

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., Akron, 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 managements' 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 surr