of Mr. Inman who has earned less than 50% of his targeted award in each of the past two years, have not earned an annual bonus award in over two years.

Accordingly, for 2008, we are maintaining the same annual bonus performance metrics, but we are adjusting the target achievement ranges for our named executive officers to earn the annual bonus award. The Compensation Committee, upon the recommendation of Mr. Saville, approved lowering the threshold target for the consolidated pre-tax profit metric for Msrs. Saville, Seremet and Henley to 80% from 100%, with the full amount of the consolidated pre-tax profit portion of their annual bonus award to be earned ratably from 80% up to 100% of the target attainment. Similarly, Mr. Inman will begin earning the mortgage banking pre-tax profit and return on invested capital portions of his annual bonus award at 80%, lowered from 100%, with the full amount of the mortgage banking pre-tax profit and return on invested capital portions of his annual bonus award to be earned ratably from 80% up to 100% of the target attainment. The target achievement ranges for the number of new orders remained the same for each named executive officer in 2008 as in 2007 as we want to continue incentivizing the officers to drive new orders as the downturn continues. As noted above, at Mr. Schar's request, he is not eligible for a 2008 annual bonus award.

Fixed Price Stock Options

Prior Stock Option Plans

Historically, the potential single largest component of each named executive officer's total compensation package is realized through the grant of fixed-price stock options, in which most of our management group participates. We believe that the use of stock options is the best performance-based equity vehicle because of our focus on growth in earnings per share, accomplished through both net income growth and the efficient use of capital. Our intent is that the named executive officers only be rewarded when our shareholders realize long-term growth in the price of our stock (we have never paid a dividend). Unless our financial performance over a long-term period drives an increase in our stock price, the options granted provide little or no value to our named executive officers, and if the price of the stock falls below the price at the grant date, the stock option provides no value. Conversely, we do not believe that grants of restricted stock is consistent with our compensation philosophy because restricted stock provides value to the recipient regardless of a company's performance, providing value to an executive even if the stock price drops from the date of grant (unless the stock price falls to \$0).

We do not issue stock option grants annually. Our historical practice has been to structure stock option plans to vest over a long-term period. None of our four most recently approved equity plans had options scheduled to vest within the first four and one-half year period from the grant date. The average length of time for full vesting under these plans is over seven and one half years from the date of grant. In addition, we historically have layered our stock option grants to the executives such that there is one grant actively vesting over a four-year period, and another grant in a four to five year pre-vesting period. Following is a summary of the material terms of the four most recently approved stock option plans:

Term description	1996 Plan	1998 Plan	2000 Plan	2005 Plan
Exercise price	Market value on date of grant	Market value on date of grant	Market value on date of grant	Market value on date of grant
Repricing requires shareholder approval	No	Yes	Yes	Yes
Date options were granted to named executive officers (1)	May 30, 1996	May 26, 1999	May 3, 2001	May 26, 2005
Vesting Determination	Continued employment at vesting dates	Continued employment at vesting dates	Continued employment at vesting dates	Attainment of EPS Target (as defined below), then continued employment at vesting dates
Vesting period for named executive officers	One-third on each of December 31, 2000, 2001 and 2002	One-third on each of December 31, 2003, 2004 and 2005	One-quarter on each of December 31, 2006, 2007, 2008 and 2009	One-quarter on each of December 31, 2010, 2011, 2012, and 2013
Period from grant date to full vesting	Six years and seven months	Six years and seven months	Eight years and eight months	Eight years and seven months

(1) Mr. Seremet and Mr. Henley each received an additional grant of 1,835 options on July 1, 2005 upon their appointment to CFO and Controller, respectively. See the *Outstanding Equity Awards at December 31, 2007 Table* below for the terms of these grants.

The above chart illustrates that we have consistently sought improvements in our equity compensation plans to ensure that the majority of the named executive officers' potential compensation was effectively aligned with our shareholders. For example, all plans implemented after the 1996 Plan require shareholder approval to reprice options.

This feature was added after we independently recognized the importance of shareholder-controlled repricing, and years before the national securities exchanges amended listing rules took effect in 2003 mandating shareholder approval to reprice options. No options granted under the 1996 Plan, however, have ever been repriced. For the 2000 and 2005 Plans, the period from grant date to full vesting was increased by more than two years to almost nine years from the original grant date. We increased the full vesting time period to increase our probability of retaining our experienced managers over a longer time period.

For the 2005 Plan, we revised our option program to require both performance and service-based vesting conditions. The performance requirement was added as a vesting condition to our stock option program to ensure that potential share dilution from stock option exercises only occurred if our performance provided our shareholders with a 10% compound annual return over the four-year measurement period. Under this plan, no option will become exercisable unless a performance target based on growth in diluted earnings per share (the EPS Target) is met. We believe that earnings per share-based compensation incentivizes our executives to grow our operations while maintaining an efficient capital structure. The EPS Target was set at a level that reflected a growth rate in diluted earnings per share of 10% per year for four years, based on our 2004 diluted earnings per share of \$66.42. The actual aggregate EPS Target was set at \$339.00 per share, measured based on the sum of the actual diluted earnings per share results for the four annual periods ending December 31, 2005 through 2008. Per the terms of the 2005 Plan, the EPS Target will not be adjusted for accounting rule changes that subsequently become effective. The service-based vesting condition for the 2005 Plan begins in 2010, with the first 25% installment vesting on December 31, 2010 and the subsequent installments vesting on December 31, 2011, 2012 and 2013 (see further discussion below on the 2005 Plan, which includes our assessment that it is improbable that the EPS Target will be met, and thus, the 2005 Plan is expected to terminate on December 31, 2008). In addition, the 2005 Plan also contains clawback provisions that allow us to recapture realized stock option gains in the event that any holder of an option under the plan, including named executive officers, violates the non-compete provisions contained within the stock option agreement. The clawback provision allows for an eighteen-month look back from the date of any violation.

2008 Stock Option Award

Due to the continued earnings decline resulting from the deterioration in homebuilding market conditions and our expectation that market conditions will not improve in the near term, we have determined that it is improbable that we will achieve the EPS Target included in the 2005 Plan, and thus, it is expected that these contingently issuable options will terminate unvested on December 31, 2008. In addition, the last vesting year under the 2000 Plan is 2009, meaning that without the 2005 Plan, our named executive officers, as well as all of our key management team, will no longer be tied to a long term incentive plan past December 31, 2009. Consistent with our overall compensation philosophy, we believe that an effective long term incentive plan is essential to the retention of our named executive officers and key managers, and is particularly essential currently as we manage through the still challenging homebuilding market. However, we believe that it is unlikely currently that we could obtain shareholder approval to replace the 2005 Plan due to the dilutive effect of our overhang, (overhang being the total outstanding stock options divided by the total outstanding shares). Given these events, the Compensation Committee engaged Hewitt Associates to assist us in developing a short term solution to this long-term incentive issue.

After evaluating several alternatives with Hewitt, we concluded that we would be forced to break with our long-established stock option granting practice. Using the limited number of available unissued shares from existing plans, primarily from the 2000 Plan, we elected to extend the current long-term incentive plan by one year by issuing to our named executive officers and other key managers stock option grants in January 2008 that will vest on December 31, 2010, based on continued employment. We would have preferred to have continued our historical layered approach of granting options such that there is one grant actively vesting over a four-year period, with another grant in a four to five year pre-vesting period (in essence, two plans outstanding at any given time), because we believe that that structure ensures that our executives are focused on driving shareholder value over a long-term period and it has been a highly successful retention vehicle for us. However, we did not have a sufficient number of stock options available to us under existing plans to issue competitive, retentive grants to our executive officers and other key employees beyond 2010. The expected termination of the 2005 Plan required us to select this alternate approach using the limited stock options available to us while we develop future strategies surrounding another long-term incentive plan.

Determining the Size of Option Awards

When issuing option grants under our option plans, including the new 2008 grants described above, to our named executive officers (or to any employee of our company), we first establish a dollar value of the total targeted compensation to be awarded by position. After determining the salary and annual bonus components for a particular year, these amounts are subtracted from the total targeted compensation for the year to drive out the fair value that we

want to transfer to the executive in the form of stock options over the vesting period. On the date of grant, we divide that total stock option fair value dollar amount by the per share fair value, calculated using the Black Scholes Option pricing model, to determine the number of options to award.

Although we consider this approach in determining the number of options to award our named executive officers to be a reasoned approach using a formula that is based on a widely accepted option-pricing model, the ultimate value of the options issued only becomes clear when they are exercised. The stock options may wind up being worthless, or worth much more than the fair value initially estimated. As a result, we do not consider realizable gains from prior stock option grants when setting new grant amounts. We do not believe that it is a fair practice to offset current compensation by realized or unrealized stock option gains several years after the grants have been issued. Our goal is that the nominal gain realized on option exercise exceeds our initial estimate of fair value because gains in excess of the estimated fair value calculated on the grant date are also realized by all of our other shareholders that held our common stock over that time period. We believe that limiting potential upside on option gains provides a disincentive for our named executive officers when focusing on long-term results, as our compensation philosophy dictates.

Stock Option Grant Practices

Our practice is to award option grants to existing employees for new option plans as soon as administratively practicable after the Annual Meeting date at which the shareholders approved the plan. Our Annual Meetings are held in May of each year. The existing-employee grants for the 2000 Plan, which was not a shareholder approved plan, were also issued in May so that we would have consistent grant timing relative to the time of year. The timing of the January 2008 grant was predicated on our recent determination and announcement that the 2005 Plan was expected to terminate due to our failure to achieve the EPS Target. Our Compensation Committee has sole authority to grant options to the named executive officers, and the grant date is the date of Compensation Committee approval of the awards. We only grant stock options once per month to new and existing promoted employees, the date of which is the first of the month following the new hire or effective date (or the first of the following month if the new hire or effective date is after the 20th calendar date in the month). We do not have a program, plan or practice in place to grant options in coordination with the release of material non-public information.

Stock Ownership Guidelines

To complete the linkage between the interests of our senior management with our shareholders, we adopted stock ownership guidelines in 2000. These guidelines require the named executive officers (and certain other members of senior management) to acquire and continuously hold a specified minimum level of our shares for so long as we employ them in their respective positions. The Board of Directors determined the holding requirements for the named executive officers based on a review of the publicly-available stock holding policies for other publicly traded companies within our industry. Under our holding requirements, our named executive officers must acquire and hold shares with a total fair market value ranging from four- to eight-times their annual base salaries depending on position. For 2007, the holding requirements for each of the named executive officers were as follows:

Name	Base Salary	Factor	Dollar Holding Requirement
Dwight C. Schar (1)	\$1,500,000	8	\$12,000,000
Paul C. Saville	\$ 800,000	8	\$ 6,400,000
William J. Inman	\$ 410,000	4	\$ 1,640,000
Dennis M. Seremet	\$ 430,000	6	\$ 2,580,000
Robert W. Henley	\$ 187,000	4	\$ 748,000

- (1) As stated above Mr. Schar's employment agreement was amended to reduce his 2007 base salary to \$0. However, his holding requirement remains and is calculated on his minimum base salary per the agreement.

Any named executive officer who does not meet his requirement must retain 50% of the net common stock received from option exercises until the holding requirement is attained. Net common stock received means the common stock received after the payment of the option price and the taxes withheld related to the option exercise. All of the named executive officers are currently in compliance with our stock ownership guidelines.

Personal Benefits

Our named executive officers are entitled to and eligible only for the same fringe benefits for which all of our employees are eligible. We do not have programs in place to provide personal perquisites for any employee. Our healthcare and other insurance programs, including the program's participation costs, are the same for all eligible employees. Our annual discretionary contribution to the NVR Employee Stock Ownership Plan, expressed as a percentage of eligible wages, and our NVR 401(k) matching contribution, is also the same for all eligible employees, subject to all applicable IRS contribution limits and formulas for plans of these types. Further, we do not offer defined benefit pension or supplemental executive retirement plans to any of our employees.

