

Activision Blizzard, Inc.
Form DEF 14A
November 16, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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 §240.14a-12

ACTIVISION BLIZZARD, 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:
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 - (1) Amount Previously Paid:
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 - (3) Filing Party:
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-

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**3100 Ocean Park Boulevard
Santa Monica, California 90405**

November 19, 2009

Notice of Meeting of Stockholders

Dear Stockholder:

You are cordially invited to attend a Meeting of Stockholders of Activision Blizzard, Inc. (the "Company"). The meeting will be held on Thursday, December 17, 2009, beginning at 9:30 a.m., Pacific Standard Time, at the corporate offices of Activision Blizzard, Inc., 3100 Ocean Park Boulevard, Santa Monica, California, 90405.

Information about the meeting and the matter on which stockholders will act is included in the accompanying proxy statement.

During the Stockholders' Meeting, we will ask our stockholders to approve our 2008 Incentive Plan, as amended and restated to increase the maximum number of shares of the Company's common stock authorized for issuance pursuant to awards granted under the plan and the maximum number of shares that may be issued pursuant to certain types of awards under the plan.

The Board of Directors of Activision Blizzard, Inc. has fixed November 5, 2009 as the record date for determining the stockholders entitled to receive notice of, and to vote at, the Stockholders' Meeting.

It is important that your shares be represented at the Stockholders' Meeting. Whether or not you plan to attend the meeting, you are urged to promptly vote your shares by proxy. You may vote your shares by proxy by following the instructions under the heading "Procedural Matters" in the proxy statement. If you are able to attend the meeting and wish to vote in person, you may withdraw your proxy at that time.

Sincerely,

Robert A. Kotick
President and Chief Executive Officer

**** Important Notice Regarding the Availability of Proxy Materials for the
Shareholder Meeting to Be Held on Thursday, December 17, 2009 ****

The proxy statement is available at: <http://www.cstproxy.com/activision/sm2009>

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PROXY STATEMENT

**MEETING OF STOCKHOLDERS
TO BE HELD ON DECEMBER 17, 2009**

GENERAL

This proxy statement is furnished in connection with the solicitation by the Board of Directors ("Board") of Activision Blizzard, Inc., a Delaware corporation, of proxies from holders of our issued and outstanding shares of common stock, par value \$0.000001 per share ("Common Stock"). The proxies being solicited will be used at the meeting of our stockholders to be held on Thursday, December 17, 2009, at the corporate offices of Activision Blizzard, Inc., 3100 Ocean Park Boulevard, Santa Monica, California, 90405, at 9:30 a.m., Pacific Standard Time, and at any adjournment or postponement of such meeting (the "Stockholders' Meeting"). We will be mailing paper copies of this proxy statement to stockholders on or about November 19, 2009. All references to "we," "us," "our," and "Activision Blizzard" in this proxy statement mean Activision Blizzard, Inc.

On July 9, 2008, a business combination (the "Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly owned subsidiary of Vivendi ("VGAC"), and Vivendi Games, Inc. ("Vivendi Games"), a wholly owned subsidiary of VGAC, was consummated. For additional information, please refer to footnote 1 to the financial statements included in our Form 10-K for the year ended December 31, 2008, which is hereby incorporated by reference herein. In connection with the consummation of the Combination, Activision, Inc. was renamed Activision Blizzard, Inc. and we changed our fiscal year end from March 31st to December 31st. For accounting purposes, the Combination is treated as a "reverse acquisition," with Vivendi Games deemed to be the acquirer. As a result of the reverse acquisition accounting, our financial statements for the year ended December 31, 2008 cover the full calendar year from January 1, 2008 to December 31, 2008. (Please refer to our Form 10-K for the year ended December 31, 2008 for more information). However, much of the information contained in this proxy statement, including compensation related disclosure, covers the nine month period from April 1, 2008 (the first day of Activision, Inc.'s fiscal year that began prior to consummation of the Combination) to December 31, 2008.

PROCEDURAL MATTERS

Record Date and Quorum

Stockholders of record at the close of business on November 5, 2009 are entitled to notice of, and to vote at, the Stockholders' Meeting. There were 1,268,317,430 shares of our Common Stock outstanding and entitled to vote on the record date. Each such share of our Common Stock is entitled to one vote on the matter presented for action at the Stockholders' Meeting. A majority of the outstanding shares of our Common Stock entitled to vote at the meeting must be present in person or by proxy at the Stockholders' Meeting in order for a quorum to be present. Proxies representing abstentions will be included for purposes of determining whether a quorum is present at the Stockholders' Meeting, but proxies representing "broker non-votes" will not be included. A "broker non-vote" occurs when a broker, bank or other nominee who holds shares for a beneficial owner to be represented at a meeting does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received instructions from such beneficial owner.

Required Votes

You may vote "for" or "against," or "abstain" from voting, with respect to the proposal to approve our 2008 Incentive Plan (the "2008 Plan"), as amended and restated to increase the maximum number

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of shares of our Common Stock reserved for issuance under the 2008 Plan and the maximum number of shares that may be issued pursuant to certain types of awards granted under the 2008 Plan.

Adoption of this proposal requires the affirmative vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote at the Stockholders' Meeting. Accordingly, shares not present and any broker non-votes will not have any effect on the voting outcome with respect to the proposal. Shares present but not voted (either because of an express abstention or because such vote is otherwise not cast) will have the same effect as a vote "against" the proposal. Stockholders have no dissenters' rights or rights of appraisal under Delaware law or our Certificate of Incorporation or Bylaws in connection with the proposal.

As approval of the 2008 Plan is a "non-routine" proposal, if you hold your shares in street name and do not give your broker, bank or other nominee instructions as to how to vote your shares with respect to the proposal, your broker, bank or other nominee may not have authority to vote your shares, resulting in a broker non-vote with respect to such proposal. Broker non-votes will not count as voted on the proposal, or as present or represented at the meeting, and so will have no effect on the vote.

Proxies

Whether or not you are able to attend the Stockholders' Meeting, you are urged to vote your shares by proxy. Stockholders of record may vote online at www.continentalstock.com, by calling (866) 894-0537 or by completing and mailing the proxy card enclosed herewith. If you are a stockholder of record and you choose to vote by mail, please complete, sign and date the proxy card as soon as possible. If you hold shares in street name through a broker, bank or other nominee, your broker, bank or other nominee will send you separate instructions describing the procedure for voting your shares.

The shares of Common Stock represented by all valid proxies we receive prior to the Stockholders' Meeting which are not properly revoked prior to being voted at the Stockholders' Meeting will be voted at the Stockholders' Meeting as directed. If no directions are specified, such proxies will be voted FOR the approval of the 2008 Plan, increasing the maximum number of shares of our Common Stock reserved for issuance under the 2008 Plan and the maximum number of shares that may be issued pursuant to certain types of awards granted under the 2008 Plan. Any stockholder may revoke or change such stockholder's proxy at any time before the proxy is voted at the Stockholders' Meeting by (1) sending a written notice of revocation of the proxy to our Corporate Secretary at Activision Blizzard, Inc., 3100 Ocean Park Blvd., Santa Monica, California 90405, (2) properly delivering a subsequently dated proxy or (3) voting in person at the Stockholders' Meeting.

Attending and Voting at the Stockholders' Meeting

You should be prepared to present a valid form of photo identification, such as a driver's license, state-issued ID card or passport, to gain admittance to the Stockholders' Meeting. In addition, if you are a stockholder of record, your ownership as of the record date will be verified by reference to our records prior to admittance into the Stockholders' Meeting. If you hold shares in street name through a broker, bank or other nominee, you must provide proof of beneficial ownership as of the record date, such as a brokerage account statement or similar evidence of ownership. If you do not provide valid photo identification and otherwise comply with the other procedures outlined above, you may not be admitted to the Stockholders' Meeting. Directions to the Stockholders' Meeting can be obtained by contacting our Investor Relations department by calling (310) 255-2000 or by emailing ir@activision.com.

Stockholders of record who wish to vote in person at the Stockholders' Meeting must request a ballot at the meeting. Street-name holders who wish to vote in person at the Stockholders' Meeting will need to obtain a proxy from the broker, bank or other nominee that holds their shares of record.

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Costs of Proxy Solicitation

We will bear the entire cost of this proxy solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card, and any additional solicitation materials we send to stockholders. We may reimburse brokerage firms and other persons representing beneficial owners of our Common Stock for their expenses in forwarding the proxy materials to such beneficial owners. In addition, proxies may be solicited, personally or by telephone, by our directors, officers and regular employees without additional compensation.

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PROPOSAL

APPROVAL OF THE 2008 INCENTIVE PLAN, AS AMENDED AND RESTATED TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE UNDER THE 2008 PLAN AND THE NUMBER OF SHARES THAT MAY BE GRANTED PURSUANT TO CERTAIN TYPES OF AWARDS UNDER THE 2008 PLAN

General

The Activision Blizzard Inc. 2008 Incentive Plan was adopted by our Board on July 28, 2008, approved by our stockholders and amended and restated by our Board on September 24, 2008, and amended and restated by our Board with stockholder approval on June 5, 2009 (as so amended and restated, the "2008 Plan"). The 2008 Plan authorizes the Compensation Committee of our Board to grant equity- and cash-based compensation for the purpose of providing incentives and rewards for performance to the directors, officers and other employees of, and consultants to, Activision Blizzard and our subsidiaries. On November 3, 2009, the Compensation Committee of our Board adopted, subject to stockholder approval, the amendment to the 2008 Plan described below.

Proposed Amendment

The changes implemented by the proposed amendment of the 2008 Plan are as follows:

to increase the maximum number of shares of our Common Stock issuable thereunder by 14,000,000 shares (such additional 14,000,000 shares, the "Proposed Additional Shares"); and

to increase the limit on the number of shares of our Common Stock that may be issued thereunder pursuant to the following types of awards as follows:

incentive stock options by 14,000,000 shares;

awards other than options or share appreciation rights ("SARs") by 7,000,000 shares; and

custom awards granted under Section 10 of the plan (*i.e.*, awards not explicitly contemplated by the 2008 Plan that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of our Common Stock or factors that may influence the value of our Common Stock or that are valued based on the performance of Activision Blizzard or any of our subsidiaries or business units or factors designated by the Compensation Committee) by 2,800,000 shares.

As of October 15, 2009, approximately 8,215,083 shares of our Common Stock remain available for issuance under the 2008 Plan (which, for the sake of clarity, does not include the Proposed Additional Shares), which available balance was reduced by 6,229,024 shares following the grant of awards to our employees that were approved by the Compensation Committee on November 3, 2009, as discussed below. Accordingly, if this proposal is not approved by our stockholders, we believe that the remaining number of shares available under the 2008 Plan may not be sufficient to satisfy awards anticipated to be made prior to our 2010 annual stockholders' meeting. The board believes that the 2008 Plan has been of substantial benefit to Activision Blizzard and our stockholders and that the inability to make awards under the 2008 Plan would deprive us of a valuable employee attraction, incentive and retention tool. We believe that, if this proposal is approved by our stockholders, we should have sufficient flexibility under the 2008 Plan to meet any attraction, incentive and retention compensation needs that may arise prior to our 2010 annual stockholders' meeting, at which time future needs may be addressed.

Reasons for Stockholder Approval

Stockholder approval of the amendment to the 2008 Plan is necessary in order for us to meet the stockholder approval requirements of the NASDAQ Stock Market ("NASDAQ"). If our stockholders

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do not approve the amendment to the 2008 Plan, the 2008 Plan will not be amended and any future awards under the 2008 Plan will be made under the terms of the 2008 Plan that are currently in effect, for so long as available shares remain.

Summary of the 2008 Plan, as Proposed to be Amended

The following summary of the principal terms and provisions of the 2008 Plan as proposed to be amended is qualified in its entirety by the terms of the 2008 Plan, which is included as Appendix A attached to this proxy statement and incorporated herein by reference.

Shares Available Under the 2008 Plan

On October 15, 2009, we had 8,215,083 shares of our Common Stock reserved for future issuance under the 2008 Plan (which, for the sake of clarity, does not include the Proposed Additional Shares), subject to adjustment as provided in the 2008 Plan in the event of stock splits, stock dividends, the issuance of rights and certain other events. The NASDAQ Official Closing Price of our Common Stock on October 15, 2009 was \$12.51 per share. As described above, on November 3, 2009, the Compensation Committee of our Board adopted, subject to stockholder approval, the amendment described herein increasing the maximum number of shares of our Common Stock reserved for issuance under the 2008 Plan by 14,000,000 shares.

The number of shares reserved for issuance under the 2008 Plan may be further increased from time to time by:

the number of shares relating to awards outstanding under the Prior Plans at October 15, 2009 that:

expire, or are forfeited, terminated or cancelled, without the issuance of shares;

are settled in cash in lieu of shares; or

are exchanged, prior to the issuance of shares of our Common Stock, for awards not involving our Common Stock;
and

if the exercise price of any option outstanding under any Prior Plan at September 24, 2008 is, or the tax withholding requirements with respect to any award outstanding under any Prior Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to us of shares already owned, the number of shares equal to the withheld or transferred shares.

"Prior Plans" means the following equity incentive plans: (1) the Activision, Inc. 1998 Incentive Plan, as amended; (2) the Activision, Inc. 1999 Incentive Plan, as amended (the "1999 Plan"); (3) the Activision, Inc. 2001 Incentive Plan, as amended; (4) the Activision, Inc. 2002 Incentive Plan, as amended (the "2002 Plan"); (5) the Activision, Inc. 2002 Executive Incentive Plan, as amended; (6) the Activision, Inc. 2002 Studio Employee Retention Incentive Plan, as amended (the "2002 Studio Plan"); (7) the Activision, Inc. 2003 Incentive Plan, as amended (the "2003 Plan"); and (8) the Activision, Inc. 2007 Incentive Plan (the "2007 Plan"). At the time the 2008 Plan was approved by our stockholders on September 24, 2008, there were 87,899,042 shares subject to awards outstanding under the Prior Plans that potentially could become available for awards under the 2008 Plan. On September 24, 2008, the effective date of the 2008 Plan, we ceased to grant awards under the Prior Plans, although such plans remain in effect and continue to govern outstanding awards.

Under the 2008 Plan:

shares relating to awards that expire, or are forfeited, terminated or cancelled, without the issuance of shares, awards that are settled in cash in lieu of shares and awards that are

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exchanged, with the Compensation Committee's permission, prior to the issuance of shares of our Common Stock, for awards not involving our Common Stock, will again be available for issuance or transfer under the 2008 Plan;

if the exercise price of any option is, or the tax withholding requirements with respect to any award granted under the 2008 Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to us of shares already owned, a number of shares equal to the withheld or transferred shares will again be available for issuance or transfer under the 2008 Plan; and

if a SAR is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred will again be available for issuance or transfer under the 2008 Plan, with the result being that only the number of shares actually issued or transferred upon exercise of the SAR are counted against the maximum number of shares of our Common Stock available for issuance or transfer under the 2008 Plan.

Shares utilized under the 2008 Plan may be newly issued shares, treasury shares or a combination of the foregoing.

The 2008 Plan contains the following aggregate and individual annual grant limitations:

Limits on ISOs. Assuming this proposal is approved at the Stockholders' Meeting, the number of shares that we may issue or transfer upon the exercise of incentive stock options ("ISOs") may not exceed 28,878,935 (which equals the number of shares available for grant under the 2007 Plan at the time the 2008 Plan was approved by stockholders, plus 14,000,000 shares) in the aggregate;

Limits on Awards Other than Options and SARs. Assuming this proposal is approved at the Stockholders' Meeting, the number of shares that we may issue or transfer as or pursuant to awards other than options or SARs may not exceed 22,000,000 in the aggregate, including no more than 8,800,000 in the aggregate as or pursuant to custom awards (*i.e.*, awards not explicitly contemplated by the 2008 Plan that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of our Common Stock or factors that may influence the value of our Common Stock or that are valued based on the performance of Activision Blizzard or any of our subsidiaries or business units or factors designated by the Compensation Committee);

Limits on Options and SARs. The number of shares issuable or transferable in respect of options and SARs granted to any one participant in a single fiscal year may not exceed 4,000,000 in the aggregate;

Limits on Restricted Shares and Restricted Share Units. The number of (1) restricted shares granted to any one participant in a single fiscal year and (2) shares issuable or transferable in respect of restricted share units granted to such participant in such year, may not exceed 2,000,000 in the aggregate;

Limits on Performance Shares. The number of performance shares granted to any one participant in a single fiscal year may not exceed 3,000,000 in the aggregate;

Limits on Performance Units. The value of performance units granted to any one participant in a single fiscal year may not exceed \$2 million in the aggregate (with the value of any such grant to be determined as of the date of such grant);

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Limits on Incentive Bonuses. The amount of any senior executive plan bonuses paid under the 2008 Plan to any one participant for a single fiscal year may not exceed \$6 million in the aggregate; and

Limits on Custom Awards. The number of shares issuable or transferable in respect of custom awards granted to any one participant in a single fiscal year may not exceed 3,000,000 in the aggregate and the value of any custom award that does not involve the issuance or transfer of shares may not exceed \$2 million in the aggregate (with the value of any such award to be determined as of the date of such award).

Eligibility

Directors, officers and other employees of, and consultants to, Activision Blizzard and our subsidiaries are eligible to participate in the 2008 Plan. As of October 15, 2009, approximately 7,300 individuals were considered eligible to be selected by the Compensation Committee to receive awards under the 2008 Plan, including 10 directors (not counting Robert A. Kotick, who is also an executive officer of Activision Blizzard) and 6 executive officers.

Types of Awards Authorized

The 2008 Plan provides for the granting of stock options, SARs (both freestanding SARs and SARs granted in tandem with stock options), restricted shares, restricted share units, performance shares, performance units, dividend equivalents and custom awards. Awards granted under the 2008 Plan will be upon such terms as may be approved by the Compensation Committee and set forth in an award agreement or other evidence of an award, provided that (a) the exercise price per share of stock options, and the price per share of freestanding SARs, granted under the 2008 Plan will be not less than the "market value per share" (defined as (i) the closing price per share of Common Stock as reported on the principal securities exchange, association or quotation system on which the Common Stock is then listed or quoted, or (ii) if clause (i) does not apply, the fair market value of a share of Common Stock as determined by the Compensation Committee), and (b) no stock option or freestanding SAR granted under the 2008 Plan may be exercised more than 10 years from the date of grant. An award will contain such terms and provisions, consistent with the 2008 Plan, as the Compensation Committee may approve, including provisions for the acceleration of vesting or the lapse, expiration or termination of restrictions or other conditions upon the occurrence of certain events, including change of control events.

The 2008 Plan also provides that the Compensation Committee may from time to time authorize payment of a senior executive plan bonus to a participant who is, or is determined by the Compensation Committee to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code, as amended (the "Internal Revenue Code") (generally, the chief executive officer and the three other highest paid officers other than the chief financial officer), which incentive compensation will become payable upon the achievement of specified management objectives, as described below. Such bonuses will be payable upon such terms and conditions as the Compensation Committee may determine in accordance with the terms of the 2008 Plan. The payment of such a bonus under the 2008 Plan that becomes payable to a participant may be made in cash, in shares of our Common Stock or a combination thereof, as determined by the Compensation Committee.

Management Objectives

The 2008 Plan contemplates that the Compensation Committee will establish "management objectives" for purposes of any grants of performance shares, performance units or incentive bonuses. Under the 2008 Plan, the Compensation Committee may also establish management objectives in

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connection with grants of stock options, SARs, restricted shares, restricted share units, dividend credits and custom awards. For example, the Compensation Committee may specify management objectives that must be achieved as a condition to exercising options or SARs or to result in termination or early termination of the restrictions applicable to restricted shares or restricted share units.

Subject to the limits described below, management objectives may be described in terms of either Activision Blizzard-wide objectives or objectives that are related to the performance of the individual participant or a subsidiary, division, department, region or function. The Compensation Committee may provide, in connection with the setting of management objectives, that any evaluation of performance may include or exclude certain items, including, without limitation, asset write downs, litigation or claim judgments or settlements, the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results, any reorganization and restructuring programs, extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in our annual report on Form 10-K for the applicable year, acquisitions or divestitures and foreign exchange gains and losses. To the extent such inclusions or exclusions affect the awards to covered employees within the meaning of Section 162(m) of the Internal Revenue Code, they will be prescribed in a form that meets the requirements of Section 162(m) of the Internal Revenue Code for deductibility.

Management objectives applicable to any award to a participant who is, or is determined by the Compensation Committee to be likely to become, a covered employee within the meaning of Section 162(m) of the Internal Revenue Code, will be limited to measurable and specified levels of performance or relative peer company performance in any one or more of the following objectives, or any combination thereof, as determined by the Compensation Committee in its sole discretion: adjusted net earnings; appreciation in and/or maintenance of the price of our Common Stock (or any other publicly traded securities of Activision Blizzard), including, without limitation, comparisons with various stock market indices; attainment of strategic and operational initiatives; budget; cash flow (including, without limitation, free cash flow); cost of capital; cost reduction; earnings and earnings growth (including, without limitation, earnings per share, earning before taxes, earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization); market share; market value added; net income; net sales; operating profit and operating income; pretax income before allocation of corporate overhead and bonus; quality; recruitment and development of associates; maintenance of internal control over financial reporting and corporate governance practices; reductions in costs; return on assets and return on net assets; return on equity; return on invested capital; sales and sales growth; successful acquisition/divestiture; and total stockholder return and improvement of stockholder return.

If the Compensation Committee determines that a change in our business, operations, corporate structure or capital structure, or the manner in which we conduct our business, or other events or circumstances, render previously established management objectives unsuitable, the Compensation Committee may in its discretion modify such management objectives or the minimum acceptable level of achievement, in whole or in part, as the Compensation Committee deems appropriate and equitable, except in the case of a covered employee where such action would result in the loss of the otherwise available exemption under Section 162(m) of the Internal Revenue Code. In such case, the Compensation Committee may not make any modification of the management objectives or minimum acceptable level of achievement with respect to such covered employee.

Administration and Amendments

The 2008 Plan is administered by the Compensation Committee. The Compensation Committee has sole discretion to interpret any provision of the 2008 Plan or an award thereunder, make any determination necessary or advisable for the administration of the 2008 Plan and awards thereunder, and waive any condition or right of ours under an award or discontinue or terminate an award. Without intending to limit the generality or effect of the foregoing, any decision or determination made

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by the Compensation Committee with respect to the 2008 Plan or an award thereunder will be made by the Compensation Committee in its sole and absolute discretion, subject to the terms of the 2008 Plan. The interpretation and construction by the Compensation Committee of any provision of the 2008 Plan or of any award, and any determination by the Compensation Committee pursuant to any provision of the 2008 Plan or of any such award, will be final and conclusive.

The Compensation Committee may amend the 2008 Plan from time to time without further approval by stockholders, except where the amendment must be approved by stockholders in order to comply with applicable legal requirements or the requirements of the principal securities exchange, association or quotation system on which our Common Stock is listed or quoted (currently, NASDAQ). Without intending to limit the generality or effect of the foregoing, if an amendment to the 2008 Plan would increase the number of shares of our Common Stock that may be issued or transferred upon the exercise of ISOs, then such amendment will be subject to stockholder approval and will not be effective unless and until such approval has been obtained.

Subject to the foregoing, the Compensation Committee may amend the terms of any award granted under the 2008 Plan prospectively or retroactively, except in the case of a covered employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code. No amendment to any award may materially and adversely affect the rights of any participant taken as a whole without his or her consent.

Change of Control

Awards under the 2008 Plan may provide that, upon a change of control of Activision Blizzard, such awards will become vested or earned, in whole or in part. For example, an award of options or SARs may provide that unvested options or SARs will become vested and immediately exercisable, either in whole or in part, upon a change of control. Similarly, awards of restricted shares, restricted share units, performance shares and performance units, custom awards and incentive bonuses may provide that the restrictions or other conditions prescribed by the Compensation Committee, if any, with respect thereto will automatically lapse, expire and terminate, and such awards will be deemed to be earned, in whole or in part, upon a change of control.

Transferability

The 2008 Plan expressly provides that, with our consent, which may be granted or withheld in our sole and absolute discretion, a participant may transfer an award for estate planning purposes or pursuant to a domestic relations order, provided the transferee executes an agreement, in form satisfactory to us, to be bound by the terms and conditions of the 2008 Plan and the award being transferred. Unless otherwise permitted by the Compensation Committee, except as described in the immediately preceding sentence (1) no award or other derivative security granted under the 2008 Plan is transferable by a participant except, upon death, by will or the laws of descent and distribution and (2) stock options and SARs are exercisable during the optionee's lifetime only by him or her or by his or her guardian or legal representative.

Adjustments

The number of shares authorized under the 2008 Plan, the number of, and, if applicable, amounts payable for, shares subject to outstanding awards and the various limits contained in the 2008 Plan will be adjusted in the event of stock dividends, extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, spin-offs, split-offs, spin-outs, split-ups, reorganizations, liquidations, issuances of rights or warrants, and similar events. In the event of any such transaction or event or in the event of a change of control, the Compensation Committee, in its discretion, may provide in substitution for any or all outstanding awards under the 2008 Plan such

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alternative consideration (including cash), if any, as it, in good faith, may determine to be equitable in the circumstances and may require the surrender of all awards so replaced. The Compensation Committee will also make or provide for such adjustments in the number of shares available under the 2008 Plan and the other limitations contained in the 2008 Plan as is appropriate to reflect any transaction or event described above. The 2008 Plan also provides that, without limiting the generality of the foregoing, in the event that we issue warrants or other rights to acquire common shares on a pro-rata basis to all stockholders, the Compensation Committee will make such adjustments in the number of shares authorized under the 2008 Plan and in the limits contained in the 2008 Plan as it may determine to be equitable, including proportionately increasing the number of authorized shares or any such limit.

Withholding Taxes

To the extent that we or any of our subsidiaries is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a participant or other person under the 2008 Plan and the amounts available to us or our subsidiary for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the participant or such other person make arrangements satisfactory to us for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Compensation Committee) may include relinquishment of a portion of such benefit.

Termination

No award will be made under the 2008 Plan after September 24, 2018, but all awards made on or prior to September 24, 2018 will continue in effect thereafter subject to the terms of such awards and of the 2008 Plan.

Federal Income Tax Consequences

The following discussion of the principal U.S. federal income tax consequences with respect to awards under the 2008 Plan is based on statutory authority and judicial and administrative interpretations as of the date of this proxy statement, which are subject to change at any time (possibly with retroactive effect) and may vary in individual circumstances. Therefore, the following discussion is designed to provide a general understanding of the federal income tax consequences (state, local and other tax consequences are not addressed below). *This discussion assumes that awards granted under the 2008 Plan are exempt from, or comply with, the provisions of Section 409A of the Internal Revenue Code. This discussion is limited to the U.S. federal income tax consequences to individuals who are citizens or residents of the U.S. The U.S. federal income tax law is technical and complex and the discussion below represents only a general summary.*

Non-Qualified Stock Options

In general, no income will be recognized by an optionee at the time a non-qualified stock option is granted. At the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the exercise price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a non-qualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

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Incentive Stock Options

No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If shares are issued to the optionee pursuant to the exercise of an ISO and no disqualifying disposition of such shares is made by such optionee within two years after the date of grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares any amount realized in excess of the exercise price will be taxed to the optionee as a capital gain and any loss sustained will be a capital loss. If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the exercise price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as capital gain (or loss).

Stock Appreciation Rights

Generally, no income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted shares received on the exercise.

Restricted Shares

A recipient of restricted shares generally will be subject to tax at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the participant for such restricted shares) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code. However, a recipient who makes an election under Section 83(b) of the Internal Revenue Code within 30 days of the date of grant of the shares will have taxable ordinary income on the date of grant of the shares equal to the excess of the fair market value of such shares (determined without regard to the restrictions) over the purchase price, if any, of such restricted shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject to the restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Share Units

No income generally will be recognized upon the award of restricted share units. The recipient of a restricted share unit award generally will be subject to tax at ordinary income rates on the fair market value of unrestricted shares on the date that such shares are transferred to the participant under the award (reduced by any amount paid by the participant for such restricted share units), and the capital gains/loss holding period for such shares will also commence on such date.

Performance Shares and Performance Units

No income generally will be recognized upon the grant of performance shares or performance units. Upon payment in respect of the earn-out of performance shares or performance units, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares received.

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Senior Executive Plan Bonuses

The participant generally will be required to include as ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any non-restricted shares of our Common Stock received as payment of a bonus.

Tax Consequences to Activision Blizzard or Subsidiary

To the extent that a participant recognizes ordinary income in the circumstances described above, we or the subsidiary of ours for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code and is not disallowed by the \$1 million limitation on certain compensation of covered employees under Section 162(m) of the Internal Revenue Code.

Section 409A of the Internal Revenue Code

To the extent that any award granted under the 2008 Plan constitutes a deferral of compensation within the meaning of Section 409A of the Internal Revenue Code, the Compensation Committee intends to cause the award to comply with the requirements of Section 409A. If an award does not comply with the requirements of Section 409A, penalty taxes and interest may be imposed on the participant receiving the award.

New Plan Benefits

Awards under the 2008 Plan are discretionary. As a consequence, other than amounts payable under our incentive plans, as discussed below in "Executive Compensation Compensation Discussion and Analysis," equity awards to unaffiliated directors, as discussed in "Director Compensation Equity Compensation and Stock Ownership Guidelines," and the annual equity grants approved by the Compensation Committee at its meeting on November 3, 2009, as set forth in the following sentence, we cannot currently determine the number or type of awards that may be granted in the future under the 2008 Plan. At its November 3, 2009 meeting, the Compensation Committee approved the following equity awards under the 2008 Plan (which grants are not yet effective as of the date of this proxy statement): options to purchase 200,000 shares of our Common Stock to Michael Morhaime; options to purchase 500,000 shares and 75,000 RSUs to our executive officers as a group (including Mr. Morhaime); and options to purchase 4,309,530 shares and 1,344,494 RSUs to our non-executive officer employees as a group. No awards were made to Mr. Kotick, Michael J. Griffith, Thomas Tipl, George L. Rose or Ann E. Weiser or to any of our non-executive directors.

Since the date the 2008 Plan was adopted through November 2, 2009: options to purchase 1,200,000 shares of our Common Stock, 80,000 performance shares and 150,000 restricted shares have been issued to Mr. Tipl; options to purchase an aggregate of 1,400,000 shares of our Common Stock, 150,000 restricted shares, 60,000 RSUs and 80,000 performance shares have been issued to all of our executive officers as a group (including Mr. Tipl); options to purchase an aggregate of 60,000 shares of our Common Stock and 50,000 RSUs have been issued to all of our non-executive directors as a group; and options to purchase an aggregate of 6,364,077 shares of our Common Stock and 1,955,661 RSUs have been issued to all of our non-executive officer employees as a group. No awards had been made to Messrs. Kotick, Griffith, Morhaime, Rose or Ms. Weiser.

Required Vote and Board Recommendation

The affirmative vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote at the Stockholders' Meeting is required for the approval of this proposal.

The Board recommends that you vote FOR approval of the 2008 Plan.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information, as of October 15, 2009, with respect to shares of our Common Stock that may be issued under our existing equity compensation plans. For information regarding shares of our Common Stock that may be issued under our equity compensation plans as of December 31, 2008, please refer to our proxy statement filed with the SEC on April 22, 2009.

Plan Category	Number of shares of Common Stock to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted average exercise price of outstanding options, warrants and rights(2)	Number of shares of Common Stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders:			
Activision, Inc. 1998 Incentive Plan, as amended	327,983	3.14	(3)
Activision, Inc. 2001 Incentive Plan, as amended	2,921,392	4.96	(3)
Activision, Inc. 2002 Executive Incentive Plan	5,427,116	2.84	(3)
Activision, Inc. 2003 Incentive Plan	28,500,665	7.90	(3)
Activision, Inc. 2007 Incentive Plan	20,862,637	14.63	(3)
Activision Blizzard, Inc. 2008 Incentive Plan	9,661,558	11.29	8,215,083(4)
All stockholder approved plans	67,701,351	9.43	8,215,083
Equity compensation plans not approved by stockholders:			
Activision, Inc. 1999 Incentive Plan, as amended(5)	1,194,463	3.28	(3)
Activision, Inc. 2002 Incentive Plan, as amended(6)	8,892,278	4.26	(3)
Activision, Inc. 2002 Studio Employee Retention Incentive Plan(7)	458,156	2.90	(3)
Other Employee Stock Options	3,618,388(8)	1.03	
All non-stockholder approved plans	14,163,285	3.31	
Total	81,864,636	8.26	8,215,083

(1)

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Reflects options to purchase shares of our Common Stock and, in the case of the 2003 Plan, the 2007 Plan and the 2008 Plan, 74,559 restricted share units, 5,492,593 restricted share units and 1,986,270 restricted share units, respectively, each reflecting the right to receive a share of Common Stock.