Deferred Compensation Arrangements

We have two deferred compensation plans, which we refer to as plans 1 and 2, respectively, for purposes of this discussion. We provide deferred compensation plans for three reasons: i) to encourage ownership of our common stock in furtherance of our compensation philosophy, ii) to establish a vehicle whereby named executive officers may

defer the receipt of salary and bonus that otherwise would be nondeductible for company tax purposes into a period where we would realize a tax deduction for the amounts paid (see below *Tax Deductibility* discussion), and iii) to enable our named executive officers, and other members of management, to acquire shares of our common stock on a pre-tax basis in order to more quickly meet, and maintain compliance with, the stock holding requirements described above. In addition, the structure of our deferred compensation plans effectively increases the stock holding requirements for certain of our named executive officers, and places the earned compensation at-risk during the executive officer's deferral period. Plan 1, which we adopted December 15, 1999, was closed for new contributions effective December 31, 2004. The named executive officers, solely at their election, may defer 100% of any earned salary or bonus into plan 2, which we adopted December 15, 2005. Stock option gains are prohibited by law from being deferred.

The market value of a named executive officer's deferred compensation accounts is not considered when setting their other current compensation. The compensation earned and deferred was already reviewed and analyzed based on the above-described compensation philosophy and policies at the time the compensation was awarded. Had the executive officer instead elected to receive a payout of the compensation earned, and then invested those amounts externally, we would have no knowledge of and would not have considered external investment experience when considering the amount by which we should compensate the executive officer. Thus, we do not believe it is either proper or necessary to consider the value of the executive officer's deferred compensation account just because it is held in a plan we sponsor and is invested in our stock. In addition, had the amounts deferred been instead paid to the applicable named executive officer when earned (and not deferred until separation of service), we would have lost a substantial tax benefit that we will now receive as a result of the deferral. See the *Nonqualified Deferred Compensation Table* and accompanying narrative below for additional information on our deferred compensation plans.

Change of Control and Severance Payments

Each of our named executive officers, other than Mr. Henley, is party to an employment agreement with us pursuant to which the officer is entitled to severance payments upon certain termination events, including termination following a change in control. Generally, we do not believe that we should pay our named executive officers, or any other employee, any incremental compensation upon termination when the termination is either by choice or due to conduct that is potentially detrimental to NVR. Thus, we do not provide any of our named executive officers any incremental severance benefits, other than any amounts already earned and accrued at the date of termination, if the termination is voluntary (unless due to a change in control of NVR), including voluntary termination upon the election or appointment of a new Chairman and/or CEO.

We do not provide tax gross ups to our named executive officers in connection with any change in control or severance payment.

Change in Control Provisions

Change of control provisions applicable to our named executive officers are either "single trigger", meaning that the change of control event alone triggers either a payment or an acceleration of certain rights, or "double trigger", meaning that the change of control coupled with the officer's termination from service within a certain period of the time after the change in control triggers a payment or accelerated right.

The change of control provision in each applicable named executive officer's employment agreement (i.e., each named executive officer other than Mr. Henley) for the payment of severance is a double trigger. A double trigger for severance payments was selected because, unless the named executive officer's employment is terminated after the change in control, his cash compensation in the form of salary and annual bonus would continue from the acquiring entity, which is what the severance payment is based upon and intended to replace. See the *Narrative Disclosures of Termination and Change in Control Payments* discussion below for additional information on these severance payments.

The change of control provisions in the stock option agreements and the deferred compensation plans are single trigger, reflecting our intent that the named executive officers have the ability to use those shares to vote upon any proposed transaction, and to ensure that the named executive officers receive deferred compensation to which they are entitled. The change of control acceleration provisions are triggered for the 2005 Stock Option Plan regardless of whether the EPS Target (as defined under *Fixed Priced Stock Options* above) has been satisfied.

Severance Payments

Each of the employment agreements provides for a two-month severance benefit upon the applicable named executive officer's termination due to death or disability. This amount reflects what we believe to be a modest transition for the executive or his family for termination events that are sudden and beyond their control. We provide severance benefits of 200% of base salary for terminations without cause or that are voluntary within one year after a change in control. This amount reflects our belief that it is difficult for executive officers to find comparable employment opportunities in a short period of time, particularly after experiencing a termination that was beyond their control. We provide a severance benefit of 100% of base salary upon retirement. We consider the 100% severance payment a nominal reward for length of service given that we do not provide our executives defined benefit or supplemental executive retirement plans.

Accounting Impact and Tax Deductibility of Compensation***Accounting Impact***

We accrue our named executive officers' salaries and bonus awards as an expense when earned by the officer. For our fixed-price stock options, Statement of Financial Accounting Standards 123R, *Share-Based Payment* (SFAS 123R), requires us to recognize compensation expense within our income statement for share-based payment arrangements, which includes employee stock option plans. For plans with a performance condition as a requirement of vesting, compensation cost is recognized if it is probable that the performance criteria will be met. As noted above, during 2007, we determined that it is improbable that we will achieve the performance target on certain outstanding stock option grants, and thus, it is expected that these contingently issuable options will terminate unvested on December 31, 2008. As a result of that determination and pursuant to accounting requirements, during 2007 we reversed all of the compensation expense recognized in prior years related to these option grants. See the *Option Awards* column of the *Summary Compensation Table* below.

Stock-based compensation expense when recognized is based on the grant-date fair value of the options granted, and is recognized ratably over the requisite service period. We adopted SFAS 123R under the modified prospective method. Under the modified prospective method, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006, as well as to the unvested portion of awards outstanding as of January 1, 2006. Our stock options are accounted for as equity awards.

Tax Deductibility

Section 162(m) of the Internal Revenue Code limits the corporate deduction for compensation paid to the named executive officers (other than our CFO) to \$1 million unless such compensation qualifies as performance-based compensation. Among other things, Section 162(m) requires approval of the performance-based compensation by our shareholders. We have concluded that the adverse tax impact of paying salaries and bonuses to our Chairman and CEO in excess of that limit were not significant enough to limit the salary and annual bonus amounts awarded. All of the compensation potentially earned by our named executive officers under our stock option plans qualifies as performance based under 162(m), except for grants issued under the 2000 Plan, which was not shareholder approved.

**THE FOLLOWING REPORT OF THE COMPENSATION COMMITTEE SHALL NOT BE
DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933
OR THE SECURITIES EXCHANGE ACT OF 1934 OR INCORPORATED BY REFERENCE
IN ANY DOCUMENT SO FILED.**

Report of the Compensation Committee

The Compensation Committee hereby reports as follows:

1. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with NVR's management; and
2. Based on the review and discussion referred to in paragraph 1, the Compensation Committee recommended to the Board, and the Board has approved, that the Compensation Discussion and Analysis be included in our 2008 proxy statement to be incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the Securities and Exchange Commission.

The undersigned, constituting all of the members of the Compensation Committee during 2007, have submitted this report to the Board of Directors.

John M. Toups (Chairman), Timothy M. Donahue, Manuel H. Johnson, David A. Preiser and Paul W. Whetsell

* * * * *

2007 SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Option Awards (\$ (1))	Non-Equity Incentive		Total (\$)
				Plan Compensation (\$)	All Other Compensation (\$ (2))	
Dwight C. Schar Chairman of the Board	2007	\$ 0	\$4,139,226		\$ 0	\$4,139,226
	2006	\$1,500,000	\$6,751,746		\$9,300	\$8,261,046
Paul C. Saville Principal Executive Officer	2007	\$ 800,000	\$ 735,797		\$ 7,250	\$1,543,047
	2006	\$ 800,000	\$3,348,317		\$9,300	\$4,157,617
William J. Inman President, NVR Mortgage Finance, Inc.	2007	\$ 410,000	\$ 158,182	\$ 97,278	\$ 6,750	\$ 672,210
	2006	\$ 410,000	\$1,203,190	\$161,846	\$ 8,800	\$1,783,836
Dennis M. Seremet Principal Financial Officer	2007	\$ 430,000	\$ 49,796		\$ 7,250	\$ 487,046
	2006	\$ 430,000	\$1,311,576		\$9,300	\$1,750,876
Robert W. Henley VP and Controller	2007	\$ 187,000	\$ (65,340)		\$ 5,610	\$ 127,270
	2006	\$ 187,000	\$ 255,932		\$ 8,800	\$ 451,732

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- (1) The amounts disclosed represent the stock option compensation expense that we recognized in our financial statements for each of the named executive officers during 2007 and 2006 in accordance with SFAS123(R), disregarding any estimate of forfeitures relating to service-based vesting conditions. The total charge includes stock option grants issued to each of the named executive officers on May 3, 2001 and May 26, 2005, and stock option grants issued on July 1, 2005 to Mr. Seremet and Mr. Henley.

For the May 3, 2001 stock option grants, the fair value valuation assumptions are as follows: i) the estimated option life is 10 years, ii) the risk free interest rate was 5.5% (based on a U.S. Treasury Strip due in a number of years equal to the stock option term), iii) the expected volatility equals 42.4%, and iv) the estimated dividend yield is 0%.

For the May 26, 2005 stock option grants, the fair value valuation assumptions are as follows: i) the tranche-weighted estimated option life is 8.8 years, ii) the risk free interest rate was 4.0% (based on a U.S. Treasury Strip due in a number of years equal to the stock option term), iii) the expected volatility equals 34%, and iv) the estimated dividend yield is 0%.

For the July 1, 2005 stock option grants, the fair value valuation assumptions are as follows: i) the tranche-weighted estimated option life is 8.8 years, ii) the risk free interest rate was 4.1% (based on a U.S. Treasury Strip due in a number of years equal to the estimated option life), iii) the expected volatility equals 34%, and iv) the estimated dividend yield is 0%.

The May 26 and July 1, 2005 option grants were issued under a performance-based plan based on growth in diluted earnings per share (the EPS Target). The EPS Target is set at a level that reflects a growth rate in diluted earnings per share of 10% per year for four years, based on our 2004 diluted earnings per share of \$66.42. The aggregate EPS Target is \$339.00 per share, measured based on the sum of the actual diluted earnings per share results for the four annual periods ending December 31, 2005 through 2008. See the *Fixed Price Stock Options* section of the *Compensation Discussion and Analysis* above. Due to the continued earnings decline resulting from the deterioration in homebuilding market conditions and our expectation that market conditions will not improve in the near term, we determined that it is improbable that we will achieve the EPS Target, and thus, it is expected that these contingently issuable options will terminate unvested on December 31, 2008. As a result of that determination and pursuant to accounting requirements, during 2007, we reversed all of the compensation expense recognized in prior years related to these grants. The amounts in the above table for 2007 include the following:

Name	Expense Related to May 3, 2001 Grant	Expense Reversal Related to May 26 and July 1, 2005 Grants	Total
Dwight C. Schar	\$5,445,486	\$(1,306,260)	\$4,139,226
Paul C. Saville	\$2,042,057	\$(1,306,260)	\$ 735,797
William J. Inman	\$ 680,686	\$ (522,504)	\$ 158,182
Dennis M. Seremet	\$ 680,686	\$ (630,890)	\$ 49,796
Robert W. Henley	\$ 95,296	\$ (160,636)	\$ (65,340)

(2) For each executive, the all other compensation amounts for 2007 include amounts contributed by us on their behalf to our Employee Stock Ownership Plan (ESOP), which is a defined contribution plan, for the 2007 plan year, in the following amounts: For Mssrs. Schar, Saville, Inman,

Seremet and
Henley, the
amounts
contributed
equaled \$0,
\$6,750, \$6,750,
\$6,750 and
\$5,610,
respectively.
For Mssrs.
Saville and
Seremet, the
amounts
reported for
2007 also
includes a \$500
matching
contribution
made by us
pursuant to our
401(K) plan.

2007 Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$)(1)	
		Target	Maximum
Dwight C. Schar (2)	02/15/07	\$ 0	\$ 0
Paul C. Saville (2)	02/15/07	\$ 800,000	\$ 800,000
William J. Inman (2)	02/15/07	\$ 410,000	\$ 410,000
Dennis M. Seremet (2)	02/15/07	\$ 430,000	\$ 430,000
Robert W. Henley (2)	02/15/07	\$ 187,000	\$ 187,000

(1) Amounts in this table pertain to our 2007 annual bonus plan. See the *Annual Cash Bonus* section in our *Compensation Discussion and Analysis* above and the *Narrative to Summary Compensation Table and Grants of Plan-based Awards* below.

(2) At Mr. Schar's request, he did not participate in the annual bonus plan in 2007. Messrs. Saville, Seremet and Henley earned no annual bonus in 2007. Mr. Inman earned \$97,278 for his 2007 annual bonus, as set forth in the

*Non-Equity
Incentive Plan
Compensation*
column of the
*Summary
Compensation
Table* above.
See the
*Narrative to
Summary
Compensation
Table and
Grants of
Plan-based
Awards Table*
below.

Narrative Disclosure to Summary Compensation and Grants of Plan-Based Awards Tables

Employment Agreements

We have entered into employment agreements with each of our named executive officers, except Mr. Henley. The agreements were entered into on July 1, 2005, and continue through January 1, 2011. As discussed above in our Compensation Discussion and Analysis, Mr. Schar's agreement was amended on December 21, 2006 to reduce his 2007 salary and bonus opportunity to \$0. On November 6, 2007, Mr. Schar executed a second amendment to his employment agreement to reduce his 2008 salary and bonus opportunity to \$0. Any of the agreements can be extended if both the executive and NVR mutually agree to extend the term. The full agreements were filed as exhibits 10.1, 10.2, 10.3, and 10.4 to a Form 8-K filed with the SEC on June 28, 2005. Mr. Schar's December 21, 2006 amendment was filed as exhibit 10.1 to a Form 8-K filed with the SEC on December 22, 2006, and his November 6, 2007 amendment was filed as exhibit 10.1 to a Form 8-K filed with the SEC on November 7, 2007. The three Forms 8-K can be found on the SEC's website at www.sec.gov.

Other than the applicable named executive officers' titles, minimum base salary amounts and NVR stock holding requirements, the material terms in each agreement are essentially the same and cover:

Minimum base salaries:

Mr. Schar	\$1,500,000(a)
Mr. Saville	\$ 650,000
Mr. Inman	\$ 390,000
Mr. Seremet	\$ 400,000

- (a) Effective January 1, 2006, Mr. Schar requested, and the Compensation Committee granted, a \$500,000 reduction to his annual base salary to reflect his changed duties after the successful transition of his CEO responsibilities to Mr. Saville. As discussed above, on December 21, 2006, we amended Mr. Schar's employment agreement at his request to permanently reduce his base salary to \$1,500,000 and to reduce his 2007 salary and bonus opportunity to \$0. A second amendment was executed on November 6, 2007 to reduce his 2008 salary and bonus opportunity to \$0. For all other computational purposes in his employment agreement, i.e., his stock holding requirement and severance benefits, the \$1,500,000 minimum base salary specified in the amendment is used;

Annual bonus eligibility up to 100% of base salary based on criteria determined by our Compensation Committee (see *Compensation Discussion and Analysis - Annual Cash Bonus* above);

Eligibility to participate in our benefit plans at identical participation costs offered to all of our employees eligible to participate in those plans;

Eligibility to have reasonable business expenses reimbursed, subject to reimbursement policies to which all of our employees are subject equally;

The requirement of a continuous NVR stock holding requirement, as set forth under the *Stock Ownership Guidelines* section of the *Compensation Discussion and Analysis* above;

Severance payments due under various termination scenarios (see *Potential Payments Upon Termination or Change of Control* below for additional information);

Covenants for the applicable named executive officers not to compete with us (see *Potential Payments Upon Termination or Change of Control* below for additional information); and

Extension of our indemnification to the executives during the performance of their duties to the fullest extent permitted by the laws of the Commonwealth of Virginia.

2007 and 2006 Compensation

For Messrs. Schar, Saville, Seremet and Henley, all of the cash compensation earned was in the form of base salary during 2007 and 2006. As noted above, none of the executive officers received a salary increase in 2007 from their 2006 base salary, and Mr. Schar voluntarily elected to forgo his salary in 2007. Further, we did not grant any stock options to the named executive officers during 2007 or 2006 (see *Compensation Discussion and Analysis - Fixed Price Stock Options* above).

For a discussion of the general terms and objectives behind our 2007 annual cash bonus plan, see *Compensation Discussion and Analysis Annual Cash Bonus* above. With respect to the specific performance targets established under the 2007 annual bonus plan, the consolidated pre-tax profit target was \$912,632,000. For Mssrs. Saville and Seremet, the 105% maximum at which 100% of that portion of their annual bonus was to be fully earned was \$958,264,000, and the 80% threshold at which Mr. Henley's annual bonus was to be ratably earned was \$730,106,000. Our actual 2007 consolidated pre-tax profit was \$578,965,000. The 2007 new orders target (net of cancellations) for Mssrs. Saville, Seremet and Henley was 15,375 units, with the 85% threshold was 13,069 units. Our actual 2007 new orders were 12,270 units. As a result and as described in the *Compensation Discussion and Analysis*, Mssrs. Saville, Seremet and Henley earned no annual bonus in 2007.

With respect to Mr. Inman's 2007 annual bonus, the 2007 mortgage banking operation's pre-tax profit target was \$60,044,000, with the 105% maximum at which 100% of that portion of the annual bonus was fully earned being \$63,047,000. The actual 2007 mortgage banking operation's pre-tax profit was \$61,339,000, resulting in 43.1% being earned for the 55% portion of Mr. Inman's mortgage banking operation pre-tax profit award. The 2007 target mortgage banking operation's return on invested capital was 183.6%, with the 105% maximum at which 100% of that portion of the annual bonus was fully earned being 192.8%. The actual 2007 mortgage banking operation's return on invested capital was 179.9%, resulting in 0% being earned for the 25% portion of Mr. Inman's mortgage banking operation return on invested capital award. Mr. Inman also earned 0% of the 20% portion of his annual bonus award measured on new orders (net of cancellations). In the aggregate, Mr. Inman earned 23.7% of his base annual salary, or \$97,278, calculated as follows: $\$410,000 \times [(55\% \times 43.1\%) + (25\% \times 0\%) + (20\% \times 0\%)]$.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2007

Name	Number of Securities Underlying Unexercised Options (#) Exerciseable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:	Option Exercise Price (\$)	Option Expiration Date
			Number of Securities Underlying Unexercised Options (#) Unearned		
Dwight C. Schar:					
2000 Option Plan (a)	100,000	200,000		\$189.00	05/02/11
2005 Option Plan (b)			25,000	\$737.00	05/25/15
Paul C. Saville:					
1998 Option Plan (c)	72,500			\$47.625	05/25/09
2000 Option Plan (a)	75,000	75,000		\$189.00	05/02/11
2005 Option Plan (b)			25,000	\$737.00	05/25/15
William J. Inman:					
2000 Option Plan (a)	12,500	25,000		\$189.00	05/02/11
2005 Option Plan (b)			10,000	\$737.00	05/25/15
Dennis M. Seremet:					
1998 Option Plan (c)	7,000			\$47.625	05/25/09
2000 Option Plan (a)	25,000	25,000		\$189.00	05/02/11
2005 Option Plan (b)			10,000	\$737.00	05/25/15
2005 Option Plan (d)			1,835	\$810.00	06/30/15
Robert W. Henley:					
2000 Option Plan (a)	1,750	3,500		\$189.00	05/02/11
2005 Option Plan (b)			1,000	\$737.00	05/25/15

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2005 Option Plan (d)	1,835	\$810.00	06/30/15
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- (a) These options were granted on May 3, 2001. The exercise price of the options was equal to the market value of the underlying stock on the date of grant. Twenty-five percent of the options vest on each of December 31, 2006, 2007, 2008 and 2009, with vesting based solely upon continued employment.

- (b) These options were granted on May 26, 2005. The exercise price of the options was equal to the market value of the underlying stock on the date of the respective grants. The options vest in twenty-five percent increments in each of 2010, 2011, 2012 and 2013 if the EPS Target (as defined in footnote 1 to the *2007 Summary Compensation Table* above) is achieved at the end of 2008 and contingent on continued employment. None of the options granted under the 2005 Stock Option Plan will become exercisable, other than in the case of a change in control (see the *Narrative Disclosure of Termination and Change in Control Payments* below), unless we satisfy the EPS Target. In 2007, we determined that it is improbable that we will achieve the EPS Target, and thus, it is expected that these contingently issuable options will terminate unvested on December 31, 2008.
- (c) These options were granted on May 26, 1999 and are fully-vested. The exercise price of the options was equal to the market value of the underlying stock on the date of grant.
- (d) These options were granted on July 1, 2005, the date that Mr. Seremet was promoted to chief financial officer and Mr. Henley assumed the position of controller. The exercise price of the options was equal to the market value of the underlying stock on the date of grant. The options vest in 25% increments in each of 2010, 2011, 2012 and 2013 if the EPS Target (see explanation in (b) above) is achieved at the end of 2008 and contingent on continued employment. None of the options granted under the 2005 Stock Option Plan will become exercisable, other than in the case of a change in control (see the *Narrative Disclosure of Termination and Change in Control Payments* below) unless we satisfy the EPS Target. In 2007, we determined that it is improbable that we will achieve the EPS Target, and thus, it is expected that these contingently issuable options will terminate unvested on December 31, 2008.

* * * * *

2007 OPTION EXERCISES AND STOCK VESTED

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)
Dwight C. Schar	100,000	\$49,850,000
Paul C. Saville	5,000	\$ 3,886,875
William J. Inman	12,500	\$ 8,162,500
Dennis M. Seremet	10,000	\$ 7,134,950
Robert W. Henley	4,250	\$ 2,699,350

- (1) The value realized is calculated based on the difference between the market price of NVR common stock on the date of exercise

and the
respective
exercise price,
multiplied by
the number of
shares
exercised.

2007 NON-QUALIFIED DEFERRED COMPENSATION TABLE

Name	Executive	Registrant	Aggregate	Aggregate	Aggregate
	Contributions	Contributions	Earnings	Withdrawals/	Balance at Last
	in	in Last	(Loss) in Last	Distributions	FYE
	Last FY	FY	FY		
	(\$)	(\$)	(\$) (a)	(\$)	(\$)
Dwight C. Schar:					
Plan 1 (b)			\$ (29,361,013)		\$ 127,150,172
Plan 2 (c)			\$ (606,589)		\$ 2,626,976
Paul C. Saville:					
Plan 1 (d)			\$ (12,811,843)		\$ 55,482,692
Plan 2 (e)			\$ (93,986)		\$ 407,016
William J. Inman:					
Plan 1 (f)			\$ (10,452,464)		\$ 45,265,216
Dennis M. Seremet:					
Plan 1 (g)			\$ (4,903,767)		\$ 21,236,148
Robert W. Henley					

- (a) Represents unrealized earnings/(losses) of the market value of the NVR common stock held in the respective officer's deferred compensation account. We have never paid dividends.
- (b) Mr. Schar deferred a total of \$30,171,848 of earned compensation, all of which was previously reported by us in prior years' Summary Compensation Tables within our proxy statements.
- (c) The amounts were voluntarily deferred by Mr. Schar in 2006 and include his \$2,000,000 annual bonus for 2005 that was due to be paid to him in cash on March 15, 2006, and \$1,476,520 of his 2006 salary, which was deferred equally in monthly installments as his annual salary was due and payable. We reported the 2005 annual bonus in our 2006 proxy statement, and the amount deferred from his 2006 salary is included in the Summary Compensation Table above.
- (d) Mr. Saville deferred a total of \$15,995,411 of earned compensation, all of which was previously reported by us in prior years' Summary Compensation Tables within our proxy statements.
- (e) The amount was voluntarily deferred by Mr. Saville in 2006 and includes his \$600,000 annual bonus for 2005 that was due to be paid to him in cash on March 15, 2006. We reported the 2005 annual bonus in our 2006 proxy statement.
- (f) Mr. Inman deferred a total of \$12,274,639 of earned compensation, all of which was previously reported by us in prior years' Summary Compensation Tables within our proxy statements.
- (g) Mr. Seremet deferred a total of \$7,334,970 of earned compensation, all of which was previously reported by us in prior years' Summary Compensation Tables within our proxy statements.

Narrative to the 2007 Non-Qualified Deferred Compensation Table

We have two deferred compensation plans, which we refer to as plans 1 and 2, respectively, for purposes of this discussion. Plan 1, which we adopted on December 15, 1999, is closed for new contributions effective December 31, 2004. Each of the named executive officers, solely at their election, may defer 100% of any earned salary or bonus

into plan 2, which we adopted December 15, 2005. Stock option gains are prohibited by law from being deferred.