- (2) As there is no exercise price for restricted share units, the values in this column represent the weighted average exercise price of any outstanding options under the relevant plan.
- (3) Upon adoption of the 2008 Plan, pursuant to the terms thereof, we ceased making awards under each of the Prior Plans, although each Prior Plan remains in effect and continues to govern outstanding awards thereunder.
- (4) The number of shares reserved for issuance under the 2008 Plan may be increased from time to time as described in "Proposal Approval to Increase the Number of Authorized Shares Under the 2008 Incentive Plan Summary of the 2008 Plan, as Proposed to be Amended Shares Available Under the 2008 Plan."
- (5) On April 26, 1999, our Board approved the 1999 Plan. The 1999 Plan permitted the granting of non-qualified stock options, ISOs, SARs, restricted share awards, deferred share awards and other equity based awards to our or any of our subsidiaries' directors, officers, key employees, consultants, representatives and other agents. Only non-qualified stock options have been granted under the 1999 Plan. All such options have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier acceleration if certain performance objectives are satisfied). The 1999 Plan expired on May 31, 2009; however, we ceased making awards under the 1999 Plan upon adoption of the 2007 Plan.

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- (6) On April 4, 2002, our Board approved the 2002 Plan. The 2002 Plan permitted the granting of non-qualified stock options, ISOs, SARs, restricted share awards, deferred share awards and other equity based awards to our or any of our subsidiaries' or affiliates' officers (other than executive officers), employees, consultants and advisors. Only non-qualified stock options have been granted under the 2002 Plan. All such options have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier acceleration if certain performance objectives are satisfied). The 2002 Plan expires on April 3, 2012; however, we ceased making awards under the 2002 Plan upon adoption of the 2007 Plan.
- (7) On December 16, 2002, our Board approved the 2002 Studio Plan. The 2002 Studio Plan permitted the granting of non-qualified stock options and restricted share awards to our or our subsidiaries' and affiliates' key studio employees (other than executive officers and directors). Only non-qualified stock options have been granted under the 2002 Studio Plan. All such options have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier acceleration if certain performance objectives are satisfied). The 2002 Studio Plan expires on December 18, 2012; however, we ceased making awards under the 2002 Studio Plan upon adoption of the 2007 Plan.
- (8) Options to purchase our Common Stock granted to Mr. Kotick, specifically: (a) options to purchase 4 shares of Common Stock at a price of \$0.51 per share which expire on May 22, 2010, and (b) options to purchase 3,618,384 shares of Common Stock at a price of \$1.03 per share which expire on April 18, 2010. All of these options were vested in full as of October 15, 2009.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information, as of October 15, 2009 (unless otherwise noted), with respect to the beneficial ownership of our Common Stock by (1) each executive officer named in the "Summary Compensation Table" below (the "named executive officers"), (2) each director, (3) all current executive officers and directors as a group, and (4) each stockholder (including any "group" as that term is used in Section 13(d)(3) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")) that we know to be the beneficial owner of more than 5% of our Common Stock. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by him or her.

Beneficial Owner	Shares of Activision Blizzard Beneficially Owned			
	Shares Owned	Right to Acquire(1)	Total Shares Owned plus Right to Acquire	Percent of Outstanding Shares(2)
Philippe G.H. Capron	7,000	0	7,000	*
Robert J. Corti	44,000(3)	317,780(4)	361,780	*
Frédéric R. Crépin	7,000	0	7,000	*
Michael J. Griffith	0	33,334(5)	33,334	*
Brian G. Kelly	1,176,484(6)	3,379,504(5)	4,555,988	*
Robert A. Kotick	3,970,486(7)	12,688,038(5)	16,658,524	1.30
Jean-Bernard Lévy	7,000	0	7,000	*
Robert J. Morgado	151,332	544,446(8)	695,778	*
Michael Morhaim	0	170,000(5)	170,000	*
Douglas P. Morris	10,000	0	10,000	&nbsALIGN="bottom" *ALIGN="right">591.65
November 1 - 30, 2011		\$		38,323 \$ 19,897,000
December 1 - 31, 2011		\$		\$ 319,897,000
Total	38,323	\$ 591.65	38,323	

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STOCK PERFORMANCE GRAPH

COMPARISON OF CUMULATIVE TOTAL EQUITYHOLDER RETURN ON EQUITY

The following chart graphs our performance in the form of cumulative total return to holders of our Common Stock since December 31, 2006 in comparison to the Dow/Home Construction Index and the Dow Jones Industrial Index for that same period, assuming that \$100 was invested in NVR stock and the indices on December 31, 2006.

Item 6. Selected Financial Data.

(dollars in thousands, except per share amounts)

The following tables set forth selected consolidated financial data. The selected income statement and balance sheet data have been derived from our consolidated financial statements for each of the periods presented and is not necessarily indicative of results of future operations. The selected financial data should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and related notes included elsewhere in this report.

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
Consolidated Income Statement Data:					
Homebuilding data:					
Revenues	\$ 2,611,195	\$ 2,980,758	\$ 2,683,467	\$ 3,638,702	\$ 5,048,187
Gross profit	445,570	542,466	497,734	457,692	821,128
Mortgage Banking data :					
Mortgage banking fees	47,954	61,134	60,381	54,337	81,155
Interest income	5,702	5,411	2,979	3,955	4,900
Interest expense	875	1,126	1,184	754	681
Consolidated data:					
Income from continuing operations	\$ 129,420	\$ 206,005	\$ 192,180	\$ 100,892	\$ 333,955
Income from continuing operations per diluted share (1)	\$ 23.01	\$ 33.42	\$ 31.26	\$ 17.04	\$ 54.14
	December 31,				
	2011	2010	2009	2008	2007
Consolidated Balance Sheet Data:					
Homebuilding inventory	\$ 533,150	\$ 431,329	\$ 418,718	\$ 400,570	\$ 688,854
Contract land deposits, net	131,930	100,786	49,906	29,073	188,528
Total assets	1,779,485	2,260,061	2,395,770	2,103,236	2,194,416
Notes and loans payable	1,613	92,089	147,880	210,389	286,283
Shareholders' equity	1,374,799	1,740,374	1,757,262	1,373,789	1,129,375
Cash dividends per share					

- (1) For the years ended December 31, 2011, 2010, 2009, 2008 and 2007, income from continuing operations per diluted share was computed based on 5,623,817; 6,164,617; 6,148,769; 5,920,285 and 6,167,795 shares, respectively, which represents the weighted average number of shares and share equivalents outstanding for each year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(dollars in thousands, except per share data)

Results of Operations for the Years Ended December 31, 2011, 2010 and 2009**Overview****Business**

Our primary business is the construction and sale of single-family detached homes, townhomes and condominium buildings, all of which are primarily constructed on a pre-sold basis. To fully serve customers of our homebuilding operations, we also operate a mortgage banking and title services business. We primarily conduct our operations in mature markets. Additionally, we generally grow our business through market share gains in our existing markets and by expanding into markets contiguous to our current active markets. Our four homebuilding reportable segments consist of the following regions:

<i>Mid Atlantic:</i>	Maryland, Virginia, West Virginia and Delaware
<i>North East:</i>	New Jersey and eastern Pennsylvania
<i>Mid East:</i>	Kentucky, New York, Ohio, western Pennsylvania, Indiana and Illinois
<i>South East:</i>	North Carolina, South Carolina, Tennessee and Florida

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Our lot acquisition strategy is predicated upon avoiding the financial requirements and risks associated with direct land ownership and development. Historically, we have not engaged in land development to obtain finished lots for use in our homebuilding operations. Instead, we have acquired finished lots at market prices from various third party land developers pursuant to fixed price purchase agreements. These purchase agreements require deposits, typically ranging up to 10% of the aggregate purchase price of the finished lots, in the form of cash or letters of credit that may be forfeited if we fail to perform under the purchase agreement. This strategy has allowed us to maximize inventory turnover, which we believe enables us to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital.

Our continued success is contingent upon our ability to control an adequate supply of finished lots on which to build and on our developers ability to timely deliver finished lots to meet the sales demands of our customers. However, economic conditions and the continued downturn of the homebuilding industry have exerted pressure on our developers ability to obtain acquisition and development financing or to raise equity investments to finance land development activity, potentially constraining our supply of finished lots. This pressure has necessitated that in certain specific strategic circumstances we deviate from our historical lot acquisition strategy and engage in joint venture arrangements with land developers or directly acquire raw ground already zoned for its intended use for development. Once we acquire control of any raw ground, we determine whether to sell the raw parcel to a developer and enter into a fixed price purchase agreement with the developer to purchase the finished lots, or whether to hire a developer to develop the land on our behalf. While joint venture arrangements and direct land development activity are not our preferred method of acquiring finished building lots, we may enter into additional transactions in the future on a limited basis where there exists a compelling strategic or prudent financial reason to do so. We expect, however, to continue to acquire substantially all of our finished lot inventory using fixed price purchase agreements with forfeitable deposits.

As of December 31, 2011, we controlled approximately 48,200 lots under purchase agreements with deposits in cash and letters of credit totaling approximately \$202,300 and \$3,200, respectively. Additionally, we controlled approximately 6,700 lots through joint venture limited liability corporations with an aggregate investment of approximately \$89,500. Of the lots controlled by the joint ventures, approximately 2,700 were not under contract at December 31, 2011. Included in the number of controlled lots are approximately 10,600 lots for which we have recorded a contract land deposit impairment reserve of approximately \$70,300 as of December 31, 2011. See Note 3 to the consolidated financial statements included herein for additional information regarding contract land deposits. Further, as of December 31, 2011, we had approximately \$78,000 in land under development, that once fully developed will result in approximately 800 lots.

In addition to constructing homes primarily on a pre-sold basis and utilizing what we believe is a conservative lot acquisition strategy, we focus on obtaining and maintaining a leading market position in each market we serve. This strategy allows us to gain valuable efficiencies and competitive advantages in our markets, which we believe contributes to minimizing the adverse effects of regional economic cycles and provides growth opportunities within these markets.

Current Business Environment and Key Financial Results

The homebuilding environment remained challenging throughout 2011 as it continued to be impacted by the economic downturn and uncertainty that has been experienced over the past several years. The sluggish economy and high unemployment rates continue to weigh on consumer confidence and in turn, suppress housing demand. In addition, new home sales and selling prices continue to be pressured by market uncertainty surrounding home prices and by a more restrictive mortgage lending environment. As a result, our new orders, net of cancellations (new orders), for 2011 were down 2% from the prior year while our average new order selling price of \$304.1 remained flat year over year. Gross profit margins in 2011 within our homebuilding business were negatively impacted by pricing pressure and increased construction and sales incentive costs year over year, declining to 17.1% from 18.2% in 2010.

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Consolidated revenues totaled \$2,659,149 for 2011, a decrease of 13% from \$3,041,892 in 2010. Net income declined 37% to \$129,420 in 2011 from the prior year and diluted earnings per share declined 31% to \$23.01 year over year.

We believe that significant economic uncertainties remain which could result in continued sales, pricing and gross margin pressure over the next several quarters. Further, our expectation of continued sales and pricing pressures has been factored into the impairment analysis of our homebuilding inventory, land under development and contract land deposits. We assess our land under development, including land under development held in joint ventures, and contract land deposits each quarter for impairment on a community-by-community basis by considering, among other items, overall market and economic conditions, and analyzing, as applicable, current sales absorption levels and recent sales gross profit. At this time, we do not believe that any of the land under development is impaired, and we consider the allowance for losses on contract land deposits reflected on the December 31, 2011 balance sheet to be adequate. Further, we believe that our homebuilding inventory is stated at the lower of cost or market. However, there can be no assurance that we will not incur impairment charges in the future due to unanticipated adverse changes in the economy or other events adversely affecting specific markets or the homebuilding industry. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010, contains numerous provisions affecting residential mortgages and mortgage lending practices. Because these provisions are to be implemented through future rulemaking, the ultimate impact of such provisions on lending institutions, including our mortgage banking subsidiary, will depend on how the implementing rules are written. Despite these ongoing economic uncertainties, we believe that we are well positioned to withstand this market uncertainty and take advantage of opportunities that may arise due to the strength of our balance sheet and liquidity.

Homebuilding Operations

The following table summarizes the results of our consolidated homebuilding operations and certain operating activity for each of the last three years:

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 2,611,195	\$ 2,980,758	\$ 2,683,467
Cost of sales	\$ 2,165,625	\$ 2,438,292	\$ 2,185,733
Gross profit margin percentage	17.1%	18.2%	18.5%
Selling, general and administrative expenses	\$ 264,266	\$ 257,394	\$ 233,152
Settlements (units)	8,487	10,030	9,042
Average settlement price	\$ 307.5	\$ 297.1	\$ 296.4
New orders (units)	9,247	9,415	9,409
Average new order price	\$ 304.1	\$ 304.0	\$ 292.7
Backlog (units)	3,676	2,916	3,531
Average backlog price	\$ 315.8	\$ 328.6	\$ 304.9
New order cancellation rate	14%	14%	14%

Consolidated Homebuilding Revenues

Homebuilding revenues for 2011 decreased 12% from 2010, as a result of a 15% decrease in the number of homes settled, offset partially by a 4% increase in the average settlement price year over year. The decrease in the number of homes settled was attributable to a 17% lower beginning backlog unit balance entering 2011 as compared to the same period in 2010, coupled with lower new orders in the first half of 2011 as compared to the first half of 2010. Average settlement prices in the current year were favorably impacted by an 8% higher average price of homes in the beginning backlog entering 2011 compared to the same period in 2010.

Homebuilding revenues for 2010 increased 11% from 2009, as a result of an 11% increase in the number of homes settled. The increase in the number of homes settled was primarily attributable to the impact of the

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federal homebuyer tax credit which resulted in strong first quarter sales and increased settlements through the second quarter of 2010 as compared to the same period in 2009. In addition, the increase in settlements was also favorably impacted by a 12% higher beginning backlog unit balance entering 2010 compared to the same period in 2009.

Consolidated Homebuilding New Orders

New orders in 2011 decreased 2% when compared to the prior year, while the average sales price of new orders remained flat year over year. As discussed in the *Overview* section above, we continue to face selling pressure in most of our markets due to continuing economic uncertainty, driven by low consumer confidence and high unemployment rates. We expect to face continued sales and pricing pressure over the next several quarters until we see economic stability and improved consumer confidence levels.

New orders in 2010 remained flat with 2009 new orders, while the average sales price of new orders increased 4% year over year. New orders remained flat despite a strong first quarter in 2010, driven we believe by the federal homebuyer tax credit, and increased sales in the Indianapolis, IN, Orlando, FL and Raleigh, NC markets, each of which began operations in the second half of 2009. From the first quarter of 2010, we experienced a consistent decline in the number of new orders across all of our markets in each of the second, third and fourth quarters of 2010 compared to the respective periods in 2009. The increase in the average price of new orders year over year, was attributable to a product mix shift away from our attached products to our detached product which generally sell at higher price points.

Consolidated Homebuilding Gross Profit

Gross profit margins in 2011 declined to 17.1% from 18.2% in 2010. As discussed in the *Overview* section above, gross profit margins in 2011 were negatively impacted by pricing pressure and increased construction and sales incentive costs. We expect to experience gross profit margin pressure over at least the next several quarters due to significant market uncertainties as discussed in the *Overview* section above.

Gross profit margins in 2010 declined slightly to 18.2% from 18.5% in 2009. Gross profit margins in 2010 were negatively impacted by a contract land deposit impairment charge of approximately \$4,300, or 14 basis points, while 2009 gross profit margins were favorably impacted by the recovery of approximately \$6,500, or 24 basis points, of contract land deposits previously determined to be uncollectible.

Consolidated Homebuilding Selling, General and Administrative (SG&A)

SG&A expenses in 2011 increased approximately \$6,900, or 3%, compared to 2010 and as a percentage of revenue increased to 10.1% in 2011 from 8.6% in the prior year. The increase in SG&A expenses was primarily attributable to an approximate \$10,500 increase in equity-based compensation costs in 2011 compared to 2010. The increase in equity-based compensation resulted primarily from the favorable impact in 2010 of a reversal of approximately \$6,600 in equity-based compensation expense related to an adjustment of our stock option forfeiture estimates to our actual forfeiture experience, while there was no forfeiture adjustment recorded in 2011. In addition, the increase in equity-based compensation expense in 2011 resulted from incurring a full year of expense in 2011 for non-qualified stock options and restricted share units granted in the second quarter of 2010 under the 2010 Equity Incentive Plan. This increase in SG&A expenses was partially offset by an approximate \$4,100 decrease in personnel costs, primarily driven by a \$7,800 decline in management incentives year over year. SG&A expenses increased as a percentage of revenue due to the aforementioned 12% decrease in revenues year over year.