Amounts deferred are invested in a fixed number of shares of our common stock, which is purchased on the open market at fair market value. This is the only investment choice for the named executive officers. All amounts placed in the deferred compensation plan are amounts already due to the named executive officer; we do not make employer contributions to their accounts. Further, earnings on deferred amounts solely represent appreciation/(depreciation) of the market value of the NVR shares of common stock held. We do not provide for a minimum return or guarantee a minimum payout amount. These are at risk investments. The shares of our common stock held in each named executive officer's account are distributed to the named executive officer upon expiration of the deferral period. The deferral period expires for Plan 1 at the named executive officer's termination of employment, and expires for Plan 2 six months after the named executive officer's termination of employment.

NARRATIVE DISCLOSURES OF TERMINATION AND CHANGE OF CONTROL PAYMENTS

Our named executive officers are eligible to receive certain termination and/or change in control payments and acceleration rights under certain of the compensation arrangements that they hold with us. These payments and acceleration rights are contained within the executive officers' employment agreements, employee stock option agreements and deferred compensation plan agreements.

Employment Agreements

As noted in the *Narrative Disclosure to the Summary Compensation Table*, we employ Messrs. Schar, Saville, Inman and Seremet pursuant to employment agreements (Mr. Henley does not have an employment agreement with us). The agreements cover the additional payments that would be due to these individuals in the following termination scenarios: 1) death, 2) disability, 3) retirement, 4) cause, 5) without cause, 6) voluntary, 7) voluntary within one year after a change in control, and 8) voluntary upon the election or appointment of a new Chairman and/or CEO accompanied by a change in business philosophy. The terms are identical in each of the agreements.

As noted above, Mr. Schar amended his employment agreement on December 21, 2006 to forgo his 2007 salary and 2007 bonus opportunity. The amendment specified that for purposes of calculating any severance benefits under the employment agreement that Mr. Schar would be deemed to have a \$1,500,000 annual salary.

Severance payments under the various terminations scenarios are summarized below.

Termination Events

Death or Disability. The applicable named executive officer is entitled to receive in a lump sum two months of his then annual base salary and accrued pro-rated annual bonus, assuming that the maximum of 100% of base salary is earned for the period ending on the last calendar day of the second calendar month following the month in which the death or disability occurred. Assuming a December 31, 2007 termination event for death or disability, payments would be as follows:

Name	Salary Due	Bonus Due	Total Due
Dwight C. Schar	\$250,000	\$250,000	\$500,000
Paul C. Saville	\$133,333	\$133,333	\$266,666
William J. Inman	\$ 68,333	\$ 68,333	\$136,666
Dennis M. Seremet	\$ 71,667	\$ 71,667	\$143,334

Retirement. Upon retirement, the applicable named executive officer is entitled to receive, in 12 monthly installments, an amount equal to 100% of his then annual base salary and any accrued pro-rated annual bonus, assuming that the maximum of 100% of base salary is earned and the annual bonus being paid at the same time that all of our other employees are paid their annual bonus. Assuming a December 31, 2007 termination event in connection with retirement, payments would be as follows:

Name	Salary Due	Bonus Due	Total Due
Dwight C. Schar	\$ 1,500,000	\$ 1,500,000	\$ 3,000,000
Paul C. Saville	\$ 800,000	\$ 800,000	\$ 1,600,000
William J. Inman	\$ 410,000	\$ 410,000	\$ 820,000
Dennis M. Seremet	\$ 430,000	\$ 430,000	\$ 860,000

Cause. The applicable named executive officers are not entitled to receive any payments after the date of termination for cause. Termination for cause is a termination due to:

the officer being convicted of any felony, other crime involving moral turpitude, or any crime or offense which results in his incarceration for more than three months;

gross misconduct in connection with the performance of his duties as described within the employment agreement; or

the officer materially breaching affirmative or negative covenants or undertakings described in the employment agreement, such as the agreement's non-compete provisions.

Without cause. The applicable named executive officer is entitled to receive, in 12 monthly installments, an amount equal to 200% of his then annual base salary. In addition, we would provide the executive with up to \$60,000 of outplacement services. Assuming a December 31, 2007 termination event without cause, payments would be as follows:

Name	Salary Due	Outplacement Due	Total Due
Dwight C. Schar	\$ 3,000,000	\$ 60,000	\$ 3,060,000
Paul C. Saville	\$ 1,600,000	\$ 60,000	\$ 1,660,000
William J. Inman	\$ 820,000	\$ 60,000	\$ 880,000
Dennis M. Seremet	\$ 860,000	\$ 60,000	\$ 920,000

Voluntary.

The applicable named executive officer is not entitled to receive any payments after the date of termination.

2011

OPERATING ACTIVITIES:

Net income	\$	423,930	\$	312,766
Adjustment for loss from discontinued operations		73		388
Income from continuing operations		424,003		313,154
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		272,404		228,450
Provision for bad debt		2		3
Stock-based compensation		13,300		9,114
Other		134		3
Gain on sale of investment securities				(913)
Income from asset sales		(14,365)		(10,262)

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Deferred income tax expense	144,729	155,630
Change in assets and liabilities-		
Accounts receivable	(143,809)	13,442
Inventories	(16,012)	(6,204)
Prepaid expenses and other	(41,287)	(7,040)
Accounts payable	(13,899)	(14,379)
Accrued liabilities	(7,768)	15,247
Deferred income taxes	(326)	209
Other noncurrent liabilities	(4,055)	377
Net cash provided by operating activities from continuing operations	613,051	696,831
Net cash used in operating activities from discontinued operations	(73)	(388)
Net cash provided by operating activities	612,978	696,443
INVESTING ACTIVITIES:		
Capital expenditures	(774,243)	(493,776)
Proceeds from sale of investment securities		3,932
Proceeds from asset sales	31,838	21,738
Acquisition of TerraVici Drilling Solutions		(4,000)
Net cash used in investing activities	(742,405)	(472,106)
FINANCING ACTIVITIES:		
Proceeds from line of credit		10,000
Payments on line of credit		(20,000)
Repurchase of common stock	(71,404)	
Increase in bank overdraft	3,955	4,844
Dividends paid	(22,620)	(19,222)
Exercise of stock options	2,374	13,734
Tax withholdings related to net share settlements of restricted stock	(1,514)	
Excess tax benefit from stock-based compensation	3,256	11,352
Net cash used in financing activities	(85,953)	708
Net increase (decrease) in cash and cash equivalents	(215,380)	225,045
Cash and cash equivalents, beginning of period	364,246	63,020
Cash and cash equivalents, end of period	\$ 148,866	\$ 288,065

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

NINE MONTHS ENDED JUNE 30, 2012

(Unaudited)

(in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
Balance, September 30, 2011	107,243	\$ 10,724	\$ 210,909	\$ 2,954,210	\$ 98,908	157	\$ (4,704)	\$ 3,270,047
Comprehensive Income:								
Net income				423,930				423,930
Other comprehensive income:								
Change in value on available-for-sale securities					20,745			20,745
Amortization of net periodic benefit costs-net of actuarial gain					1,635			1,635
Total comprehensive income								446,310
Cash dividends (\$0.21 per share)								
Exercise of stock options	303	31	5,100	(22,537)		47	(2,757)	2,374
Tax benefit of stock-based awards, including excess tax benefits of \$3,526			4,220					4,220
Stock issued for vested restricted stock, net of shares withheld for employee taxes	41	4	(2,485)			(51)	967	(1,514)
Repurchase of common stock						1,748	(77,610)	(77,610)
Stock-based compensation			13,300					13,300
Balance, June 30, 2012	107,587	\$ 10,759	\$ 231,044	\$ 3,355,603	\$ 121,288	1,901	\$ (84,104)	\$ 3,634,590

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the use of the terms the Company, we, us and our in these Notes to Consolidated Condensed Financial Statements refers to Helmerich & Payne, Inc. and its consolidated subsidiaries.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2011 Annual Report on Form 10-K and other current filings with the Commission. In the opinion of management, all adjustments, consisting of those of a normal recurring nature, necessary to present fairly the results of the periods presented have been included. The results of operations for the interim periods presented may not necessarily be indicative of the results to be expected for the full year.

As more fully described in our 2011 Annual Report on Form 10-K, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met.

2. Discontinued Operations

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and met the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, operations from the Venezuelan subsidiary, an operating segment within the International Land segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements.

Summarized operating results from discontinued operations are as follows:

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Revenue	\$	\$	\$	\$
Loss before income taxes		(18)	(2)	(393)
Income tax provision			(81)	(5)
Loss from discontinued operations	\$	(18)	\$ (2)	\$ (388)

Significant categories of assets and liabilities from discontinued operations are as follows:

	June 30, 2012	September 30, 2011
	(in thousands)	
Other current assets	\$ 7,578	\$ 7,529
Total assets	\$ 7,578	\$ 7,529
Current liabilities	\$ 5,156	\$ 4,979
Noncurrent liabilities	2,422	2,550
Total liabilities	\$ 7,578	\$ 7,529

Other current assets consist of restricted cash to meet remaining in-country current obligations. Liabilities consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

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3. Earnings per Share

Accounting Standards Codification (ASC) 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. We have granted and expect to continue to grant restricted stock grants to employees that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

Basic earnings per share is computed utilizing the two-class method and is calculated based on weighted-average number of common shares outstanding during the periods presented.

Diluted earnings per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options and nonvested restricted stock.

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The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	\$ 149,943	\$ 109,828	\$ 424,003	\$ 313,154
Loss from discontinued operations	(18)	(2)	(73)	(388)
Net income	149,925	109,826	423,930	312,766
Adjustment for basic earnings per share:				
Earnings allocated to unvested shareholders	(606)	(332)	(1,612)	(931)
Numerator for basic earnings per share:				
From continuing operations	149,337	109,496	422,391	312,223
From discontinued operations	(18)	(2)	(73)	(388)
	149,319	109,494	422,318	311,835
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	7	5	22	17
Numerator for diluted earnings per share:				
From continuing operations	149,344	109,501	422,413	312,240
From discontinued operations	(18)	(2)	(73)	(388)
	\$ 149,326	\$ 109,499	\$ 422,340	\$ 311,852
Denominator:				
Denominator for basic earnings per share - weighted-average shares	107,016	106,962	107,196	106,501
Effect of dilutive shares from stock options and restricted stock	1,409	1,822	1,602	2,049
Denominator for diluted earnings per share - adjusted weighted-average shares	108,425	108,784	108,798	108,550
Basic earnings per common share:				
Income from continuing operations	\$ 1.40	\$ 1.02	\$ 3.94	\$ 2.93
Loss from discontinued operations				
Net income	\$ 1.40	\$ 1.02	\$ 3.94	\$ 2.93
Diluted earnings per common share:				
Income from continuing operations	\$ 1.38	\$ 1.01	\$ 3.88	\$ 2.87
Loss from discontinued operations				
Net income	\$ 1.38	\$ 1.01	\$ 3.88	\$ 2.87

The following shares attributable to outstanding equity awards were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive (in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	755		446	323

Shares excluded from calculation of diluted earnings per share

Weighted-average price per share	\$	54.86	\$	\$	59.68	\$	47.94
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4. Inventories

Inventories consist primarily of replacement parts and supplies held for use in our drilling operations.

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5. Financial Instruments and Fair Value Measurement

The estimated fair value of our available-for-sale securities, reflected on our Consolidated Condensed Balance Sheets as Investments, is based on market quotes. The following is a summary of available-for-sale securities, which excludes investments in limited partnerships carried at cost and assets held in a Non-qualified Supplemental Savings Plan:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Equity securities June 30, 2012	\$ 129,183	\$ 236,337	\$	\$ 365,520
Equity securities September 30, 2011	\$ 129,183	\$ 203,486	\$	\$ 332,669

On an on-going basis, we evaluate the marketable equity securities to determine if any decline in fair value below original cost is other-than-temporary. If a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis established. We review several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities used in determining realized gains and losses is based on the average cost basis of the security sold. We had no sales of marketable equity available-for-sale securities during the first nine months of fiscal 2012 and 2011.

Investments in limited partnerships carried at cost were approximately \$9.4 million at June 30, 2012 and September 30, 2011. The estimated fair value of the limited partnerships was \$16.9 million and \$15.8 million at June 30, 2012 and September 30, 2011, respectively. During the third quarter ended June 30, 2011, we sold our investment in a limited partnership realizing a gain of \$0.9 million that is included in gain on sale of investment securities in the Consolidated Condensed Statements of Income.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair market value which totaled \$7.7 million at June 30, 2012 and \$5.9 million at September 30, 2011.

The majority of cash equivalents are invested in taxable and non-taxable money-market mutual funds. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of those investments.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use the fair value hierarchy established in ASC 820-10 to measure fair value to prioritize the inputs:

- Level 1 Observable inputs that reflect quoted prices in active markets for identical assets or liabilities in active markets.

- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Valuations based on inputs that are unobservable and not corroborated by market data.

At June 30, 2012, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets and money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency we have elected to classify as restricted that is included in current assets of discontinued operations and limited to remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2012, financial instruments utilizing level 2 inputs include a bank certificate of deposit included in other current assets.

Currently, we do not have any financial instruments utilizing Level 3 inputs.

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The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of June 30, 2012:

	Total Measure at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents	\$ 148,866	\$ 148,866	\$	\$
Equity securities	365,520	365,520		
Other current assets	48,909	48,659	250	
Other assets	2,000	2,000		
Total assets measured at fair value	\$ 565,295	\$ 565,045	\$ 250	\$

The following information presents the supplemental fair value information about fixed-rate debt at June 30, 2012 and September 30, 2011:

	June 30, 2012	September 30, 2011
	(in thousands)	
Carrying value of fixed-rate debt	\$ 350.0	\$ 350.0
Fair value of fixed-rate debt	\$ 365.9	\$ 376.9

The fair value for fixed-rate debt was estimated using cash flows discounted at rates reflecting current interest rates at similar maturities plus a credit spread which was estimated using market information on debt instruments with a similar credit profile to us. The debt was valued using a Level 2 input.

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6. Comprehensive Income

Comprehensive income, net of related income taxes, is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 149,925	\$ 109,826	\$ 423,930	\$ 312,766
Other comprehensive income:				
Unrealized appreciation (depreciation) on securities	(61,257)	(25,037)	32,851	133,424
Income taxes	23,185	9,389	(12,106)	(50,033)
	(38,072)	(15,648)	20,745	83,391
Minimum pension liability adjustments	862	751	2,588	2,251
Income taxes	(306)	(282)	(953)	(845)
	556	469	1,635	1,406
Total comprehensive income	\$ 112,409	\$ 94,647	\$ 446,310	\$ 397,563

The components of accumulated other comprehensive income, net of related income taxes, are as follows (in thousands):

	June 30, 2012	September 30, 2011
Unrealized appreciation on securities	\$ 146,871	\$ 126,126
Unrecognized actuarial loss and prior service cost	(25,583)	(27,218)
Accumulated other comprehensive income	\$ 121,288	\$ 98,908

7. Cash Dividends

The \$0.07 cash dividend declared March 7, 2012, was paid June 1, 2012. On June 6, 2012, a cash dividend of \$0.07 per share was declared for shareholders of record on August 15, 2012, payable August 31, 2012. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

8. Stock-Based Compensation

On March 2, 2011, the 2010 Long-Term Incentive Plan (the 2010 Plan) was approved by our stockholders. The 2010 Plan, among other things, authorizes the Board of Directors to grant nonqualified stock options, restricted stock awards and stock appreciation rights to selected employees

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and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire ten years after the grant date. There were 455,900 nonqualified stock options and 243,600 shares of restricted stock awards granted in the nine months ended June 30, 2012. We have the right to satisfy option exercises from treasury shares and from authorized but unissued shares.

A summary of compensation cost for stock-based payment arrangements recognized in general and administrative expense is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Compensation expense				
Stock options	\$ 2,314	\$ 1,696	\$ 7,345	\$ 5,509
Restricted stock	2,228	1,274	5,955	3,605
	\$ 4,542	\$ 2,970	\$ 13,300	\$ 9,114

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STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the nine months ended June 30, 2012 and 2011:

	2012	2011
Risk-free interest rate	1.0%	1.9%
Expected stock volatility	53.3%	51.6%
Dividend yield	0.4%	0.5%
Expected term (in years)	5.5	5.5

Risk-Free Interest Rate. The risk-free interest rate is based on U.S. Treasury securities for the expected term of the option.

Expected Volatility Rate. Expected volatility is based on the daily closing price of our stock based upon historical experience over a period which approximates the expected term of the option.

Dividend Yield. The expected dividend yield is based on our current dividend yield.

Expected Term. The expected term of the options granted represents the period of time that they are expected to be outstanding. We estimate the expected term of options granted based on historical experience with grants and exercises.

A summary of stock option activity under the Plan for the three and nine months ended June 30, 2012 is presented in the following table:

Options	Shares (in thousands)	Three Months Ended June 30, 2012		Aggregate Intrinsic Value (in millions)
		Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	
Outstanding at April 1, 2012	4,739	\$ 29.58		
Granted	3	47.29		
Exercised	(22)	21.26		
Forfeited/Expired	(19)	49.30		
Outstanding at June 30, 2012	4,701	\$ 29.55	5.1	\$ 74.1
Vested and expected to vest at June 30, 2012	4,661	\$ 29.53	5.1	\$ 73.6

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Exercisable at June 30, 2012 3,587 \$ 24.67 4.1 \$ 68.2

Options	Nine Months Ended June 30, 2012	
	Shares (in thousands)	Weighted- Average Exercise Price
Outstanding at October 1, 2011	4,589	\$ 25.84
Granted	456	59.68
Exercised	(303)	16.96
Forfeited/Expired	(41)	42.04
Outstanding at June 30, 2012	4,701	\$ 29.55

The weighted-average fair value of options granted in the first quarter of fiscal 2012 was \$27.75. The weighted-average fair value of options granted in the third quarter of fiscal 2012 was \$20.69. No options were granted in the second quarter of fiscal 2012.

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The total intrinsic value of options exercised during the three and nine months ended June 30, 2012 was \$0.6 million and \$11.8 million, respectively.

As of June 30, 2012, the unrecognized compensation cost related to stock options was \$14.6 million which is expected to be recognized over a weighted-average period of 2.8 years.

RESTRICTED STOCK

Restricted stock awards consist of our common stock and are time vested over three to six years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards under the 2010 Plan is determined based on the closing price of our shares on the grant date. As of June 30, 2012, there was \$15.6 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 2.8 years.

A summary of the status of our restricted stock awards as of June 30, 2012 and changes in restricted stock outstanding during the nine months then ended is presented below:

Restricted Stock Awards	Nine Months Ended June 30, 2012	
	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at October 1, 2011	323	\$ 42.38
Granted	244	59.76
Vested (1)	(119)	40.21
Forfeited	(18)	49.47
Unvested at June 30, 2012	430	\$ 52.53

(1) The number of restricted stock awards vested includes shares that we withheld on behalf of our employees to satisfy the statutory tax withholding requirements.

9. Debt

At June 30, 2012 and September 30, 2011, we had the following unsecured long-term debt outstanding (in thousands):

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	June 30, 2012	September 30, 2011
Unsecured intermediate debt issued August 15, 2002:		
Series C, due August 15, 2012, 6.46%	\$ 75,000	\$ 75,000
Series D, due August 15, 2014, 6.56%	75,000	75,000
Unsecured senior notes issued July 21, 2009:		
Due July 21, 2012, 6.10%	40,000	40,000
Due July 21, 2013, 6.10%	40,000	40,000
Due July 21, 2014, 6.10%	40,000	40,000
Due July 21, 2015, 6.10%	40,000	40,000
Due July 21, 2016, 6.10%	40,000	40,000
	\$ 350,000	\$ 350,000
Less long-term debt due within one year	115,000	115,000
Long-term debt	\$ 235,000	\$ 235,000

The intermediate unsecured debt outstanding at June 30, 2012 matures over a period from August 2012 to August 2014 and carries a weighted-average interest rate of 6.53 percent, which is paid semi-annually. The terms require that we maintain a minimum ratio of debt to total capitalization of less than 55 percent. The debt is held by various entities, including \$3 million held by a company affiliated with one of our Board members.

We have \$200 million senior unsecured fixed-rate notes that mature over a period from July 2012 to July 2016. Interest on the notes is paid semi-annually based on an annual rate of 6.10 percent. We will make five equal annual principal repayments of \$40 million, the first of which was made July 20, 2012. We have complied with our financial covenants which require us to maintain a funded leverage ratio of less than 55 percent and an interest coverage ratio (as defined) of not less than 2.50 to 1.00.

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During the second quarter of fiscal 2012, five stand-by letters of credit totaling \$3.0 million were issued by a bank on behalf of the Company to support customs and transportation guaranties that were required to move a rig between two international locations. At June 30, 2012, two of these stand-by letters of credit, totaling \$0.6 million remained outstanding. During the third quarter of fiscal 2012, a bank issued a \$0.2 million letter of credit on behalf of the Company to guarantee payment of certain expenses incurred by an international transportation vendor. The \$0.2 million was also outstanding at June 30, 2012.

On May 25, 2012, we entered into an agreement with a multi-bank syndicate for a \$300 million unsecured revolving credit facility that will mature May 2017. We anticipate that the majority of any borrowings under the facility will accrue interest at a spread over the London Interbank Offered Rate (LIBOR). We will also pay a commitment fee based on the unused balance of the facility. Borrowing spreads as well as commitment fees are determined according to a scale based on a ratio of our total debt to total capitalization. The LIBOR spread ranges from 1.125 percent to 1.75 percent per annum and commitment fees range from .15 percent to .35 percent per annum. Based on our debt to total capitalization on June 30, 2012, the LIBOR spread and commitment fees would be 1.125 percent and .15 percent, respectively. Financial covenants in the facility require us to maintain a funded leverage ratio (as defined) of less than 50 percent and an interest coverage ratio (as defined) of not less than 3.00 to 1.00. The credit facility contains additional terms, conditions, restrictions, and covenants that we believe are usual and customary in unsecured debt arrangements for companies of similar size and credit quality. As of June 30, 2012, there were no borrowings or letters of credit outstanding.

Our \$400 million senior unsecured credit facility matured in December 2011 and was allowed to expire. During the first fiscal quarter of 2012, we funded two collateral trusts totaling \$26.1 million and terminated two letters of credit. The two collateral trusts are classified as restricted cash and are included in prepaid expense and other in the Consolidated Condensed Balance Sheet at June 30, 2012.

10. Income Taxes

Our effective tax rate for the first nine months of fiscal 2012 and 2011 was 36.2 percent and 37.2 percent, respectively. Our effective tax rate for the three months ended June 30, 2012 and 2011 was 35.1 percent and 36.5 percent, respectively. The effective rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign taxes.

For the next 12 months, we cannot predict with certainty whether we will achieve ultimate resolution of any uncertain tax position associated with our international operations that could result in increases or decreases of our unrecognized tax benefits. However, we believe it is reasonably possible that the reserve for uncertain tax positions may increase by approximately \$7.0 million to \$9.0 million during the next 12 months due to an international matter.

11. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$271.3 million are outstanding at June 30, 2012.

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Various legal actions, the majority of which arise in the ordinary course of business, are pending. We maintain insurance against certain business risks subject to certain deductibles. None of these legal actions are expected to have a material adverse effect on our financial condition, cash flows or results of operations.

We are contingently liable to sureties in respect of bonds issued by the sureties in connection with certain commitments entered into by us in the normal course of business. We have agreed to indemnify the sureties for any payments made by them in respect of such bonds.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation, or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. We account for gain contingencies in accordance with the provisions of ASC 450, *Contingencies*, and, therefore, we do not record gain contingencies and recognize income until realized. As discussed in Note 2, Discontinued Operations, property and equipment of our Venezuelan subsidiary was seized by the Venezuelan government on June 30, 2010. Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. (*Petroleo*) and PDVSA Petroleo, S.A. (*PDVSA*). Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract. Additionally, we are participating in an arbitration against a third party not affiliated with the Venezuelan government, *Petroleo* or *PDVSA* in an attempt to collect an aggregate \$50 million relating to the seizure of our property in Venezuela. While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may receive, if any, or the likelihood of recovery. No gain contingencies are recognized in our Consolidated Financial Statements.