SG&A expenses in 2010 increased approximately \$24,200 compared to 2009, but remained flat as a percentage of revenue year over year. The increase in SG&A expenses was attributable to an approximate \$13,500 increase in stock-based compensation costs in 2010 compared to the same period in 2009, due to the grant of non-qualified stock options and restricted share units under the 2010 Equity Incentive Plan, offset partially by a reversal of approximately \$6,600 in stock-based compensation expense previously recorded to

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SG&A expense as we adjusted our stock option forfeiture estimates to our actual forfeiture experience. SG&A expense was also higher due to an approximate \$5,600 increase in management incentive costs as 2009 incentive plans were limited to payouts of 50% of incentive earned, while no similar restrictions were imposed on 2010 incentive compensation. In addition, SG&A expenses were impacted by an approximate \$7,600 increase in selling and marketing costs year over year due primarily to an approximate \$5,700 increase in advertising and model home costs attributable in part to an increase in the average number of active communities to 371 communities in 2010 from 355 communities in 2009.

Consolidated Homebuilding Backlog

Backlog units and dollars increased approximately 26% to 3,676 and 21% to \$1,160,879, respectively, as of December 31, 2011 compared to 2,916 and \$958,287 as of December 31, 2010. The increase in backlog units was primarily attributable to the decreased settlement activity in 2011 as discussed above. Backlog dollars were favorably impacted by the backlog unit increase, offset partially by a 4% decline in the average price of homes in backlog in 2011 compared to 2010.

Backlog, which represents homes sold but not yet settled with the customer, may be impacted by customer cancellations for various reasons that are beyond our control, such as failure to obtain mortgage financing, inability to sell an existing home, job loss, or a variety of other reasons. In any period, a portion of the cancellations that we experience are related to new sales that occurred during the same period, and a portion are related to sales that occurred in prior periods and therefore appeared in the opening backlog for the current period. Expressed as the total of all cancellations during the period as a percentage of gross sales during the period, our cancellation rate was approximately 14% in each of 2011, 2010 and 2009. Of a reporting quarter's opening backlog, 6% during 2011 and 2010, and 7% during 2009, of that opening backlog balance cancelled during the fiscal quarter. We can provide no assurance that our historical cancellation rates are indicative of the actual cancellation rate that may occur in future periods. See Risk Factors in Item 1A of this Report.

Backlog units and dollars decreased approximately 17% to 2,916 and 11% to \$958,287, respectively, as of December 31, 2010 compared to 3,531 and \$1,076,437 as of December 31, 2009. The decrease in backlog units was primarily attributable to the increased settlement activity in 2010 as discussed above. Backlog dollars were negatively impacted by the decrease in backlog units.

Table of Contents**Reportable Homebuilding Segments**

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, SG&A expenses, and a corporate capital allocation charge determined at the corporate headquarters. The corporate capital allocation charge eliminates in consolidation, is based on the segment's average net assets employed, and is charged using a consistent methodology in the years presented.

The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment's results are providing the desired rate of return after covering our cost of capital. We record charges on contract land deposits when we determine that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are generally charged to the operating segment upon the determination to terminate a finished lot purchase agreement with the developer or to restructure a lot purchase agreement resulting in the forfeiture of the deposit. We evaluate our entire net contract land deposit portfolio for impairment each quarter. For additional information regarding our contract land deposit impairment analysis, see the *Critical Accounting Policies* section within this Management Discussion and Analysis. For presentation purposes below, the contract land deposit reserve at December 31, 2011, 2010 and 2009, respectively, has been allocated to the reportable segments to show contract land deposits on a net basis. The net contract land deposit balances below also includes approximately \$3,200, \$6,600 and \$4,900 at December 31, 2011, 2010 and 2009, respectively, of letters of credit issued as deposits in lieu of cash. The following tables summarize certain homebuilding operating activity by reportable segment for each of the last three years:

Selected Segment Financial Data:

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Mid Atlantic	\$ 1,582,826	\$ 1,780,521	\$ 1,661,244
North East	221,146	287,561	254,654
Mid East	549,384	632,377	505,431
South East	257,839	280,299	262,138
Total	\$ 2,611,195	\$ 2,980,758	\$ 2,683,467
Gross profit margin:			
Mid Atlantic	\$ 286,266	\$ 338,586	\$ 307,525
North East	37,220	48,528	42,282
Mid East	85,385	109,579	85,931
South East	42,116	41,074	36,490
Total	\$ 450,987	\$ 537,767	\$ 472,228
Segment profit:			
Mid Atlantic	\$ 148,373	\$ 209,496	\$ 185,861
North East	13,463	25,090	19,572
Mid East	27,194	56,882	38,012
South East	14,162	10,870	7,384
Total	\$ 203,192	\$ 302,338	\$ 250,829
Gross profit margin percentage:			
Mid Atlantic	18.1%	19.0%	18.5%
North East	16.8%	16.9%	16.6%
Mid East	15.5%	17.3%	17.0%
South East	16.3%	14.7%	13.9%

Segment Operating Activity:

	Year Ended December 31,					
	2011		2010		2009	
	Units	Average Price	Units	Average Price	Units	Average Price
Settlements:						
Mid Atlantic	4,238	\$ 373.4	5,043	\$ 353.0	4,722	\$ 351.8
North East	728	\$ 303.6	920	\$ 312.5	882	\$ 288.7
Mid East	2,335	\$ 235.1	2,886	\$ 219.0	2,323	\$ 216.3
South East	1,186	\$ 217.1	1,181	\$ 237.2	1,115	\$ 235.1
Total	8,487	\$ 307.5	10,030	\$ 297.1	9,042	\$ 296.4

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	Year Ended December 31,					
	2011		2010		2009	
	Units	Average Price	Units	Average Price	Units	Average Price
<i>New orders, net of cancellations:</i>						
Mid Atlantic	4,616	\$ 364.2	4,775	\$ 365.1	4,809	\$ 347.4
North East	872	\$ 300.1	827	\$ 317.3	904	\$ 293.5
Mid East	2,412	\$ 238.7	2,656	\$ 221.3	2,552	\$ 217.3
South East	1,347	\$ 218.1	1,157	\$ 231.9	1,144	\$ 230.2
Total	9,247	\$ 304.1	9,415	\$ 304.0	9,409	\$ 292.7
<i>Backlog:</i>						
Mid Atlantic	1,973	\$ 370.3	1,595	\$ 396.2	1,863	\$ 359.0
North East	376	\$ 303.0	232	\$ 315.9	325	\$ 302.8
Mid East	807	\$ 245.6	730	\$ 234.7	960	\$ 224.7
South East	520	\$ 227.0	359	\$ 227.6	383	\$ 244.1
Total	3,676	\$ 315.8	2,916	\$ 328.6	3,531	\$ 304.9

Operating Data:

	Year Ended December 31,		
	2011	2010	2009
<i>New order cancellation rate:</i>			
Mid Atlantic	13.3%	11.3%	14.4%
North East	13.1%	16.4%	14.5%
Mid East	14.6%	15.0%	13.9%
South East	13.0%	18.9%	14.8%
<i>Average active communities:</i>			
Mid Atlantic	188	171	168
North East	34	33	37
Mid East	106	108	100
South East	56	59	50
Total	384	371	355

Homebuilding Inventory:

	As of December 31,		
	2011	2010	2009
<i>Sold inventory:</i>			
Mid Atlantic	\$ 233,458	\$ 182,128	\$ 219,885
North East	35,502	20,703	36,315
Mid East	52,141	43,506	60,107
South East	35,410	23,711	21,521
Total (1)	\$ 356,511	\$ 270,048	\$ 337,828

Unsold lots and housing units inventory:

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Mid Atlantic	\$ 53,587	\$ 42,682	\$ 47,120
North East	4,041	3,687	4,152
Mid East	7,830	11,089	16,353
South East	14,917	8,967	4,783
Total (1)	\$ 80,375	\$ 66,425	\$ 72,408

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- (1) The reconciling items between segment inventory and consolidated inventory include certain consolidation adjustments necessary to convert the reportable segments' results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes and are not allocated to our operating segment.

	Year Ended December 31,		
	2011	2010	2009
Unsold inventory impairments:			
Mid Atlantic	\$ 1,045	\$ 1,520	\$ 1,286
North East	246	420	598
Mid East	554	434	592
South East	228	820	268
Total	\$ 2,073	\$ 3,194	\$ 2,744

Lots Controlled and Land Deposits:

	As of December 31,		
	2011	2010	2009
Total lots controlled:			
Mid Atlantic	29,402	30,201	26,938
North East	4,751	4,025	3,898
Mid East	11,879	11,061	10,163
South East	6,944	7,023	5,338
Total	52,976	52,310	46,337

Lots included in impairment reserve:			
Mid Atlantic	5,724	5,973	6,575
North East	658	594	846
Mid East	2,409	2,055	2,022
South East	1,765	1,678	1,363
Total	10,556	10,300	10,806

Contract land deposits, net			
Mid Atlantic	\$ 101,674	\$ 82,165	\$ 38,729
North East	11,502	8,525	3,513
Mid East	16,122	11,876	5,242
South East	5,860	4,830	3,161
Total	\$ 135,158	\$ 107,396	\$ 50,645

	Year Ended December 31,		
	2011	2010	2009
Contract land deposit impairments:			
Mid Atlantic	\$ 6,741	\$ 9,150	\$ 18,425
North East	818	4,898	2,489
Mid East	493	1,686	7,244
South East	311	4,618	5,236

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Total	\$ 8,363	\$ 20,352	\$ 33,394
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Mid Atlantic

2011 versus 2010

The Mid Atlantic segment had an approximate \$61,100, or 29%, decrease in segment profit in 2011 compared to 2010. Revenues decreased approximately \$197,700, or 11%, in 2011 from 2010 on a 16% decrease in the number of units settled, offset partially by a 6% increase in the average settlement price year over year. The decrease in the number of homes settled was attributable to a 14% lower beginning backlog unit balance entering 2011 as compared to the same period in 2010, coupled with a 12% decline in new orders in the first half of 2011 compared to the first half of 2010. Average settlement prices in the current year were favorably impacted by a 10% higher average price of homes in the beginning backlog entering 2011 compared to the same period in 2010. The segment's gross profit margin percentage decreased to 18.1% in 2011 from 19.0% in 2010. Segment profit and gross profit margins were negatively impacted by pricing pressure and increased construction and sales incentive costs in addition to the reduced settlement volume year over year and its impact on our ability to leverage certain operating costs.

Segment new orders in 2011 declined approximately 3% from 2010, while the average sales price of new orders in 2011 remained flat year over year. New orders were lower despite a 10% increase in the number of active communities year over year for the reasons previously discussed in the *Overview* section above. New orders were also negatively impacted by an increase in the cancellation rate to 13.3% in 2011 from 11.3% in 2010.

2010 versus 2009

The Mid Atlantic segment had an approximate \$23,600, or 13%, increase in segment profit in 2010 compared to 2009. Revenues increased approximately \$119,300, or 7%, in 2010 from 2009 on a 7% increase in the number of units settled. The increase in units settled was attributable to the impact of the federal homebuyer tax credit which we believe resulted in higher first quarter sales and increased settlements through the second quarter of 2010 as compared to the same period in 2009. In addition, 2010 settlements were also favorably impacted by a 5% higher beginning backlog unit balance entering 2010 as compared to 2009. The segment's gross profit margin percentage increased to 19.0% in 2010 from 18.5% in 2009. Segment profit and gross profit margins were favorably impacted by lower contract land deposit impairment charges in 2010 of \$9,150, or 51 basis points, compared to \$18,425, or 111 basis points in 2009.

Segment new orders in 2010 declined approximately 1%, while the average sales price of new orders in 2010 increased approximately 5%, as compared to new orders and the average sales price in 2009. The increase in the average price of new orders was attributable to a product mix shift away from our attached products to our detached product which generally sell at higher price points.

North East

2011 versus 2010

The North East segment had an approximate \$11,600, or 46% decrease in segment profit in 2011 compared to 2010. Revenues decreased approximately \$66,400, or 23%, in 2011 from 2010. The decrease in revenues was primarily due to a 21% decrease in the number of units settled, which was attributable to a 29% lower backlog unit balance entering 2011 as compared to the backlog unit balance entering 2010. In addition, settlements were negatively impacted by a slower backlog turnover rate in 2011 compared to 2010. Gross profit margins remained relatively flat period over period, as lower contract land deposit impairment charges in 2011 of \$818, or 37 basis points, compared to 2010 of \$4,898, or 170 basis points, were offset by pricing pressure and increased construction and sales incentive costs year over year. In addition, gross profit margins and segment profit were negatively affected by the lower settlement volume year over year which impacted our ability to leverage certain operating costs.

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Segment new orders in 2011 increased 5% compared to 2010, while the average sales price of new orders decreased 5% year over year. New orders were favorably impacted by the increase in the number of active communities year over year. Average selling prices were lower year over year due to a product mix shift from our detached product to our attached product which generally sells at lower price points.

2010 versus 2009

The North East segment had an approximate \$5,500, or 28% increase in segment profit in 2010 compared to 2009. Revenues increased approximately \$32,900, or 13%, in 2010 from 2009. Revenues increased due to a 4% increase in the number of units settled and an 8% increase in the average settlement price year over year. The increase in units settled was primarily attributable to the impact of the federal homebuyer tax credit which we believe resulted in higher first quarter sales and increased settlements through the second quarter of 2010 as compared to the same period in 2009. The increase in the average settlement price resulted from a product mix shift away from our attached products to our detached product, which generally sells at higher price points. Gross profit margins remained relatively flat period over period, as the higher contract land deposit impairment charges in 2010 of \$4,898, or 170 basis points, compared to 2009 of \$2,489, or 98 basis points, were offset by improved leveraging of fixed operating costs due to higher settlement volume year over year.

Segment new orders in 2010 decreased 9% compared to 2009, while the average sales price of new orders increased 8% year over year. Subsequent to the April 30, 2010 expiration of the federal homebuyer tax credit, we experienced a decline in new orders in each quarter of 2010 as compared to the respective quarters of 2009. The average sales price of new orders has been favorably impacted by a product mix shift away from our attached products to our detached product, which generally sells at higher price points.

Mid East

2011 versus 2010

The Mid East segment had an approximate \$29,700, or 52%, decrease in segment profit in 2011 compared to 2010, driven by a decrease in revenues of approximately \$83,000, or 13%, year over year. The decline in revenues was primarily due to a 19% decrease in the number of units settled, offset partially by a 7% increase in the average price of homes settled year over year. Units settled in 2011 were negatively impacted by a 24% lower beginning backlog unit balance entering 2011 compared to the same period in 2010 coupled with a 15% decline in new orders in the first half of 2011 compared to the first half of 2010. The increase in the average settlement price in 2011 is attributable to a 4% higher average price of homes in the beginning backlog year over year and an 8% higher average price of new orders in the first half of 2011 compared to the same period in 2010. Gross profit margins declined to 15.5% in 2011 from 17.3% in 2010. Gross profit margins and segment profit were negatively impacted by pricing pressure and increased construction and sales incentive costs year over year and by the lower settlement volume year over year which impacted our ability to leverage certain operating costs.

Segment new orders in 2011 decreased 9% compared to 2010, while the average new order selling price increased 8% year over year. New orders were lower year over year due to the economic circumstances discussed in the *Overview* section above. In addition, new orders were negatively impacted by a lower number of active communities in certain of our markets year over year, most notably the Ohio and New York regions which were down 10% and 11% respectively. The increase in the average selling price is attributable to a shift in mix to higher priced communities in certain markets.

2010 versus 2009

The Mid East segment had an approximate \$18,900, or 50%, increase in segment profit in 2010 compared to 2009. The increase in segment profit was driven by an increase in revenues of approximately \$126,900, or 25%, in 2010 compared to 2009 primarily due to a 24% increase in the number of units settled year over year. The increase in units settled was attributable to the impact of the federal homebuyer tax credit which we believe resulted in higher first quarter sales and increased settlements through the second quarter of 2010 as

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compared to the same period in 2009. In addition, settlements were favorably impacted by a 31% higher beginning backlog entering 2010 compared to the same period in 2009. Gross profit margins remained relatively flat year over year, at 17.3% in 2010 compared to 17.0% in 2009.

Segment new orders and the average new order selling price in 2010 increased 4% and 2%, respectively compared to 2009. New orders were favorably impacted primarily by the 178 new orders in 2010 in Indianapolis, IN, market which began operations in the fourth quarter of 2009. This increase was offset partially by an increase in the cancellation rate in both the third and fourth quarters of 2010 to 21% in each quarter as compared to 15% and 13% in the third and fourth quarters of 2009, respectively.