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Subsequent to June 30, 2012, we signed an agreement to settle an arbitration dispute with an additional third party not affiliated with the Venezuelan government, Petroleo or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$7.5 million were received subsequent to June 30, 2012 and will be recorded as discontinued operations in the Consolidated Statement of Income in the fourth quarter of fiscal 2012.

12. Segment Information

We operate principally in the contract drilling industry. Our contract drilling business includes the following reportable operating segments: U.S. Land, Offshore, and International Land. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to large oil and gas exploration companies. Our primary international areas of operation include Colombia, Ecuador, Argentina, Tunisia, Bahrain and other South American countries. The International Land operations have similar services, have similar types of customers, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, we have aggregated our international operations into a single reportable segment. Each reportable segment is a strategic business unit which is managed separately. Other includes non-reportable operating segments. Revenues included in Other consist primarily of rental income. Consolidated revenues and expenses reflect the elimination of all material intercompany transactions.

We evaluate segment performance based on income or loss from operations (segment operating income) before income taxes which includes:

- revenues from external and internal customers
- direct operating costs
- depreciation and
- allocated general and administrative costs

but excludes corporate costs for other depreciation, income from asset sales and other corporate income and expense.

Certain general and administrative costs are allocated to the segments based primarily on specific identification and, to the extent that such identification is not practical, on other methods which we believe to be a reasonable reflection of the utilization of services provided.

Segment operating income is a non-GAAP financial measure of our performance, as it excludes general and administrative expenses, corporate depreciation, income from asset sales and other corporate income and expense. We consider segment operating income to be an important supplemental measure of operating performance by presenting trends in our core businesses. We use this measure to facilitate period-to-period comparisons in operating performance of our reportable segments in the aggregate by eliminating items that affect comparability between periods. We believe that segment operating income is useful to investors because it provides a means to evaluate the operating performance of the segments on an ongoing basis using criteria that are used by our internal decision makers. Additionally, it highlights operating trends and aids analytical comparisons. However, segment operating income has limitations and should not be used as an alternative to operating income or loss, a performance measure determined in accordance with GAAP, as it excludes certain costs that may affect our operating performance in future periods.

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Summarized financial information of our reportable segments for the nine months ended June 30, 2012, and 2011, is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2012				
Contract Drilling:				
U.S. Land	\$ 1,983,369	\$	\$ 1,983,369	\$ 670,349
Offshore	135,830		135,830	29,742
International Land	192,305		192,305	13,240
	2,311,504		2,311,504	713,331
Other	10,851	629	11,480	(5,782)
	2,322,355	629	2,322,984	707,549
Eliminations		(629)	(629)	
Total	\$ 2,322,355	\$	\$ 2,322,355	\$ 707,549

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2011				
Contract Drilling:				
U.S. Land	\$ 1,511,649	\$	\$ 1,511,649	\$ 499,482
Offshore	150,022		150,022	33,420
International Land	169,689		169,689	16,186
	1,831,360		1,831,360	549,088
Other	11,783	627	12,410	(5,044)
	1,843,143	627	1,843,770	544,044
Eliminations		(627)	(627)	
Total	\$ 1,843,143	\$	\$ 1,843,143	\$ 544,044

Summarized financial information of our reportable segments for the three months ended June 30, 2012, and 2011, is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2012				
Contract Drilling:				
U.S. Land	\$ 706,786	\$	\$ 706,786	\$ 235,684
Offshore	41,617		41,617	7,720
International Land	67,482		67,482	6,275
	815,885		815,885	249,679
Other	3,900	209	4,109	(2,161)
	819,785	209	819,994	247,518
Eliminations		(209)	(209)	
Total	\$ 819,785	\$	\$ 819,785	\$ 247,518

External Inter- Total

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(in thousands)	Sales	Segment	Sales	Segment Operating Income (Loss)
June 30, 2011				
Contract Drilling:				
U.S. Land	\$ 539,372	\$	\$ 539,372	\$ 176,832
Offshore	54,569		54,569	12,944
International Land	46,051		46,051	(624)
	639,992		639,992	189,152
Other	4,103	208	4,311	(2,078)
	644,095	208	644,303	187,074
Eliminations		(208)	(208)	
Total	\$ 644,095	\$	\$ 644,095	\$ 187,074

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The following table reconciles segment operating income per the table above to income from continuing operations before income taxes as reported on the Consolidated Condensed Statements of Income.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Segment operating income	\$ 247,518	\$ 187,074	\$ 707,549	\$ 544,044
Income from asset sales	1,862	3,488	14,365	10,262
Corporate general and administrative costs and corporate depreciation	(16,725)	(16,144)	(51,695)	(44,897)
Operating income	232,655	174,418	670,219	509,409
Other income (expense):				
Interest and dividend income	329	903	1,021	1,573
Interest expense	(2,411)	(3,221)	(7,293)	(13,185)
Gain on sale of investment securities		913		913
Other	309	(190)	288	208
Total other income (expense)	(1,773)	(1,595)	(5,984)	(10,491)
Income from continuing operations before income taxes	\$ 230,882	\$ 172,823	\$ 664,235	\$ 498,918

The following table presents total assets by reportable segment.

	June 30, 2012	September 30, 2011
	(in thousands)	
Total assets		
U.S. Land	\$ 4,288,724	\$ 3,719,387
Offshore	145,921	151,656
International Land	421,331	333,142
Other	34,341	35,076
	4,890,317	4,239,261
Investments and corporate operations	620,406	757,101
Total assets from continued operations	5,510,723	4,996,362
Discontinued operations	7,578	7,529
	\$ 5,518,301	\$ 5,003,891

The following table presents revenues from external customers by country based on the location of service provided.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Operating revenues				

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United States	\$	751,387	\$	587,307	\$	2,113,479	\$	1,641,929
Colombia		19,046		16,797		58,371		55,372
Ecuador		15,178		9,105		41,753		29,222
Argentina		13,845		9,121		37,953		34,019
Other foreign		20,329		21,765		70,799		82,601
Total	\$	819,785	\$	644,095	\$	2,322,355	\$	1,843,143

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13. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2012 and 2011 related to the Company-sponsored domestic defined benefit pension plan.

Components of Net Periodic Benefit Cost

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Interest cost	\$ 1,103	\$ 1,116	\$ 3,309	\$ 3,348
Expected return on plan assets	(1,293)	(1,185)	(3,878)	(3,555)
Recognized net actuarial loss	863	751	2,587	2,251
Net pension expense	\$ 673	\$ 682	\$ 2,018	\$ 2,044

Employer Contributions

We contributed \$8.2 million to the Pension Plan during the nine months ended June 30, 2012. This contribution meets our minimum contribution required by law. We do not expect to make additional contributions during the fourth quarter of fiscal 2012.

14. Risk Factors

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

15. Recently Issued Accounting Standards

On October 1, 2011, we adopted the provisions of Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* requiring a reconciliation of purchases, sales, issuance, and settlements of financial instruments valued with a Level 3 method, which is used to price the hardest to value instruments. The adoption had no impact on the Consolidated Financial Statements.

On May 12, 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 is intended to create consistency between U.S. GAAP and International Financial Reporting Standards (IFRS) on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. ASU No. 2011-04 will be effective for financial statements issued for fiscal periods beginning after December 15, 2011, with early adoption prohibited for public entities. We do not expect the adoption of these provisions to have a material impact on the Consolidated Financial Statements.

On June 16, 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 was issued to increase the prominence of other comprehensive income (OCI) in financial statements. The guidance provides two options for presenting OCI. An OCI statement can be included with the net income statement, which together will make a statement of total comprehensive income. Alternatively, an OCI statement can be separate from a net income statement but the two statements will have to appear consecutively within a financial report. ASU No. 2011-05 will be applied retrospectively and is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the method of presentation and the timing of adoption but the adoption will have no impact on the Consolidated Financial Statements.

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16. Stock Repurchases

The Company has authorization from the Board of Directors for the repurchase of up to four million shares per calendar year. The repurchases may be made using our cash and cash equivalents or other available sources. During the nine months ended June 30, 2012, we purchased 1,747,819 treasury shares at an aggregate cost of \$77.6 million of which \$6.2 million did not settle until after June 30, 2012.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

June 30, 2012

RISK FACTORS AND FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and related notes included elsewhere herein and the Consolidated Financial Statements and notes thereto included in our 2011 Annual Report on Form 10-K. Our future operating results may be affected by various trends and factors which are beyond our control. These include, among other factors, fluctuations in natural gas and crude oil prices, early termination of drilling contracts, forfeiture of early termination payments under fixed term contracts due to sustained unacceptable performance, unsuccessful collection of receivables, inability to procure key rig components, failure to timely deliver rigs within applicable grace periods, disruption to or cessation of the business of our limited source vendors or fabricators, currency exchange losses, expropriation of assets, a sluggish global economy, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in technologies and uncertain business conditions that affect our businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. Our risk factors are more fully described in our 2011 Annual Report on Form 10-K and elsewhere in this Form 10-Q.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Financial Condition and Results of Operations include forward-looking statements. These forward-looking statements are based on various assumptions. We caution that, while we believe such assumptions to be reasonable and make them in good faith, assumptions about future events and conditions almost always vary from actual results. The differences between assumed facts and actual results can be material. We are including this cautionary statement to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or persons acting on our behalf. The factors identified in this cautionary statement are important factors (but not necessarily all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us or persons acting on our behalf. Except as required by law, we undertake no duty to update or revise our forward-looking statements based on changes of internal estimates on expectations or otherwise.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2012 vs. Three Months Ended June 30, 2011

We reported income from continuing operations and net income of \$149.9 million (\$1.38 per diluted share) from operating revenues of \$819.8 million for the third quarter ended June 30, 2012, compared with income from continuing operations and net income of \$109.8 million (\$1.01 per diluted share) from operating revenues of \$644.1 million for the third quarter of fiscal year 2011. Income from continuing operations for the third quarter of fiscal 2012 includes approximately \$1.2 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. Income from continuing operations for the third quarter of fiscal 2011 includes approximately \$2.2 million (\$0.02 per diluted share) of after-tax gains from the sale of assets.

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On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and met the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, operations from the Venezuelan subsidiary, an operating segment within the International Land segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements.

Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. and PDVSA Petroleo, S.A. Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract. Additionally, we are participating in an arbitration against a third party not affiliated with the Venezuelan government, Petroleo or PDVSA in an attempt to collect an aggregate \$50 million relating to the seizure of our property in Venezuela. While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may receive, if any, or the likelihood of recovery. No gain contingencies are recognized in our Consolidated Financial Statements.

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Subsequent to June 30, 2012, we signed an agreement to settle an arbitration dispute with an additional third party not affiliated with the Venezuelan government, Petroleo or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$7.5 million were received subsequent to June 30, 2012 and will be recorded as discontinued operations in the Consolidated Statement of Income in the fourth quarter of fiscal 2012.

Summarized operating results from discontinued operations are as follows:

	Three Months Ended June 30,		
	2012	(in thousands)	2011
Revenue	\$		\$
Loss before income taxes		(18)	(2)
Income tax benefit			
Loss from discontinued operations	\$	(18)	\$ (2)

Significant categories of assets and liabilities from discontinued operations are as follows:

	June 30, 2012	September 30, 2011	
		(in thousands)	
Other current assets	\$	7,578	\$ 7,529
Total assets	\$	7,578	\$ 7,529
Total current liabilities	\$	5,156	\$ 4,979
Total noncurrent liabilities		2,422	2,550
Total liabilities	\$	7,578	\$ 7,529

Other current assets consist of restricted cash to meet remaining in-country current obligations. Liabilities consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

The following tables summarize operations by reportable operating segment for the three months ended June 30, 2012 and 2011. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 12 to the Consolidated Condensed Financial Statements.

Three Months Ended June 30,
2012 **2011**
(in thousands, except days and per day amounts)

U.S. LAND OPERATIONS

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Revenues	\$	706,786	\$	539,372
Direct operating expenses		382,418		289,311
General and administrative expense		7,227		6,330
Depreciation		81,457		66,899
Segment operating income	\$	235,684	\$	176,832
Revenue days		21,977		18,912
Average rig revenue per day	\$	28,096	\$	25,970
Average rig expense per day	\$	13,337	\$	12,748
Average rig margin per day	\$	14,759	\$	13,222
Rig utilization		89%		87%

U.S. Land segment operating income increased to \$235.7 million for the third quarter of fiscal 2012 compared to \$176.8 million in the same period of fiscal 2011. Revenues were \$706.8 million and \$539.4 million in the third quarter of fiscal 2012 and 2011, respectively. Included in U.S. land revenues for the three months ended June 30, 2012 and 2011 are reimbursements for out-of-pocket expenses of \$89.3 million and \$48.2 million, respectively.

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Segment operating income and average rig margin increased in the comparable quarters as rig utilization and average dayrates increased. U.S. land rig utilization increased to 89 percent for the third quarter of fiscal 2012 compared to 87 percent for the third quarter of fiscal 2011. U.S. land rig revenue days for the third quarter of fiscal 2012 were 21,977 compared with 18,912 for the same period of fiscal 2011, with an average of 241.5 and 207.8 rigs working during the third quarter of fiscal 2012 and 2011, respectively. Included in rig revenue and margin per day during the third quarter of fiscal 2012 is approximately \$140 per day of early termination fees.

At June 30, 2012, we had 245 out of 275 existing rigs in the U.S. Land segment that were generating revenue. A new FlexRig under contract was completed and ready for delivery at June 30, 2012. Of the 245 rigs generating revenue, 163 were under fixed term contracts and 82 were working in the spot market. At July 27, 2012, the number of existing rigs under fixed term contracts in the segment decreased to 157 and the number of rigs working in the spot market increased to 84.

	Three Months Ended June 30,	
	2012	2011
	(in thousands, except days and per day amounts)	
<u>OFFSHORE OPERATIONS</u>		
Revenues	\$ 41,617	\$ 54,569
Direct operating expenses	28,972	36,664
General and administrative expense	1,725	1,532
Depreciation	3,200	3,429
Segment operating income	\$ 7,720	\$ 12,944
Revenue days	606	638
Average rig revenue per day	\$ 49,539	\$ 54,417
Average rig expense per day	\$ 32,638	\$ 28,597
Average rig margin per day	\$ 16,901	\$ 25,820
Rig utilization	74%	78%

Offshore revenues include reimbursements for out-of-pocket expenses of \$3.6 million and \$12.8 million for the three months ended June 30, 2012 and 2011, respectively.

Segment operating income and average rig margin per day decreased in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 partly because the rig previously working in Trinidad returned to the U.S. during the second quarter of fiscal 2012 and was idle during the third quarter of fiscal 2012. Additionally, a second rig was on standby during the third quarter of 2012 compared to working all of the third quarter of fiscal 2011.

At June 30, 2012, seven of our nine platform rigs were active. One idle rig is expected to commence operations in the fourth quarter of fiscal 2012. The rig that returned from Trinidad is currently idle.

	Three Months Ended June 30,	
	2012	2011
	(in thousands, except days and per day amounts)	
<u>INTERNATIONAL LAND OPERATIONS</u>		
Revenues	\$ 67,482	\$ 46,051

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Direct operating expenses		52,495		39,131
General and administrative expense		939		825
Depreciation		7,773		6,719
Segment operating income (loss)	\$	6,275	\$	(624)
Revenue days		1,852		1,437
Average rig revenue per day	\$	33,362	\$	29,201
Average rig expense per day	\$	25,658	\$	23,848
Average rig margin per day	\$	7,704	\$	5,353
Rig utilization		77%		65%

International Land segment operating income for the third quarter of fiscal 2012 was approximately \$6.3 million compared to an operating loss of \$0.6 million in the same period of fiscal 2011. Included in International land revenues for the three months ended June 30, 2012 and 2011 are reimbursements for out-of-pocket expenses of \$5.7 million and \$4.1 million, respectively.

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Revenues in the third quarter of fiscal 2012 increased by \$21.4 million compared to the third quarter of fiscal 2011 with utilization increasing to 77 percent from 65 percent. During the current quarter, an average of 20.1 rigs worked compared to an average of 15.6 rigs in the third quarter of fiscal 2011.

Segment operating income and average rig margin per day increased in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 primarily due to an increase in utilization and higher dayrates.

RESEARCH AND DEVELOPMENT

For the three months ended June 30, 2012 and 2011, we incurred \$4.3 million and \$4.4 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

OTHER

General and administrative expenses increased to \$25.6 million in the third quarter of fiscal 2012 from \$24.1 million in the third quarter of fiscal 2011. The increase is primarily due to an increase in stock-based compensation of approximately \$1.6 million due to a higher fair value for options granted in fiscal 2012 compared to the fair value of options granted in fiscal 2011.

Income from asset sales was \$1.9 million in the third quarter of fiscal 2012, compared to \$3.5 million in the same period of fiscal 2011. The decrease of \$1.6 million is primarily due to a reduction in the sale of drill pipe that is used in the ordinary course of business.

Income tax expense increased to \$80.9 million in the third quarter of fiscal 2012 from \$63.0 million in the third quarter of fiscal 2011, primarily due to an increase in operating income. The effective tax rate from continuing operations decreased to 35.1 percent from 36.5 percent for the two comparable quarters primarily due to an increased level of operations in states with a lower income tax rate.

Interest expense was \$2.4 million and \$3.2 million in the third quarter of fiscal 2012 and 2011, respectively. Capitalized interest, all attributable to our rig construction, was \$3.2 million and \$2.2 million for the comparable quarters.

Nine Months Ended June 30, 2012 vs. Nine Months Ended June 30, 2011

We reported income from continuing operations of \$424.0 million (\$3.88 per diluted share) from operating revenues of \$2.3 billion for the nine months ended June 30, 2012, compared with income from continuing operations of \$313.2 million (\$2.87 per diluted share) from operating

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revenues of \$1.8 billion for the first nine months of fiscal year 2011. For the first nine months of fiscal 2012 and 2011, we had a net loss from discontinued operations of \$0.1 million and \$0.4 million, respectively, with no effect on a per diluted share basis. Including discontinued operations, we recorded net income of \$423.9 million (\$3.88 per diluted share) for the nine months ended June 30, 2012, compared to net income of \$312.8 million (\$2.87 per diluted share) for the nine months ended June 30, 2011. Income from continuing operations for the first nine months of fiscal 2012 includes approximately \$7.9 million (\$0.08 per diluted share) of after-tax gains from the sale of assets. Income from continuing operations for the first nine months of fiscal 2011 includes approximately \$6.4 million (\$0.06 per diluted share) of after-tax gains from the sale of assets and \$0.6 million (\$0.01 per diluted share) of after-tax gains from the sale of investment securities.

Summarized operating results from discontinued operations are as follows:

		Nine Months Ended June 30,			
	2012	(in thousands)		2011	
Revenue	\$			\$	
Loss before income taxes		(154)		(393)	
Income tax benefit		81		5	
Loss from discontinued operations	\$	(73)	\$	(388)	

The following tables summarize operations by reportable operating segment for the nine months ended June 30, 2012 and 2011. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 12 to the Consolidated Condensed Financial Statements.

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	Nine Months Ended June 30,	
	2012	2011
	(in thousands, except days and per day amounts)	
<u>U.S. LAND OPERATIONS</u>		
Revenues	\$ 1,983,369	\$ 1,511,649
Direct operating expenses	1,057,622	802,383
General and administrative expense	22,720	18,573
Depreciation	232,678	191,211
Segment operating income	\$ 670,349	\$ 499,482
Revenue days	64,389	53,958
Average rig revenue per day	\$ 27,537	\$ 25,536
Average rig expense per day	\$ 13,160	\$ 12,391
Average rig margin per day	\$ 14,377	\$ 13,145
Rig utilization	90%	85%

U.S. Land segment operating income increased to \$670.3 million for the first nine months of fiscal 2012 compared to \$499.5 million in the same period of fiscal 2011. Revenues were \$2.0 billion and \$1.5 billion for the first nine months of fiscal 2012 and 2011, respectively. Included in U.S. land revenues for the nine months ended June 30, 2012 and 2011 are reimbursements for out-of-pocket expenses of \$210.3 million and \$133.8 million, respectively.

Average rig margin per day during the comparable periods increased as rig utilization and average dayrates improved. U.S. land rig utilization increased to 90 percent for the first nine months of fiscal 2012 compared to 85 percent for the first nine months of fiscal 2011. U.S. land rig revenue days for the first nine months of fiscal 2012 were 64,389 compared with 53,958 for the same period of fiscal 2011, with an average of 235.0 and 197.6 rigs working during the first nine months of fiscal 2012 and 2011, respectively.

During the nine months ended June 30, 2012, three idle conventional rigs were sold and three FlexRigs were transferred from the U.S. Land segment to the International Land segment.

At June 30, 2012, we had 245 out of 275 existing rigs in the U.S. Land segment that were generating revenue. A new FlexRig under contract was completed and ready for delivery at June 30, 2012. Of the 245 rigs generating revenue, 163 were under fixed term contracts and 82 were working in the spot market. At July 27, 2012, the number of existing rigs under fixed term contracts in the segment decreased to 157 and the number of rigs working in the spot market increased to 84.

	Nine Months Ended June 30,	
	2012	2011
	(in thousands, except days and per day amounts)	
<u>OFFSHORE OPERATIONS</u>		
Revenues	\$ 135,830	\$ 150,022
Direct operating expenses	90,646	101,527
General and administrative expense	5,412	4,495
Depreciation	10,030	10,580
Segment operating income	\$ 29,742	\$ 33,420
Revenue days	1,930	1,843
Average rig revenue per day	\$ 51,013	\$ 50,889

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Average rig expense per day	\$	31,020	\$	28,234
Average rig margin per day	\$	19,993	\$	22,655
Rig utilization		77%		75%

Offshore revenues include reimbursements for out-of-pocket expenses of \$13.6 million and \$28.2 million for the nine months ended June 30, 2012 and 2011, respectively.

The decrease in segment operating income and average rig margin per day is primarily due to a rig being on standby for five months of fiscal 2012 compared to working all of fiscal 2011.

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At June 30, 2012, seven of our nine platform rigs were active.

	Nine Months Ended June 30,	
	2012	2011
	(in thousands, except days and per day amounts)	
<u>INTERNATIONAL LAND OPERATIONS</u>		
Revenues	\$ 192,305	\$ 169,689
Direct operating expenses	154,296	130,459
General and administrative expense	2,512	2,633
Depreciation	22,257	20,411
Segment operating income	\$ 13,240	\$ 16,186
Revenue days	5,342	4,781
Average rig revenue per day	\$ 31,974	\$ 32,188
Average rig expense per day	\$ 24,775	\$ 23,791
Average rig margin per day	\$ 7,199	\$ 8,397
Rig utilization	77%	69%

International Land segment operating income for the first nine months of fiscal 2012 was \$13.2 million, compared to operating income of \$16.2 million in the same period of fiscal 2011. Included in International land revenues for the nine months ended June 30, 2012 and 2011 are reimbursements for out-of-pocket expenses of \$21.5 million and \$15.8 million, respectively.

Revenues in the first nine months of fiscal 2012 increased by \$22.6 million compared to the same period of fiscal 2011, with utilization increasing to 77 percent from 69 percent. During the first nine months of fiscal 2012, an average of 19.5 rigs worked compared to an average of 17.5 rigs in the first nine months of fiscal 2011.

Segment operating income and average rig margin per day decreased in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to early termination revenue earned in the first nine months of fiscal 2011 and higher operating expenses in the first nine months of fiscal 2012.

During the first nine months of fiscal 2012, three FlexRigs were transferred to the International Land segment from the U.S. Land segment. Two of the rigs commenced operations in the second quarter of fiscal 2012 and the third FlexRig is expected to commence operations during the fourth quarter of fiscal 2012. Additionally, two new FlexRigs are expected to begin operations in the International Land segment during the fourth quarter of fiscal 2012.

RESEARCH AND DEVELOPMENT

For the nine months ended June 30, 2012 and 2011, we incurred \$11.4 million and \$11.5 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

OTHER

General and administrative expenses increased to \$79.5 million in the first nine months of fiscal 2012 from \$68.4 million in the first nine months of fiscal 2011. The increase is primarily due to increases in salaries, bonuses and stock-based compensation of approximately \$8.0 million associated with growth in the number of employees and increases in wages in the comparative periods. The remaining increase is primarily due to higher professional services and other corporate overhead associated with supporting continued growth of our drilling business.