South East

2011 versus 2010

The South East segment had an approximate \$3,300, or 30%, increase in segment profit in 2011 compared to 2010, despite an 8% decrease in revenues year over year. The number of units settled remained flat year over year, while the average price of homes settled in 2011 decreased 9% compared to 2010. The decrease in the average settlement price in 2011 is attributable to the 7% lower average price of units in backlog entering 2011 compared to the same period in 2010. Gross profit margins increased to 16.3% in 2011 from 14.7% in 2010 due primarily to lower contract land deposit impairment charges in 2011 of \$311, or 12 basis points, compared to \$4,618, or 165 basis points, in 2010. Despite this gross profit margin improvement year over year, the South East segment's gross profit margins, similar to our other segments, have been negatively impacted by pricing pressure and increased construction and sales incentive costs year over year.

Segment new orders increased 16% in 2011 compared to 2010, while the average selling price of new orders decreased 6% year over year. The increase in new orders is primarily attributable to an increase in the number of active communities in the Raleigh, NC and Orlando, FL markets. In addition, new orders were favorably impacted by a decline in the cancellation rate in the South East segment to 13% in 2011 from 19% in 2010. The decrease in the average selling price is attributable to product mix shift to lower priced, more affordable homes in certain of our markets in the South East segment.

2010 versus 2009

The South East segment had an approximate \$3,500, or 47%, increase in segment profit in 2010 compared to 2009. The increase in segment profit was driven by an increase of approximately \$18,200, or 7%, in revenues in 2010 from 2009 due primarily to a 6% increase in the number of units settled. The increase in units settled was primarily attributable to the impact of the federal homebuyer tax credit which we believe resulted in higher first quarter sales and increased settlements through the second quarter of 2010 as compared to the same period in 2009. In addition, settlements were favorably impacted by an 8% higher beginning backlog entering 2010 compared to the same period in 2009. Gross profit margins increased to 14.7% in 2010 from 13.9% in 2009 due in part to lower contract land deposit impairment charges in 2010 of \$4,618, or 165 basis points, compared to \$5,236, or 200 basis points in 2009, coupled with improved leveraging of fixed operating costs due to higher settlement volume year over year.

Segment new orders and the average sales price of new orders for 2010 remained relatively flat with 2009. New orders were favorably impacted by an 18% increase in the average number of active communities year over year, and by the increase of approximately 80 new orders in 2010 in the Orlando, FL and Raleigh, NC markets, in which we began operations in the third quarter of 2009. These favorable variances were offset by higher cancellations rates in the segment in both the third and fourth quarters of 2010 of 32% and 19% respectively, compared to 14% and 18% for the respective quarters of 2009 and lower absorption rates year over year. Market conditions continued to deteriorate in this segment throughout 2010. The challenging market conditions, coupled with the expiration of the federal homebuyer tax credit in April of 2010, attributed to the segment's higher cancellation rates and fewer new orders in each the second, third and fourth quarters of 2010 as compared to the respective quarters in 2009.

Table of Contents**Homebuilding Segment Reconciliations to Consolidated Homebuilding Operations**

In addition to the corporate capital allocation and contract land deposit impairments discussed above, the other reconciling items between homebuilding segment profit and homebuilding consolidated profit before tax include unallocated corporate overhead (which includes all management incentive compensation), stock-based compensation expense, consolidation adjustments and external corporate interest expense. Our overhead functions, such as accounting, treasury, human resources, etc., are centrally performed and the costs are not allocated to our operating segments. Consolidation adjustments consist of such items to convert the reportable segments' results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes, and are not allocated to our operating segments. Likewise, stock-based compensation expense is not charged to the operating segments. External corporate interest expense is primarily comprised of interest charges on our senior notes, and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

	Year Ended December 31,		
	2011	2010	2009
Homebuilding Consolidated Gross Profit:			
Homebuilding Mid Atlantic	\$ 286,266	\$ 338,586	\$ 307,525
Homebuilding North East	37,220	48,528	42,282
Homebuilding Mid East	85,385	109,579	85,931
Homebuilding South East	42,116	41,074	36,490
Consolidation adjustments and other (1)	(5,417)	4,699	25,506
Consolidated homebuilding gross profit	\$ 445,570	\$ 542,466	\$ 497,734
Homebuilding Consolidated Profit Before Tax:			
Homebuilding Mid Atlantic	\$ 148,373	\$ 209,496	\$ 185,861
Homebuilding North East	13,463	25,090	19,572
Homebuilding Mid East	27,194	56,882	38,012
Homebuilding South East	14,162	10,870	7,384
Reconciling items:			
Contract land deposit impairment reserve (2)	(2,878)	16,206	42,939
Equity-based compensation expense (3)	(61,359)	(50,357)	(43,495)
Corporate capital allocation (4)	71,226	65,971	61,753
Unallocated corporate overhead (5)	(45,355)	(55,992)	(44,103)
Consolidation adjustments and other	20,477	15,848	4,970
Corporate interest expense (6)	(715)	(4,546)	(9,810)
Reconciling items sub-total	(18,604)	(12,870)	12,254
Homebuilding consolidated profit before taxes	\$ 184,588	\$ 289,468	\$ 263,083

- (1) The year over year variances in consolidation adjustments and other related primarily to changes to the contract land deposit impairment reserve, which are not allocated to the reportable segments.
- (2) This item represents changes to the contract land deposit impairment reserve, which are not allocated to the reportable segments. The 2011 and 2010 variances are attributable to year over year reductions in amounts allocated to our operating segments that had been previously reserved.
- (3) The increase in equity-based compensation expense in 2011 compared to the prior year was primarily due to recognizing a full year of expense in 2011 related to non-qualified stock options and restricted share units granted in the second quarter of 2010 under the 2010 Equity Incentive Plan. In addition, stock-based compensation expense in 2010 was reduced by an approximate \$7,000 pre-tax reversal of stock-based compensation expense attributable to the adjustment of our option forfeiture estimates based on our actual forfeiture experience.

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- (4) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment's monthly average asset balance, and is as follows for the years presented:

	Year Ended December 31,		
	2011	2010	2009
Homebuilding Mid Atlantic	\$ 48,697	\$ 44,758	\$ 40,765
Homebuilding North East	5,763	5,926	6,473
Homebuilding Mid East	11,074	9,657	8,863
Homebuilding South East	5,692	5,630	5,652
Total	\$ 71,226	\$ 65,971	\$ 61,753

- (5) The decrease in unallocated corporate overhead in 2011 from 2010 was primarily attributable to reduced management incentive costs year over year. The increase in costs in 2010 from 2009 was attributable to higher personnel levels year over year and to higher management incentive costs as the 2009 incentive plan was limited to a payout of 50% of the maximum bonus opportunity while no similar restrictions were imposed on 2010 incentive compensation.
- (6) The decrease in corporate interest expense in 2011 from 2010 was attributable to the redemption upon maturity of the outstanding senior notes in the second quarter of 2010 and the termination of the working capital credit facility in the fourth quarter of 2010.

Mortgage Banking Segment

We conduct our mortgage banking activity through NVR Mortgage Finance, Inc. (NVRM), a wholly owned subsidiary. NVRM focuses almost exclusively on serving the homebuilding segment's customer base. Following is a table of financial and statistical data for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Loan closing volume:			
Total principal	\$ 1,868,472	\$ 2,219,946	\$ 2,060,376
Loan volume mix:			
Adjustable rate mortgages	9%	4%	1%
Fixed-rate mortgages	91%	96%	99%
Operating profit:			
Segment profit	\$ 26,102	\$ 35,704	\$ 38,138
Equity-based compensation expense	(3,114)	(2,779)	(2,807)
Mortgage banking income before tax	\$ 22,988	\$ 32,925	\$ 35,331
Capture rate:	88%	90%	91%
Mortgage banking fees:			
Net gain on sale of loans	\$ 34,632	\$ 46,225	\$ 46,960
Title services	12,769	14,108	12,787
Servicing fees	553	801	634

\$ 47,954	\$ 61,134	\$ 60,381
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Loan closing volume for the year ended December 31, 2011 decreased 16% from 2010. The 2011 decrease was primarily attributable to an 18% decrease in the number of units closed, partially offset by a 3% increase in the average loan amount year over year. The decrease in the number of units closed and the increase in the average loan amount are primarily attributable to the aforementioned decrease in the homebuilding segment's number of units settled and the increase in the average settlement prices in 2011 as compared to 2010. The decrease in the number of units closed was also partially attributable to a 2 percentage point decrease in the number of loans closed by NVRM for our homebuyers who obtain a mortgage to purchase the home (Capture Rate), which decreased to 88% compared to 90% in 2010.

Segment profit for the year ended December 31, 2011 decreased approximately \$9,600 from 2010. The decrease in segment profit was primarily attributable to an approximate \$13,200 decrease in mortgage banking fees, partially offset by an approximate \$3,350 decrease in general and administrative expenses. The decrease in mortgage banking fees was primarily attributable to the aforementioned 16% decrease in closed loan volume. The decrease in general and administrative expenses is primarily attributable to an approximate \$1,200 decrease in the provision for loan loss and an approximate \$1,500 decrease in management incentive compensation compared to the same period in 2010.

2010 versus 2009

Loan closing volume for the year ended December 31, 2010 increased 8% from 2009. The 2010 increase was primarily attributable to a 7% increase in the number of units closed and a 1% increase in the average loan amount year over year. The increases in the number of units closed and the average loan amount are attributable to the increase in the homebuilding segment's number of units settled and the increase in the average settlement prices in 2010 as compared to 2009.

Segment profit for the year ended December 31, 2010 decreased approximately \$2,400 from 2009. The decrease in segment profit was primarily attributable to an approximate \$5,800 increase in general and administrative expenses. The increase in general and administrative expenses was primarily the result of a \$6,000 increase in the provision for loan loss compared to 2009. The \$5,800 increase in general and administrative expenses was partially offset by an approximate \$2,500 increase in interest income primarily as a result of the change in our loan sale distribution channels.

Mortgage Banking Other

We sell all of the loans we originate into the secondary mortgage market. Insofar as we underwrite our originated loans to the standards and specifications of the ultimate investor, we have no further financial obligations from the issuance of loans, except in certain limited instances where early payment default occurs. Those underwriting standards are typically equal to or more stringent than the underwriting standards required by FNMA, VA and FHA. NVRM has always maintained an allowance for losses on mortgage loans originated that reflects our judgment of the present loss exposure in the loans that we have originated and sold. The allowance is calculated based on an analysis of historical experience and anticipated losses on mortgages held for investment, real estate owned, and specific expected loan repurchases or indemnifications. For the period January 1, 2005 to December 31, 2011, we have originated approximately \$19,032,000 of mortgage loans and have cumulative actual charges incurred related to mortgage indemnifications and repurchases of approximately \$5,800 during that period. Because we sell all of our loans and do not service them, there is often a substantial delay between the time that a loan goes into default and the time that the investor requests us to reimburse them for losses incurred because of the default. We believe that all of the loans that we originate are underwritten to the standards and specifications of the ultimate investor to whom we sell our originated loans. We employ a quality control department to ensure that our underwriting controls are effective, and further assess the underwriting function as part of our assessment of internal controls over financial reporting. At December 31, 2011, we had an allowance for loan losses of approximately \$12,850. Although we consider the allowance for loan losses reflected on the December 31, 2011 balance sheet to be adequate, there can be no assurance that this allowance will prove to be adequate to cover losses on loans previously originated.

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Historically, we sold a substantial number of our loans to Bank of America through their correspondent lending program. However, in October 2011, Bank of America discontinued their correspondent lending program. As a result, this decreased the number of investors available in our loan sale distribution channels. The remaining correspondent investors are now dealing with a larger volume of loans and are performing a much more comprehensive review of loan files prior to purchase, which has resulted in loans remaining in inventory for a longer period of time before being sold. Prior to Bank of America discontinuing their correspondent lending program, loans were typically sold within 30 days. This time period has now increased to 30 to 60 days, resulting in an increase in the mortgages held for sale balance included in the consolidated balance sheet for December 31, 2011 compared to the prior year.

NVRM is dependent on our homebuilding segment's customers for business. As new orders and selling prices of the homebuilding segment decline, NVRM's operations will also be adversely affected. In addition, the mortgage segment's operating results may be adversely affected in future periods due to the continued tightening and volatility of the credit markets as well as increased regulation of mortgage lending practices.

Seasonality

Overall, we do not experience material seasonal fluctuations in sales, settlements or loan closings.

Effective Tax Rate

Our consolidated effective tax rate in 2011, 2010 and 2009 was 37.65%, 36.10% and 35.60%, respectively. The 2009 effective tax rate was favorably impacted by the expiration of certain tax reserves, the receipt of tax refunds from the amendment of certain prior year federal and state returns, and a tax benefit related to compensation expense recorded for certain outstanding option grants that were previously considered to be a permanent non-deductible tax difference.

Recent Accounting Pronouncements Pending Adoption

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which amends Accounting Standards Codification (ASC) 820 providing consistent guidance on fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 is effective for fiscal years beginning after December 15, 2011. The implementation of ASU 2011-04 is not expected to have a material impact on the Company's financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment*, which amends ASC 350 to first assess qualitative factors before performing the quantitative goodwill impairment testing. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011. The implementation of ASU 2011-08 is not expected to have a material impact on the Company's financial statements.

Liquidity and Capital Resources

Lines of Credit and Notes Payable

Our homebuilding segment provides for its working capital cash requirements using cash generated from operations. Effective October 27, 2010, we voluntarily terminated our \$300,000 unsecured working capital revolving credit facility which was set to expire on December 6, 2010. We currently do not intend to enter into a new credit facility; however, effective October 27, 2010, we entered into an uncommitted collateralized letter of credit facility to issue letters of credit in our ordinary course of business. See Note 11 in the accompanying consolidated financial statements for further discussion of letters of credit.

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Our mortgage subsidiary, NVRM, provides for its mortgage origination and other operating activities using cash generated from operations, borrowings from its parent company, NVR, as well as a revolving mortgage repurchase facility, which is non-recourse to NVR. On August 2, 2011, NVRM entered into a repurchase agreement with U.S. Bank National Association which provides for loan purchases up to \$25,000, subject to certain sub-limits (Repurchase Agreement). The Repurchase Agreement replaced our expiring \$125,000 revolving mortgage repurchase agreement. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by NVRM. The Repurchase Agreement expires on August 1, 2012.

Advances under the Repurchase Agreement carry a Pricing Rate based on the Libor Rate plus the Libor Margin, or the Default Pricing Rate, as determined under the Repurchase Agreement, provided that the Pricing Rate shall not be less than 3.75%. There are several restrictions on purchased loans, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement. The Repurchase Agreement contains various affirmative and negative covenants. The negative covenants include among others, certain limitations on transactions involving acquisitions, mergers, the incurrence of debt, sale of assets and creation of liens upon any of its Mortgage Notes. Additional covenants include (i) a tangible net worth requirement, (ii) a minimum liquidity requirement, (iii) a minimum net income requirement, and (iv) a maximum leverage ratio requirement. The Company was in compliance with all covenants under the Repurchase Agreement at December 31, 2011. At December 31, 2011 there was no debt outstanding under the Repurchase Agreement and there were no borrowing base limitations. The average Pricing Rate for amounts outstanding under the previous repurchase agreement at December 31, 2010 was 4.1%.

Equity Repurchases

In addition to funding growth in our homebuilding and mortgage banking operations, we historically have used a substantial portion of our excess liquidity to repurchase outstanding shares of our common stock in open market and privately negotiated transactions. This ongoing repurchase activity is conducted pursuant to publicly announced Board authorizations, and is typically executed in accordance with the safe-harbor provisions of Rule 10b-18 promulgated under the Securities and Exchange Act of 1934, as amended. In addition, the Board resolutions authorizing us to repurchase shares of our common stock specifically prohibit us from purchasing shares from our officers, directors, Profit Sharing/401K Plan Trust or Employee Stock Ownership Plan Trust. The repurchase program assists us in accomplishing our primary objective, creating increases in shareholder value. See Part II, Item 5 of this Form 10-K for disclosure of amounts repurchased during the fourth quarter of 2011. For the year ended December 31, 2011, we repurchased 1,017,588 shares of our common stock at an aggregate purchase price of approximately \$689,300. As of December 31, 2011, we had approximately \$319,900 available under two board approved repurchase authorizations.

Cash Flows

For the year ended December 31, 2011, cash and cash equivalents decreased by \$712,956. Net cash provided by operating activities was \$1,463. Cash provided by homebuilding operations was used to fund the increase to homebuilding inventory of \$99,527, as a result of an increase in the units under construction at the end of 2011 as compared to the same period in 2010. In addition, cash was used to fund the \$42,385 increase in contract land deposits year over year. The presentation of operating cash flows was reduced by \$22,835, which is the amount of the excess tax benefit realized from stock option exercises and deferred compensation plan distributions during 2011 and credited directly to additional paid in capital. Investing activities during 2011 used net cash of \$61,866, primarily as a result of our investment in a joint venture with Morgan Stanley Real Estate Investing of \$61,250 (see Note 3 to the accompanying consolidated financial statements included herein for further discussion). In addition, cash was used to purchase \$11,444 in property, plant and equipment during 2011. These uses of cash from investing activities were partially offset by capital distributions received from our unconsolidated joint ventures. Net cash used by financing activities was \$652,553. During 2011, we spent approximately \$689,300 to repurchase 1,017,588 shares of our common stock under our ongoing common stock

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repurchase program as discussed above. In addition, cash was used in the repayment of approximately \$90,000 of the outstanding NVRM repurchase facility due to our decision to substantially reduce the available credit capacity under the Repurchase Agreement. These uses of cash from financing activities were offset partially by equity-based activity which provided stock option exercise proceeds of \$106,999 and the realization of \$22,835 in excess income tax benefits from stock option exercises and deferred compensation plan distributions.

For the year ended December 31, 2010, cash and cash equivalents decreased by \$56,400. Net cash provided by operating activities was \$55,388. Cash was provided primarily by homebuilding operations and was used to fund increases to contract land deposits. The presentation of operating cash flows was reduced by \$63,558, which is the amount of the excess tax benefit realized from stock option exercises and deferred compensation plan distributions during 2010 and credited directly to additional paid in capital. Investing activities provided net cash of \$212,440, primarily due to the net redemption of \$219,535 in marketable securities at maturity during the year. Net cash used by financing activities was \$324,228. During 2010, we repurchased 644,562 shares of our common stock at an aggregate purchase price of \$417,079 under our ongoing common stock repurchase program. In addition, we redeemed the remaining outstanding 5% Senior Notes due 2010, totaling \$133,370, upon their maturity on June 15, 2010. Stock option exercise activity during 2010 provided \$77,492 in exercise proceeds and we realized \$63,558 in excess income tax benefits from the exercise of stock options and deferred compensation plan distributions. We also increased net borrowings under the mortgage warehouse facility by \$77,579 due to a change in the distribution channel for the sale of mortgage loans closed.

In 2009, cash and cash equivalents increased by approximately \$102,500. Operating activities provided cash of \$241,642. Cash was provided primarily by homebuilding operations and by an approximate \$32,400 decrease in mortgage loans held for sale. The presentation of operating cash flows was reduced by approximately \$66,400, which is the amount of the excess tax benefit realized from the exercise of stock options and deferred compensation plan distributions during the period and credited directly to additional paid in capital. Net cash used for investing activities during 2009 was \$221,617 for the year ended December 31, 2009, which primarily resulted from the net purchase of marketable securities during 2009. The marketable securities, which were debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, were classified as held-to-maturity securities and matured within one year. Net cash provided by financing activities during 2009 was \$82,482. Financing cash flow was favorably impacted by approximately \$78,500 of proceeds from the exercise of stock options and the realization of approximately \$66,400 in excess income tax benefits from the exercise of stock options and deferred compensation plan distributions. Cash was used by financing activities to reduce net borrowings under the mortgage warehouse facility by approximately \$32,200 and we repurchased \$29,950 of our 5% Senior Notes due 2010, at par during 2009.

At December 31, 2011, 2010 and 2009, the homebuilding segment had restricted cash of approximately \$19,119, \$22,889 and \$4,600, respectively, which is included in Other assets on the accompanying consolidated balance sheets. The higher restricted cash balances in 2011 and 2010 as compared to 2009 were primarily attributable to holding requirements related to outstanding letters of credit issued under the letter of credit agreement we entered into in October 2010 as discussed further in Note 11 in the accompanying consolidated financial statements. In addition, restricted cash relates to customer deposits for certain home sales.

We believe that our current cash holdings, cash generated from operations and borrowings available under our mortgage repurchase agreement and the public debt and equity markets will be sufficient to satisfy near and long term cash requirements for working capital and debt service in both our homebuilding and mortgage banking operations.

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Off-Balance Sheet Arrangements

Lot Acquisition Strategy

We generally do not engage in land development. Instead, we typically acquire finished building lots at market prices from various land developers under fixed price purchase agreements that require deposits that may be forfeited if we fail to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts and represent a percentage, typically ranging up to 10%, of the aggregate purchase price of the finished lots.

We believe that our lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. We may, at our option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of our intent not to acquire the finished lots under contract. Our sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provision contained within the purchase agreements. We do not have any financial guarantees or completion obligations and we typically do not guarantee lot purchases on a specific performance basis under these purchase agreements.

At December 31, 2011, we controlled approximately 53,000 lots with an aggregate purchase price of approximately \$4,600,000, by making or committing to make deposits of approximately \$253,000 in the form of cash and letters of credit. Our entire risk of loss pertaining to the aggregate purchase price contractual commitment resulting from our non-performance under the contracts is limited to our \$205,500 deposit paid, plus the additional \$47,500 referred to below. Of the \$253,000 deposit total, approximately \$202,300 was in cash and approximately \$3,200 was in letters of credit which had been issued as of December 31, 2011. The remaining balance of approximately \$47,500 relates to deposits to be paid subsequent to December 31, 2011 assuming that contractual development milestones are met by the developers (see *Contractual Obligations* section below). As of December 31, 2011, we had recorded an impairment valuation allowance of approximately \$70,300 related to the cash deposits currently outstanding. Please refer to Note 1 in the accompanying consolidated financial statements for a further discussion of the contract land deposits and Note 3 in the accompanying consolidated financial statements for a description of our lot acquisition strategy in relation to our accounting related to the consolidation of variable interest entities.

Bonds and Letters of Credit

We enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize our obligations under various contracts. We had approximately \$46,300 of contingent obligations under such agreements as of December 31, 2011 (inclusive of the \$3,200 of lot acquisition deposits in the form of letters of credit discussed above). We believe we will fulfill our obligations under the related contracts and do not anticipate any material losses under these bonds or letters of credit.

Mortgage Commitments and Forward Sales

In the normal course of business, our mortgage banking segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers lock-in a specified interest rate within time frames established by us. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the lock-in of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, we enter into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. We do not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives, and, accordingly, are marked to fair value through earnings. At December 31, 2011, there were contractual commitments to extend credit to borrowers aggregating \$126,929 and open forward delivery contracts aggregating \$353,555. Please refer to Note 12 in the accompanying consolidated financial statements for a description of our fair value accounting.

Table of Contents**Contractual Obligations**

Our fixed, non-cancelable obligations as of December 31, 2011, were as follows:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease (a)	\$ 1,978	\$ 609	\$ 1,369	\$	\$
Operating leases (b)	65,944	16,983	21,732	12,878	14,351
Purchase obligations (c)	47,525	*	*	*	*
Executive Officer employment contracts (d)	7,491	1,871	3,747	1,873	
Other long-term liabilities (e)	18,859	18,332	527		
Total	\$ 141,797	\$ 37,795	\$ 27,375	\$ 14,751	\$ 14,351

- (a) The present value of this obligation is included on the consolidated balance sheets. See Note 7 in the accompanying consolidated financial statements for additional information regarding capital lease obligations.
- (b) See Note 11 in the accompanying consolidated financial statements for additional information regarding operating leases.
- (c)(*) Amounts represent required payments of forfeitable deposits with land developers under existing, fixed price purchase agreements, assuming that contractual development milestones are met by the developers. We expect to make all payments of these deposits within the next three years, but due to the nature of the contractual development milestones that must be met, we are unable to accurately estimate the portion of the deposit obligation that will be made within one year and that portion that will be made within one to three years.
- (d) We have entered into employment agreements with our four executive officers. Each of the agreements expires on January 1, 2016 and provides for payment of a minimum base salary, which may be increased at the discretion of the Compensation Committee of NVR's Board of Directors (the Compensation Committee), and annual incentive compensation of up to 100% of base salary upon achievement of annual performance objectives established by the Compensation Committee. The agreements also provide for payment of severance benefits upon termination of employment, in amounts ranging from \$0 to two times the executive officer's then annual base salary, depending on the reason for termination, plus up to \$100 in outplacement assistance. Accordingly, total payments under these agreements will vary based on length of service, any future increases to base salaries, annual incentive payments earned, and the reason for termination. The agreements have been reflected in the above table assuming the continued employment of the executive officers for the full term of the respective agreements, and at the executive officers' current base salaries. The above balances do not include any potential annual incentive compensation. The actual amounts paid could differ from that presented.
- (e) Amounts represent payments due under incentive compensation plans and are included on the accompanying consolidated balance sheets, approximately \$1,425 of which is recorded in the Mortgage Banking Accounts payable and other liabilities line item, and the remainder in the Homebuilding Accrued expenses and other liabilities line item.

Critical Accounting Policies**General**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We continually

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evaluate the estimates we use to prepare the consolidated financial statements and update those estimates as necessary. In general, our estimates are based on historical experience, on information from third party professionals, and other various assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ materially from those estimates made by management.

Homebuilding Inventory

The carrying value of inventory is stated at the lower of cost or market value. Cost of lots and completed and uncompleted housing units represent the accumulated actual cost of the units. Field construction supervisors' salaries and related direct overhead expenses are included in inventory costs. Interest costs are not capitalized into inventory, with the exception of land under development. Upon settlement, the cost of the unit is expensed on a specific identification basis. Cost of manufacturing materials is determined on a first-in, first-out basis.

Sold inventory is evaluated for impairment based on the contractual selling price compared to the total estimated cost to construct. Unsold inventory is evaluated for impairment by analyzing recent comparable sales prices within the applicable community compared to the costs incurred to date plus the expected costs to complete. Any calculated impairments are recorded immediately.

Land Under Development and Contract Land Deposits

Land Under Development

On a very limited basis, we directly acquire raw parcels of land already zoned for its intended use to develop into finished lots. Land under development includes the land acquisition costs, direct improvement costs, capitalized interest, where applicable, and real estate taxes.

Land under development, including the land under development held by our unconsolidated joint ventures and the related joint venture investments, is reviewed for potential write-downs when impairment indicators are present. In addition to considering market and economic conditions, we assess land under development impairments on a community-by-community basis, analyzing, as applicable, current sales absorption levels, recent sales gross profit, and the dollar differential between the projected fully-developed cost of the lots and the current market price for lots. If indicators of impairment are present for a community, we perform an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, and if they are, impairment charges are required to be recorded in an amount by which the carrying amount of the assets exceeds the fair value of the assets. Our determination of fair value is primarily based on discounting the estimated future cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

At December 31, 2011, we had approximately \$78,000 in land under development in three separate communities. In addition, at December 31, 2011, we had an aggregate investment totaling approximately \$89,500 in four separate JVs that controlled land under development. None of the three communities classified as land under development nor any of the undeveloped land held by the four JVs had any indicators of impairment at December 31, 2011. As such, we do not believe that any of the land under development is impaired at this time. However, there can be no assurance that we will not incur impairment charges in the future due to unanticipated adverse changes in the economy or other events adversely affecting specific markets or the homebuilding industry.

Contract Land Deposits

We purchase finished lots under fixed price purchase agreements that require deposits that may be forfeited if we fail to perform under the contract. The deposits are in the form of cash or letters of credit in varying amounts and represent a percentage of the aggregate purchase price of the finished lots.

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We maintain an allowance for losses on contract land deposits that reflects our judgment of the present loss exposure in the existing contract land deposit portfolio at the end of the reporting period. To analyze contract land deposit impairments, we utilize a loss contingency analysis that is conducted each quarter. In addition to considering market and economic conditions, we assess contract land deposit impairments on a community-by-community basis pursuant to the purchase contract terms, analyzing, as applicable, current sales absorption levels, recent sales gross profit, the dollar differential between the contractual purchase price and the current market price for lots, a developer's financial stability, a developer's financial ability or willingness to reduce lot prices to current market prices, and the contract's default status by either us or the developer along with an analysis of the expected outcome of any such default.

Our analysis is focused on whether we can sell houses profitably in a particular community in the current market with which we are faced. Because we don't own the finished lots on which we had placed a contract land deposit, if the above analysis leads to a determination that we can't sell homes profitably at the current contractual lot price, we then determine whether we will elect to default under the contract, forfeit our deposit and terminate the contract, or whether we will attempt to restructure the lot purchase contract, which may require us to forfeit the deposit to obtain contract concessions from a developer. We also assess whether an impairment is present due to collectability issues resulting from a developer's non-performance because of financial or other conditions.

Although we consider the allowance for losses on contract land deposits reflected on the December 31, 2011 consolidated balance sheet to be adequate (see Note 1 to the accompanying consolidated financial statements included herein), there can be no assurance that this allowance will prove to be adequate over time to cover losses due to unanticipated adverse changes in the economy or other events adversely affecting specific markets or the homebuilding industry.

Intangible Assets

Reorganization value in excess of identifiable assets (excess reorganization value) is an indefinite life intangible asset that was created upon our emergence from bankruptcy on September 30, 1993. Based on the allocation of our reorganization value, the portion of our reorganization value which was not attributed to specific tangible or intangible assets has been reported as excess reorganization value, which is treated similarly to goodwill. Excess reorganization value is not subject to amortization. Rather, excess reorganization value is subject to an impairment assessment on an annual basis or more frequently if changes in events or circumstances indicate that impairment may have occurred. Because excess reorganization value was based on the reorganization value of our entire enterprise upon bankruptcy emergence, the impairment assessment is conducted on an enterprise basis based on the comparison of our total equity compared to the market value of our outstanding publicly-traded common stock. We do not believe that excess reorganization value is impaired at this time. However, changes in strategy or continued adverse changes in market conditions could impact this judgment and require an impairment loss to be recognized if our book value, including excess reorganization value, exceeds the fair value.

Warranty/Product Liability Accruals

Warranty and product liability accruals are established to provide for estimated future costs as a result of construction and product defects, product recalls and litigation incidental to our business. Liability estimates are determined based on our judgment considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and evaluations by our General Counsel and outside counsel retained to handle specific product liability cases. Although we consider the warranty and product liability accrual reflected on the December 31, 2011 consolidated balance sheet to be adequate (see Note 11 to the accompanying consolidated financial statements included herein), there can be no assurance that this accrual will prove to be adequate over time to cover losses due to increased costs for material and labor, the inability or refusal of manufacturers or subcontractors to financially participate in corrective action, unanticipated adverse legal settlements, or other unanticipated changes to the assumptions used to estimate the warranty and product liability accrual.

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Equity-Based Compensation Expense

Compensation costs related to our equity-based compensation plans are recognized within our income statement. The costs recognized are based on the grant date fair value. Compensation cost for share-based grants is recognized on a straight-line basis over the requisite service period for the entire award (from the date of grant through the period of the last separately vesting portion of the grant).

We calculate the fair value of our non-publicly traded, employee stock options using the Black-Scholes option-pricing model. While the Black-Scholes model is a widely accepted method to calculate the fair value of options, its results are dependent on input variables, two of which, expected term and expected volatility, are significantly dependent on management's judgment. We have concluded that our historical exercise experience is the best estimate of future exercise patterns to determine an option's expected term. To estimate expected volatility, we analyze the historical volatility of our common stock over a period equal to the option's expected term. Changes in management's judgment of the expected term and the expected volatility could have a material effect on the grant-date fair value calculated and expensed within the income statement. In addition, we are required to estimate future grant forfeitures when considering the amount of stock-based compensation costs to record. We have concluded that our historical forfeiture rate is the best measure to base our estimate of future forfeitures of equity-based compensation grants. However, there can be no assurance that our future forfeiture rate will not be materially higher or lower than our historical forfeiture rate, which would affect the aggregate cumulative compensation expense recognized.