Income from asset sales was \$14.4 million in the first nine months of fiscal 2012, compared to \$10.3 million in the same period of fiscal 2011. The increase of \$4.1 million in fiscal 2012 is due to the sale of three idle U.S. land conventional rigs and the sale of drill pipe used in the ordinary course of business.

Income tax expense increased to \$240.2 million in the first nine months of fiscal 2012 from \$185.8 million in the first nine months of fiscal 2011, primarily due to an increase in operating income. The effective tax rate from continuing operations decreased to 36.2 percent from 37.2 percent for the two comparable periods.

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Interest expense was \$7.3 million and \$13.2 million in the first nine months of fiscal 2012 and 2011, respectively. Capitalized interest, all attributable to our rig construction, was \$9.6 million and \$5.8 million for the comparable periods. Interest expense before capitalized interest decreased \$2.0 million during the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to \$1.7 million accrued for settlement of a lawsuit in fiscal 2011.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Cash and cash equivalents decreased to \$148.9 million at June 30, 2012 from \$364.2 million at September 30, 2011. The following table provides a summary of cash flows for the nine-month period ended June 30, (in thousands):

Net cash provided (used) by:

	2012		2011	
Operating activities	\$	612,978	\$	696,443
Investing activities		(742,405)		(472,106)
Financing activities		(85,953)		708
Increase (decrease) in cash and cash equivalents	\$	(215,380)	\$	225,045

Operating activities

Cash flows from operating activities were approximately \$613.0 million for the nine months ended June 30, 2012 compared to approximately \$696.4 million for the same period ended June 30, 2011. The decrease in cash provided from operating activities is primarily due to an increase in accounts receivable and prepaid expenses and other, partially offset by increases in net income and depreciation. Depreciation increased to \$272.4 million for the nine months ended June 30, 2012 compared to \$228.4 million during the nine months ended June 30, 2011, primarily as a result of new rigs being placed into service during fiscal 2011 and 2012. For the nine months ended June 30, 2012, accounts receivable increased due to the additional rigs in service. During the nine months ended June 30, 2012, we funded two collateral trusts totaling \$26.1 million in connection with our primary casualty insurance program. The two collateral trusts are included in prepaid expense and other in the Consolidated Condensed Statements of Cash Flows.

Investing activities

The increase in net cash used in investing activities was primarily attributable to a \$280.5 million increase in capital expenditures during the nine months ended June 30, 2012. The growth in capital expenditures was a result of the increased building of new FlexRigs.

Financing activities

During the nine months ended June 30, 2012, 1,747,819 treasury shares were purchased at an aggregate cost of \$77.6 million of which \$6.2 million did not settle until after June 30, 2012. During the nine months ended June 30, 2011, we reduced our outstanding debt by \$10.0 million compared with no change in debt during the nine months ended June 30, 2012.

Other Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our new credit facility represent our significant sources of liquidity. Given current market conditions and general expectations, we believe these sources of liquidity will be sufficient to sustain operations and finance estimated capital expenditures, including rig construction, for fiscal 2012. During the third quarter of fiscal 2012, we entered into an agreement with a multi-bank syndicate for a \$300 million unsecured revolving credit facility. There can be no assurance that we will continue to generate cash flows at current levels or obtain additional financing. Our indebtedness totaled \$350 million at June 30, 2012. Subsequent to June 30, 2012, we made a \$40 million debt payment. For additional information regarding debt agreements, refer to Note 9 of the Consolidated Condensed Financial Statements.

Backlog

Our contract drilling backlog, being the expected future revenue from executed contracts with original terms in excess of one year, as of June 30, 2012 and September 30, 2011 was \$4.1 billion and \$3.8 billion, respectively. The increase in backlog at June 30, 2012 from September 30, 2011 is primarily due to the expected revenue from 29 multi-year contracts announced during the first nine months of fiscal 2012. Approximately 89.4 percent of the June 30, 2012 backlog is not reasonably expected to be filled in fiscal 2012. Term contracts customarily provide for termination at the election of the customer with an early termination payment to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, bankruptcy, sustained unacceptable performance by us, or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to us. In addition, a portion of the backlog represents term contracts for new rigs that will be constructed in the future. We obtain certain key rig components from a single or limited number of vendors or fabricators. Certain of these vendors or fabricators are thinly capitalized independent companies located on the Texas Gulf

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Coast. Therefore, disruptions in rig component deliveries may occur. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 23, 2011, regarding fixed term contract risk, operational risks, including weather, and vendors that are limited in number and thinly capitalized.

The following table sets forth the total backlog by reportable segment as of June 30, 2012 and September 30, 2011, and the percentage of the June 30, 2012 backlog not reasonably expected to be filled in fiscal 2012:

Reportable Segment	Three Months Ended		Percentage Not Reasonably Expected to be Filled in Fiscal 2012
	June 30, 2012	September 30, 2011	
	(in billions)		
U.S. Land	\$ 3.5	\$ 3.3	89.1%
Offshore	0.1	0.1	83.3%
International Land	0.5	0.4	92.1%
	\$ 4.1	\$ 3.8	

Capital Resources

During the first nine months of fiscal 2012, we announced agreements to build and operate 29 new FlexRigs under multi-year contracts. During the nine months ended June 30, 2012, we completed 36 FlexRigs that are under fixed term contracts. An additional four FlexRigs under fixed term contracts were completed by the end of July 2012. At a current cadence of four new FlexRigs per month, we currently expect to deliver a total of 48 new FlexRigs during fiscal 2012. Like those completed in prior fiscal periods, each of these new FlexRigs is committed to work for an exploration and production company under a fixed term contract, performing drilling services on a daywork contract basis.

Our capital spending estimate for fiscal 2012 is \$1.1 billion but the actual spending level may vary depending primarily on the timing of procurement related to our ongoing construction of new FlexRigs. Capital expenditures were \$774.2 million and \$493.8 million for the first nine months of fiscal 2012 and 2011, respectively. Capital expenditures increased from 2011 primarily due to the additional new rigs completed during the comparable nine month periods ended June 30.

There were no other significant changes in our financial position since September 30, 2011.

MATERIAL COMMITMENTS

In December 2011, we extended our current lease for office space near downtown Tulsa, Oklahoma for an additional five years and added approximately 31,000 square feet. The extension and expansion increases the material commitments reported in our 2011 Annual Report on Form 10-K by approximately \$15.0 million.

CRITICAL ACCOUNTING POLICIES

Our accounting policies that are critical or the most important to understand our financial condition and results of operations and that require management to make the most difficult judgments are described in our 2011 Annual Report on Form 10-K. There have been no material changes in these critical accounting policies.

RECENTLY ISSUED ACCOUNTING STANDARDS

On October 1, 2011, we adopted the provisions of ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* requiring a reconciliation of purchases, sales, issuance, and settlements of financial instruments valued with a Level 3 method, which is used to price the hardest to value instruments. The adoption had no impact on the Consolidated Financial Statements.

On May 12, 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 is intended to create consistency between U.S. GAAP and IFRS on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. ASU No. 2011-04 will be effective for financial statements issued for fiscal periods beginning after December 15, 2011, with early adoption prohibited for public entities. We do not expect the adoption of these provisions to have a material impact on the Consolidated Financial Statements.

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On June 16, 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 was issued to increase the prominence of OCI in financial statements. The guidance provides two options for presenting OCI. An OCI statement can be included with the net income statement, which together will make a statement of total comprehensive income. Alternatively, an OCI statement can be separate from a net income statement but the two statements will have to appear consecutively within a financial report. ASU No. 2011-05 will be applied retrospectively and is effective for fiscal periods beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the method of presentation and the timing of adoption but the adoption will have no impact on the Consolidated Financial Statements.

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PART I. FINANCIAL INFORMATION

June 30, 2012

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see

- Note 5 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to equity price risk is incorporated herein by reference;
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 23, 2011;
- Note 9 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk is incorporated herein by reference; and
- Note 14 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to foreign currency exchange rate risk is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2012, at ensuring that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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Pending Investigation by the U.S. Attorney. In May 2010, one of our employees reported certain possible choke manifold testing irregularities at one offshore platform rig. Operations were promptly suspended on that rig after receiving the employee's report. The Minerals Management Service (now known as the Bureau of Safety and Environmental Enforcement) was promptly notified of the employee's report and it conducted an initial investigation of this matter. Upon conclusion of the initial investigation, we were permitted to resume normal operations on the rig. Also, we promptly commenced an internal investigation of the employee's allegations. Our internal investigation found that certain employees on the rig failed to follow our policies and procedures, which resulted in termination of those employees. There were no spills or discharges to the environment.

The U.S. Attorney for the Eastern District of Louisiana has commenced a grand jury investigation, which is ongoing. We received, and have complied with, a subpoena for documents in connection with that investigation. Certain of our current and former employees have been interviewed by the government or have testified before the grand jury. In late April 2011, the Company was advised that it is a subject of this investigation.

Mr. Donald Hudson, former offshore platform rig manager, pleaded guilty to one felony charge of making false statements to a federal investigator concerning his participation in the testing irregularities that were reported in May 2010. Sentencing is currently scheduled for August 8, 2012. Mr. Hudson's employment was terminated by the Company in June 2010. We continue to cooperate with this government investigation. Although we presently believe that this matter will not have a material adverse effect on the Company, we can provide no assurances as to the timing or eventual outcome of this investigation.

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ITEM 1A. RISK FACTORS

International uncertainties and local laws could adversely affect our business.

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

Because of the impact of local laws, our future operations in certain areas may be conducted through entities in which local citizens own interests and through entities (including joint ventures) in which we hold only a minority interest or pursuant to arrangements under which we conduct operations under contract to local entities. While we believe that neither operating through such entities nor pursuant to such arrangements would have a material adverse effect on our operations or revenues, there can be no assurance that we will in all cases be able to structure or restructure our operations to conform to local law (or the administration thereof) on terms acceptable to us.

Although we attempt to minimize the potential impact of such risks by operating in more than one geographical area, during the nine months ended June 30, 2012, approximately eight percent of our consolidated operating revenues were generated from the international contract drilling business. During the nine months ended June 30, 2012, approximately 72 percent of the international operating revenues were from operations in South America.

Reference is made to the risk factors pertaining to the Company's securities portfolio in Item 1A of Part 1 of the Company's Form 10-K for the year ended September 30, 2011. In order to update these risk factors for developments that have occurred during the first nine months of fiscal 2012, the risk factors are hereby amended and updated by reference to, and incorporation herein of Note 5 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof.

Except as discussed above, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K for the year ended September 30, 2011.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table reflects the Company's repurchase of Common Stock for the three months ended June 30, 2012:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Units)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) That May Yet Be Purchased Under Plans or Programs
April 1 - April 30, 2012		\$		
May 1 - May 31, 2012	453,204	45.5375		3,546,796(1)
June 1 - June 30, 2012	1,294,615	44.0066		2,252,181(1)
TOTAL	1,747,819	\$ 44.4035		2,252,181(1)

(1) The Company's Board of Directors previously authorized a stock repurchase program in fiscal 2006 for the repurchase of up to four (4) million shares per calendar year. This repurchase program was reannounced via Form 8-K on May 18, 2012. The repurchases may be made using the Company's cash and cash equivalents or other available sources. The program has no expiration date but may be terminated at any time at the Board of Directors' discretion. All shares reported in the above table were purchased in the open market. No other purchases were made in the quarter ended June 30, 2012.

Subject to market considerations, the Company may repurchase additional shares in the open market. Repurchases, if any, would be funded with current cash and cash equivalents.

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ITEM 6. EXHIBITS

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed or furnished herewith.

Exhibit Number	Description
10.1	Credit Agreement dated May 25, 2012, among Helmerich & Payne International Drilling Co., Helmerich & Payne, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed May 31, 2012, SEC File No. 001-04221).
31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Helmerich & Payne, Inc. for the quarter ended June 30, 2012, filed on August 3, 2012, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Balance Sheets, (iii) the Consolidated Condensed Statements of Stockholders' Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HELMERICH & PAYNE, INC.
(Registrant)

Date: August 3, 2012

By: /S/ HANS C. HELMERICH
Hans C. Helmerich, President

Date: August 3, 2012

By: /S/ JUAN PABLO TARDIO
Juan Pablo Tardio, Chief Financial Officer
(Principal Financial Officer)

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