Mortgage Loan Loss Allowance

We originate several different loan products to our customers to finance the purchase of their home. We sell all of the loans we originate into the secondary mortgage market generally within 30 to 60 days from origination. All of the loans that we originate are underwritten to the standards and specifications of the ultimate investor. Insofar as we underwrite our originated loans to those standards, we bear no increased concentration of credit risk from the issuance of loans, except in certain limited instances where early payment default occurs. Those underwriting standards are typically equal to or more stringent than the underwriting standards required by FNMA, VA and FHA. We employ a quality control department to ensure that our underwriting controls are effectively operating, and further assess the underwriting function as part of our assessment of internal controls over financial reporting. We maintain an allowance for losses on mortgage loans originated that reflects our judgment of the present loss exposure in the loans that we have originated and sold. The allowance is calculated based on an analysis of historical experience and anticipated losses on mortgages held for investment, real estate owned, and specific expected loan repurchases or indemnifications. Although we consider the allowance for loan losses reflected on the December 31, 2011 consolidated balance sheet to be adequate (see Note 13 to the accompanying consolidated financial statements included herein), there can be no assurance that this allowance will prove to be adequate over time to cover losses due to unanticipated changes to the assumptions used to estimate the mortgage loan loss allowance.

Impact of Inflation, Changing Prices and Economic Conditions

See Risk Factors included in Item 1A herein. See also the discussion above under Overview of Current Business Environment.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Market risk is the risk of loss arising from adverse changes in market prices and interest rates. Our market risk arises from interest rate risk inherent in our financial instruments. Interest rate risk results from the possibility that changes in interest rates will cause unfavorable changes in net income or in the value of interest rate-sensitive assets, liabilities and commitments. Lower interest rates tend to increase demand for mortgage loans for home purchasers, while higher interest rates make it more difficult for potential borrowers to purchase residential properties and to qualify for mortgage loans. We have no market rate sensitive instruments held for speculative or trading purposes.

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Our mortgage banking segment is exposed to interest rate risk as it relates to its lending activities. The mortgage banking segment originates mortgage loans, which are sold through either optional or mandatory forward delivery contracts into the secondary markets. All of the mortgage banking segment's loan portfolio is held for sale and subject to forward sale commitments. NVRM also sells all of its mortgages held for sale on a servicing released basis.

NVRM has available a mortgage Repurchase Agreement, which provides for loan repurchases up to \$25,000, subject to certain sub limits. The Repurchase Agreement is used to fund NVRM's mortgage origination activities. Advances under the Repurchase Agreement carry a Pricing Rate based on the LIBOR Rate plus the LIBOR Margin, or the Default Pricing Rate, as determined under the Repurchase Agreement, provided that the Pricing Rate shall not be less than 3.75%. At December 31, 2011 there was no debt outstanding under the Repurchase Agreement.

The following table represents the contractual balances of our on-balance sheet financial instruments at the expected maturity dates, as well as the fair values of those on-balance sheet financial instruments at December 31, 2011. The table does not include the debt of our consolidated joint venture as it is non-recourse to us. The expected maturity categories take into consideration the actual and anticipated amortization of principal and do not take into consideration the reinvestment of cash or the refinancing of existing indebtedness. Because we sell all of the mortgage loans we originate into the secondary markets, we have made the assumption that the portfolio of mortgage loans held for sale will mature in the first year. Consequently, advances outstanding under the Repurchase Agreement are also assumed to mature in the first year.

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	Maturities (000 \$)					Total	Fair Value
	2012	2013	2014	2015	Thereafter		
Mortgage banking segment							
Interest rate sensitive assets:							
Mortgage loans held for sale	\$ 250,826					\$ 250,826	\$ 252,352
Average interest rate	4.0%					4.0%	
Interest rate sensitive liabilities:							
Variable rate repurchase agreement							
Average interest rate							
Other:							
Forward trades of mortgage-backed securities (a)	\$ (2,430)					\$ (2,430)	\$ (2,430)
Forward loan commitments (a)	\$ 833					\$ 833	\$ 833
Homebuilding segment							
Interest rate sensitive assets:							
Interest-bearing deposits	\$ 442,693					\$ 442,693	\$ 442,693
Average interest rate	0.3%					0.3%	
Interest rate sensitive liabilities:							
Fixed rate obligations, including interest	\$ 609	\$ 644	\$ 725	\$	\$	\$ 1,978	\$ 1,978
Average interest rate	13.2%	13.3%	13.9%			13.3%	

(a) Represents the fair value recorded pursuant to ASC 815, *Derivatives and Hedging*.

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Item 8. Financial Statements and Supplementary Data.

The financial statements listed in Item 15 are filed as part of this report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934.

Based on that evaluation, the principal executive officer and principal financial officer concluded that the design and operation of these disclosure controls and procedures as of December 31, 2011 were effective to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal controls over financial reporting identified in connection with the evaluation referred to above that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. Our internal control over financial reporting as of December 31, 2011 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Item 9B. Other Information.

None.

Table of Contents**PART III****Item 10. Directors, Executive Officers, and Corporate Governance.**

Item 10 is hereby incorporated by reference to our Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2012. Reference is also made regarding our executive officers to Executive Officers of the Registrant following Item 4 of Part I of this report.

Item 11. Executive Compensation.

Item 11 is hereby incorporated by reference to our Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Security ownership of certain beneficial owners and management is hereby incorporated by reference to our Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2012.

Equity Compensation Plan Information

The table below sets forth information as of the end of our 2011 fiscal year for (i) all equity compensation plans approved by our shareholders and (ii) all equity compensation plans not approved by our shareholders:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders (1)	552,138	\$ 476.97	239,646
Equity compensation plans not approved by security holders	340,047	\$ 585.93	
Total	892,185	\$ 518.50	239,646

- (1) This category includes the restricted share units (RSUs) authorized by the 2010 Equity Incentive Plan, which was approved by our shareholders at the May 4, 2010 Annual Meeting. At December 31, 2011, there are 154,483 RSUs outstanding, issued at a \$0 exercise price. Of the total 239,646 shares remaining available for future issuance, up to 85,517 may be issued as RSUs. The weighted-average exercise price of outstanding options under security holder approved plans excluding outstanding RSUs was \$662.26.

Equity compensation plans approved by our shareholders include the NVR, Inc. Management Long-Term Stock Option Plan; the NVR, Inc. 1998 Management Long-Term Stock Option Plan; the 1998 Directors

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Long-Term Stock Option Plan; and the 2010 Equity Incentive Plan. The only equity compensation plan that was not approved by our shareholders is the NVR, Inc. 2000 Broadly-Based Stock Option Plan. See Note 10 in the accompanying consolidated financial statements for a description of each of our equity compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Item 13 is hereby incorporated by reference to our Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2012.

Item 14. Principal Accountant Fees and Services.

Item 14 is hereby incorporated by reference to our Proxy Statement expected to be filed with the Securities and Exchange Commission on or prior to April 30, 2012.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

NVR, Inc.-Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. Exhibits

***Exhibit
Number***

Description

- | | |
|-----|--|
| 3.1 | Restated Articles of Incorporation of NVR, Inc. (NVR). Filed as Exhibit 3.1 to NVR's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference. |
| 3.2 | Bylaws, as amended, of NVR, Inc. Filed as Exhibit 3.2 to NVR's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference. |

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- 4.1 Indenture dated as of April 14, 1998 between NVR, as issuer and the Bank of New York as trustee. Filed as Exhibit 4.3 to NVR's Current Report on Form 8-K filed April 23, 1998 and incorporated herein by reference.
- 4.2 Form of Note (included in Indenture filed as Exhibit 4.1).
- 10.1* Employment Agreement between NVR, Inc. and Paul C. Saville dated December 21, 2010. Filed as Exhibit 10.1 to NVR's Form 8-K filed on December 21, 2010 and incorporated herein by reference.
- 10.2* Employment Agreement between NVR, Inc. and Dennis M. Seremet dated December 21, 2010. Filed as Exhibit 10.2 to NVR's Form 8-K filed on December 21, 2010 and incorporated herein by reference.

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- 10.3* Employment Agreement between NVR, Inc. and Robert A. Goethe dated December 21, 2010. Filed as Exhibit 10.3 to NVR's Form 8-K filed on December 21, 2010 and incorporated herein by reference.
- 10.4* Employment Agreement between NVR, Inc. and Robert W. Henley dated December 21, 2010. Filed as Exhibit 10.4 to NVR's Form 8-K filed on December 21, 2010 and incorporated herein by reference.
- 10.5* Profit Sharing Plan of NVR, Inc. and Affiliated Companies. Filed as Exhibit 4.1 to NVR's Registration Statement on Form S-8 (No. 333-29241) filed June 13, 1997 and incorporated herein by reference.
- 10.6* Employee Stock Ownership Plan of NVR, Inc. Incorporated by reference to NVR's Annual Report on Form 10-K/A for the year ended December 31, 1994.
- 10.7* NVR, Inc. 1998 Management Long-Term Stock Option Plan. Filed as Exhibit 4 to NVR's Registration Statement on Form S-8 (No. 333-79951) filed June 4, 1999 and incorporated herein by reference.
- 10.8* NVR, Inc. 1998 Directors' Long-Term Stock Option Plan. Filed as Exhibit 4 to NVR's Registration Statement on Form S-8 (No. 333-79949) filed June 4, 1999 and incorporated herein by reference.
- 10.09* NVR, Inc. Management Long-Term Stock Option Plan. Filed as Exhibit 99.3 to NVR's Registration Statement on Form S-8 (No. 333-04975) filed May 31, 1996 and incorporated herein by reference.
- 10.10* NVR, Inc. 2000 Broadly-Based Stock Option Plan. Filed as Exhibit 99.1 to NVR's Registration Statement on Form S-8 (No. 333-56732) filed March 8, 2001 and incorporated herein by reference.
- 10.11* NVR, Inc. Nonqualified Deferred Compensation Plan. Filed as Exhibit 10.1 to NVR's Form 8-K filed on December 16, 2005 and incorporated herein by reference.
- 10.12* Description of the Board of Directors' compensation arrangement. Filed as Exhibit 10.27 to NVR's Annual Report on Form 10-K for the period ended December 31, 2004 and incorporated herein by reference.
- 10.13* The NVR, Inc. 2010 Equity Incentive Plan. Filed as exhibit 10.1 to NVR's Form S-8 (No. 333-166512) filed on May 4, 2010 and incorporated herein by reference.
- 10.14* The Form of Non-Qualified Stock Option Agreement (Management grants) under the NVR, Inc. 2010 Equity incentive Plan. Filed as exhibit 10.1 to NVR's Form 8-K filed on May 6, 2010 and incorporated herein by reference.
- 10.15* The Form of Non-Qualified Stock Option Agreement (Director grants) under the NVR, Inc. 2010 Equity incentive Plan. Filed as exhibit 10.2 to NVR's Form 8-K filed on May 6, 2010 and incorporated herein by reference.
- 10.16* The Form of Restricted Share Units Agreement (Management grants) under the NVR, Inc. 2010 Equity incentive Plan. Filed as exhibit 10.3 to NVR's Form 8-K filed on May 6, 2010 and incorporated herein by reference.
- 10.17* The Form of Restricted Share Units Agreement (Director grants) under the NVR, Inc. 2010 Equity incentive Plan. Filed as exhibit 10.4 to NVR's Form 8-K filed on May 6, 2010 and incorporated herein by reference.

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10.18*	The Form of Non-Qualified Stock Option Agreement under the NVR, Inc. 2000 Broadly Based Stock Option Plan. Filed as Exhibit 10.1 to NVR's Form 8-K filed January 3, 2008 and incorporated herein by reference.
10.19*	The Form of Non-Qualified Stock Option Agreement under the 1998 Directors' Long-Term Stock Option Plan. Filed as Exhibit 10.34 to NVR's Annual Report on Form 10-K for the period ended December 31, 2007 and incorporated herein by reference.
10.20*	Summary of 2012 Named Executive Officer annual incentive compensation plan. Filed herewith.
21	NVR, Inc. Subsidiaries. Filed herewith.
23	Consent of KPMG LLP (Independent Registered Public Accounting Firm). Filed herewith.
31.1	Certification of NVR's Chief Executive Officer pursuant to Rule 13a-14(a). Filed herewith.
31.2	Certification of NVR's Chief Financial Officer pursuant to Rule 13a-14(a). Filed herewith.
32	Certification of NVR's 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. Filed herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Exhibit is a management contract or compensatory plan or arrangement.

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Pursuant to the requirements of Section 13 or 15(d) 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.

NVR, Inc.

By: /s/ Paul C. Saville
 Paul C. Saville
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Dwight C. Schar Dwight C. Schar	Chairman	February 22, 2012
/s/ C. E. Andrews C. E. Andrews	Director	February 22, 2012
/s/ Robert C. Butler Robert C. Butler	Director	February 22, 2012
/s/ Timothy M. Donahue Timothy M. Donahue	Director	February 22, 2012
/s/ Thomas D. Eckert Thomas D. Eckert	Director	February 22, 2012
/s/ Alfred E. Festa Alfred E. Festa	Director	February 22, 2012
/s/ Manuel H. Johnson Manuel H. Johnson	Director	February 22, 2012
/s/ William A. Moran William A. Moran	Director	February 22, 2012
/s/ David A. Preiser David A. Preiser	Director	February 22, 2012
/s/ W. Grady Rosier W. Grady Rosier	Director	February 22, 2012
/s/ John M. Toups John M. Toups	Director	February 22, 2012
/s/ Paul W. Whetsell Paul W. Whetsell	Director	February 22, 2012

/s/ Paul C. Saville
Paul C. Saville

Principal Executive Officer

February 22, 2012

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/s/ Dennis M. Seremet Dennis M. Seremet	Principal Financial Officer	February 22, 2012
/s/ Robert W. Henley Robert W. Henley	Principal Accounting Officer	February 22, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

NVR, Inc.:

We have audited the accompanying consolidated balance sheets of NVR, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NVR, Inc. as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NVR, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

McLean, Virginia

February 22, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

NVR, Inc.:

We have audited NVR, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). NVR, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NVR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NVR, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 22, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

McLean, Virginia

February 22, 2012

Table of Contents**NVR, Inc.**

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31,	
	2011	2010
ASSETS		
<i>Homebuilding:</i>		
Cash and cash equivalents	\$ 475,566	\$ 1,190,731
Receivables	6,789	6,948
Inventory:		
Lots and housing units, covered under sales agreements with customers	363,833	275,272
Unsold lots and housing units	82,578	70,542
Land under development	78,045	78,058
Manufacturing materials and other	8,694	7,457
	533,150	431,329
Assets related to consolidated variable interest entity	20,182	22,371
Contract land deposits, net	131,930	100,786
Property, plant and equipment, net	23,243	19,523
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Deferred tax assets, net	155,881	184,930
Other assets	112,997	58,075
	1,501,318	2,056,273
<i>Mortgage Banking:</i>		
Cash and cash equivalents	4,766	2,661
Mortgage loans held for sale, net	252,352	177,244
Property and equipment, net	1,694	950
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	12,008	15,586
	278,167	203,788
Total assets	\$ 1,779,485	\$ 2,260,061

(Continued)

See notes to consolidated financial statements.

Table of Contents**NVR, Inc.**

Consolidated Balance Sheets (Continued)

(in thousands, except share and per share data)

	December 31,	
	2011	2010
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Homebuilding:</i>		
Accounts payable	\$ 125,649	\$ 115,578
Accrued expenses and other liabilities	183,810	237,052
Liabilities related to consolidated variable interest entity	1,013	500
Non-recourse debt related to consolidated variable interest entity	4,983	7,592
Customer deposits	61,223	53,705
Other term debt	1,613	1,751
	378,291	416,178
<i>Mortgage Banking:</i>		
Accounts payable and other liabilities	26,395	13,171
Note payable		90,338
	26,395	103,509
Total liabilities	404,686	519,687
<i>Commitments and contingencies</i>		
<i>Shareholders equity:</i>		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 20,556,198 and 20,557,913 shares issued as of December 31, 2011 and 2010, respectively	206	206
Additional paid-in-capital	1,072,779	951,234
Deferred compensation trust 152,964 and 158,894 shares of NVR, Inc. common stock as of December 31, 2011 and 2010, respectively	(25,581)	(27,582)
Deferred compensation liability	25,581	27,582
Retained earnings	4,158,492	4,029,072
Less treasury stock at cost 15,578,565 and 14,894,357 shares as of December 31, 2011 and 2010, respectively	(3,856,678)	(3,240,138)
Total shareholders equity	1,374,799	1,740,374
Total liabilities and shareholders equity	\$ 1,779,485	\$ 2,260,061

See notes to consolidated financial statements.

Table of Contents**NVR, Inc.**

Consolidated Statements of Income

(in thousands, except per share data)

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Homebuilding:			
Revenues	\$ 2,611,195	\$ 2,980,758	\$ 2,683,467
Other income	4,301	9,299	8,697
Cost of sales	(2,165,625)	(2,438,292)	(2,185,733)
Selling, general and administrative	(264,266)	(257,394)	(233,152)
Operating income	185,605	294,371	273,279
Interest expense	(1,017)	(4,903)	(10,196)
Homebuilding income	184,588	289,468	263,083
Mortgage Banking:			
Mortgage banking fees	47,954	61,134	60,381
Interest income	5,702	5,411	2,979
Other income	456	767	629
General and administrative	(30,249)	(33,261)	(27,474)
Interest expense	(875)	(1,126)	(1,184)
Mortgage banking income	22,988	32,925	35,331
Income before taxes	207,576	322,393	298,414
Income tax expense	(78,156)	(116,388)	(106,234)
Net income	\$ 129,420	\$ 206,005	\$ 192,180
Basic earnings per share	\$ 23.66	\$ 34.96	\$ 33.10
Diluted earnings per share	\$ 23.01	\$ 33.42	\$ 31.26
Basic weighted average shares outstanding	5,469	5,893	5,807
Diluted weighted average shares outstanding	5,624	6,165	6,149

See notes to consolidated financial statements.

Table of Contents**NVR, Inc.**

Consolidated Statements of Shareholders' Equity

(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, December 31, 2008	\$ 206	\$ 722,265	\$ 3,630,887	\$ (2,979,569)	\$ (74,978)	\$ 74,978	\$ 1,373,789
Net income			192,180				192,180
Deferred compensation activity					34,179	(34,179)	
Equity-based compensation		46,302					46,302
Tax benefit from stock options exercised and deferred compensation distributions		66,448					66,448
Proceeds from stock options exercised		78,543					78,543
Treasury stock issued upon option exercise		(83,027)		83,027			
Balance, December 31, 2009	206	830,531	3,823,067	(2,896,542)	(40,799)	40,799	1,757,262
Net income			206,005				206,005
Deferred compensation activity					13,217	(13,217)	
Purchase of common stock for treasury				(417,079)			(417,079)
Equity-based compensation		53,136					53,136
Tax benefit from stock options exercised and deferred compensation distributions		63,558					63,558
Proceeds from stock options exercised		77,492					77,492
Treasury stock issued option exercise		(73,483)		73,483			
Balance, December 31, 2010	206	951,234	4,029,072	(3,240,138)	(27,582)	27,582	1,740,374
Net income			129,420				129,420
Deferred compensation activity					2,001	(2,001)	
Purchase of common stock for treasury				(689,302)			(689,302)
Equity-based compensation		64,473					64,473
Tax benefit from stock options exercised and deferred compensation distributions		22,835					22,835
Proceeds from stock options exercised		106,999					106,999
Treasury stock issued upon option exercise		(72,762)		72,762			
Balance, December 31, 2011	\$ 206	\$ 1,072,779	\$ 4,158,492	\$ (3,856,678)	\$ (25,581)	\$ 25,581	\$ 1,374,799

See notes to consolidated financial statements

Table of Contents**NVR, Inc.**

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
<i>Cash flows from operating activities:</i>			
Net income	\$ 129,420	\$ 206,005	\$ 192,180
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,672	7,263	9,713
Excess income tax benefit from equity-based compensation	(22,835)	(63,558)	(66,448)
Equity-based compensation expense	64,473	53,136	46,302
Contract land deposit impairments (recoveries)	11,241	4,264	(6,464)
Gain on sale of loans	(34,632)	(46,225)	(46,960)
Gain on sale of fixed assets	(217)	(167)	(358)
Deferred tax expense	23,732	13,558	21,905
Mortgage loans closed	(1,754,655)	(2,109,505)	(1,943,074)
Proceeds from sales of mortgage loans	1,716,966	2,011,765	2,018,151
Principal payments on mortgage loans held for sale	4,271	2,554	2,072
Distribution of earnings from unconsolidated joint ventures	2,347	1,307	
Net change in assets and liabilities:			
Increase in inventory	(99,527)	(8,783)	(18,148)
Increase in contract land deposits	(42,385)	(53,866)	(14,848)
Decrease in receivables	465	1,532	3,682
(Decrease) increase in accounts payable, accrued expenses and customer deposits	(2,977)	56,752	82,578
Other, net	(896)	(20,644)	(38,641)
Net cash provided by operating activities	1,463	55,388	241,642
<i>Cash flows from investing activities:</i>			
Purchase of marketable securities		(150,000)	(858,362)
Redemption of marketable securities at maturity		369,535	638,827
Investments in unconsolidated joint ventures	(61,600)	(2,000)	
Distribution of capital from unconsolidated joint ventures	10,653	1,193	
Purchase of property, plant and equipment	(11,444)	(6,943)	(3,044)
Proceeds from the sale of property, plant and equipment	525	655	962
Net cash (used in) provided by investing activities	(61,866)	212,440	(221,617)
<i>Cash flows from financing activities:</i>			
Purchase of treasury stock	(689,302)	(417,079)	
Net (repayments) borrowings under note payable and credit lines	(90,476)	77,579	(32,559)
Repayments under non-recourse debt related to consolidated variable interest entity	(7,958)	(4,167)	
Borrowings under non-recourse debt related to consolidated variable interest entity	5,349	11,759	
Redemption of senior notes		(133,370)	(29,950)
Excess income tax benefit from equity-based compensation	22,835	63,558	66,448
Proceeds from the exercise of stock options	106,999	77,492	78,543

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Net cash (used in) provided by financing activities	(652,553)	(324,228)	82,482
Net (decrease) increase in cash and cash equivalents	(712,956)	(56,400)	102,507
Cash and cash equivalents, beginning of year	1,193,750	1,250,150	1,147,643
Cash and cash equivalents, end of year	\$ 480,794	\$ 1,193,750	\$ 1,250,150

(Continued)

See notes to consolidated financial statements.

Table of Contents**NVR, Inc.**

Consolidated Statements of Cash Flows (Continued)

(in thousands)

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
<i>Supplemental disclosures of cash flow information:</i>			
Interest paid during the year, net of interest capitalized	\$ 2,000	\$ 5,805	\$ 10,010
Income taxes paid during the year, net of refunds	\$ 49,763	\$ 40,669	\$ (28,807)
<i>Supplemental disclosures of non-cash activities:</i>			
Investment in newly formed consolidated joint venture	\$	\$ (25,214)	\$
Change in net consolidated variable interest entities	\$	\$	\$ (976)

See notes to consolidated financial statements.

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NVR, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of NVR, Inc. ("NVR" or the "Company") and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see Note 3 herein for additional information). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Management continually evaluates the estimates used to prepare the consolidated financial statements and updates those estimates as necessary.

In general, the Company's estimates are based on historical experience, on information from third party professionals, and other various assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ materially from those estimates made by management.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. At December 31, 2011, \$462 of cash related to a consolidated variable interest entity is included in "Assets related to consolidated variable interest entity" on the accompanying consolidated balance sheet.

The homebuilding segment had restricted cash of \$19,119 and \$22,889 at December 31, 2011 and 2010, respectively. Restricted cash in both 2011 and 2010 was primarily attributable to holding requirements related to outstanding letters of credit issued under the Company's letter of credit agreement as discussed further in Note 11 herein. In addition, restricted cash relates to customer deposits for certain home sales. Restricted cash is recorded in "Other assets" in the homebuilding section of the accompanying consolidated balance sheets.

The mortgage banking segment had restricted cash of \$1,373 and \$555 at December 31, 2011 and 2010, respectively, which included amounts collected from customers for in process loans and at closing for mortgage loans held for sale. The mortgage banking segment's restricted cash is recorded in "Other assets" in the mortgage banking section of the accompanying consolidated balance sheets.

Homebuilding Inventory

The carrying value of inventory is stated at the lower of cost or market value. Cost of lots and completed and uncompleted housing units represent the accumulated actual cost of the units. Field construction supervisors' salaries and related direct overhead expenses are included in inventory costs. Interest costs are not capitalized into inventory, with the exception of land under development, as applicable (see below). Upon settlement, the cost of the unit is expensed on a specific identification basis. Cost of manufacturing materials is determined on a first-in, first-out basis.

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NVR, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

Sold inventory is evaluated for impairment based on the contractual selling price compared to the total estimated cost to construct. Unsold inventory is evaluated for impairment by analyzing recent comparable sales prices within the applicable community compared to the costs incurred to date plus the expected costs to complete. Any calculated impairments are recorded immediately.

Contract Land Deposits

The Company purchases finished lots under fixed price purchase agreements that require deposits that may be forfeited if NVR fails to perform under the contract. The deposits are in the form of cash or letters of credit in varying amounts and represent a percentage of the aggregate purchase price of the finished lots.

NVR maintains an allowance for losses on contract land deposits that reflects the Company's judgment of the present loss exposure in the existing contract land deposit portfolio at the end of the reporting period. To analyze contract land deposit impairments, NVR utilizes an

Accounting Standards Codification (ASC) 450, *Contingencies*, loss contingency analysis that is conducted each quarter. In addition to considering market and economic conditions, NVR assesses contract land deposit impairments on a community-by-community basis pursuant to the purchase contract terms, analyzing, as applicable, current sales absorption levels, recent sales gross profit, the dollar differential between the contractual purchase price and the current market price for lots, a developer's financial stability, a developer's financial ability or willingness to reduce lot prices to current market prices, and the contract's default status by either the Company or the developer along with an analysis of the expected outcome of any such default.

NVR's analysis is focused on whether the Company can sell houses profitably in a particular community in the current market with which the Company is faced. Because the Company does not own the finished lots on which the Company has placed a contract land deposit, if the above analysis leads to a determination that the Company can't sell homes profitably at the current contractual lot price, the Company then determines whether it will elect to default under the contract, forfeit the deposit and terminate the contract, or whether the Company will attempt to restructure the lot purchase contract, which may require it to forfeit the deposit to obtain contract concessions from a developer. The Company also assesses whether impairment is present due to collectability issues resulting from a developer's non-performance because of financial or other conditions.

For the years ended December 31, 2011 and 2010, the Company incurred pre-tax charges of approximately \$11,200 and \$4,300, respectively, related to the impairment of contract land deposits. For the year ended December 31, 2009, the Company had a net pre-tax recovery of approximately \$6,500 of contract land deposits previously considered to be uncollectable. These impairment charges and recoveries were recorded in cost of sales on the accompanying consolidated statements of income. The contract land deposit asset on the accompanying consolidated balance sheets is shown net of an approximate \$70,300 and \$73,500 impairment valuation allowance at December 31, 2011 and 2010, respectively.

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NVR, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

Land Under Development

On a very limited basis, NVR directly acquires raw parcels of land already zoned for its intended use to develop into finished lots. Land under development includes the land acquisition costs, direct improvement costs, capitalized interest, where applicable, and real estate taxes.

Land under development, including the land under development held by our unconsolidated joint ventures and the related joint venture investments, is reviewed for potential write-downs when impairment indicators are present. In addition to considering market and economic conditions, the Company assesses land under development impairments on a community-by-community basis, analyzing, as applicable, current sales absorption levels, recent sales gross profit, and the dollar differential between the projected fully-developed cost of the lots and the current market price for lots. If indicators of impairment are present for a community, NVR performs an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, and if so, impairment charges are required to be recorded if the fair value of such assets is less than their carrying amounts. For those assets deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company's determination of fair value is primarily based on discounting the estimated future cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. NVR does not believe that any of the land under development is impaired at this time.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is based on the estimated useful lives of the assets using the straight-line method. Amortization of capital lease assets is included in depreciation expense. Model home furniture and fixtures are generally depreciated over a two-year period, office facilities and other equipment are depreciated over a period from three to ten years, manufacturing facilities are depreciated over periods of from five to forty years and property under capital leases is depreciated in a manner consistent with the Company's depreciation policy for owned assets, or the lease-term if shorter.

Intangible Assets

Reorganization value in excess of identifiable assets (excess reorganization value) is an indefinite life intangible asset that was created upon NVR's emergence from bankruptcy on September 30, 1993. Based on the allocation of the reorganization value, the portion of the reorganization value which was not attributed to specific tangible or intangible assets has been reported as excess reorganization value, which is treated similarly to goodwill. Excess reorganization value is not subject to amortization. Rather, excess reorganization value is subject to an impairment assessment on an annual basis or more frequently if changes in events or circumstances indicate that impairment may have occurred. Because excess reorganization value was based on the reorganization value of NVR's entire enterprise upon bankruptcy emergence, the impairment assessment is conducted on an enterprise basis based on the comparison of NVR's total equity compared to the market value of NVR's outstanding publicly-traded common stock. The Company completed its annual assessment of impairment and management determined that there was no impairment of excess reorganization value.

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NVR, Inc.

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(dollars in thousands, except per share data)

Warranty/Product Liability Accruals

The Company establishes warranty and product liability reserves to provide for estimated future expenses as a result of construction and product defects, product recalls and litigation incidental to NVR's homebuilding business. Liability estimates are determined based on management's judgment considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and discussions with the Company's general counsel and outside counsel retained to handle specific product liability cases.

Mortgage Loans Held for Sale, Derivatives and Hedging Activities

NVR originates several different loan products to its customers to finance the purchase of a home through its wholly-owned mortgage subsidiary. NVR sells all of the loans it originates into the secondary market typically within 30 to 60 days from origination. All of the loans that the Company originates are underwritten to the standards and specifications of the ultimate investor. Those underwriting standards are typically equal to or more stringent than the underwriting standards required by FNMA, VA and FHA. Insofar as the Company underwrites its originated loans to those standards, the Company bears no increased concentration of credit risk from the issuance of loans, except in certain limited instances where early payment default occurs. The Company employs a quality control department to ensure that its underwriting controls are effectively operating, and further assesses the underwriting function as part of its assessment of internal controls over financial reporting. The Company maintains an allowance for losses on mortgage loans originated that reflects NVR's judgment of the present loss exposure in the loans that it has originated and sold. The allowance is calculated based on an analysis of historical experience and anticipated losses on mortgages held for investment, real estate owned, and specific expected loan repurchases or indemnifications (see Note 13 herein for further information).

Mortgage loans held for sale are recorded at fair value at closing and thereafter are carried at the lower of cost or fair value, net of deferred origination costs, until sold.

In the normal course of business, our mortgage banking segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers' lock-in a specified interest rate within time frames established by NVR. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the lock-in of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. NVR does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives, and, accordingly, are marked to fair value through earnings. At December 31, 2011, there were contractual commitments to extend credit to borrowers aggregating \$126,929, and open forward delivery sale contracts aggregating \$353,555. See Note 12 herein for a description of our fair value accounting calculation.

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(dollars in thousands, except per share data)

Earnings per Share

The following weighted average shares and share equivalents were used to calculate basic and diluted earnings per share for the years ended December 31, 2011, 2010 and 2009:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Weighted average number of shares outstanding used to calculate basic EPS	5,469,159	5,893,105	5,806,773
<i>Dilutive securities:</i>			
Stock options and restricted share units	154,658	271,512	341,996
 Weighted average number of shares and share equivalents outstanding used to calculate diluted EPS	 5,623,817	 6,164,617	 6,148,769

The assumed proceeds used in the treasury method for calculating NVR's diluted earnings per share includes the amount the employee must pay upon exercise, the amount of compensation cost attributed to future services and not yet recognized and the amount of tax benefits that would be credited or charged to additional paid-in capital assuming exercise of the stock option or vesting of the restricted share unit. The assumed amount credited to additional paid-in capital equals the tax benefit from assumed exercise of stock options or the assumed vesting of restricted share units after consideration of the intrinsic value upon assumed exercise or vesting less the actual stock-based compensation expense to be recognized in the income statement.

Stock options issued under equity benefit plans to purchase 467,367; 443,565 and 134,405 shares of common stock were outstanding during the years ended December 31, 2011, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Revenues-Homebuilding Operations

NVR builds single-family detached homes, townhomes and condominium buildings, which generally are constructed on a pre-sold basis for the ultimate customer. Revenues are recognized at the time the unit is settled and title passes to the customer, adequate cash payment has been received and there is no continuing involvement. In situations where the buyer's financing is originated by NVR Mortgage Finance, Inc. (NVRM), a wholly-owned subsidiary of NVR, and the buyer has not made an adequate initial or continuing investment as prescribed by GAAP, the profit on such settlement is deferred until the sale of the related loan to a third-party investor has been completed.

Mortgage Banking Fees

Mortgage banking fees include income earned by NVRM for originating mortgage loans, servicing mortgage loans held on an interim basis, title fees, gains and losses on the sale of mortgage loans and mortgage servicing and other activities incidental to mortgage banking. Mortgage banking fees are generally recognized after the loan has been sold to an unaffiliated, third party investor.

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Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740-10 provides that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not (defined as a likelihood of more than 50%) that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the statements of income. The Company recognizes interest related to unrecognized tax benefits as a component of income tax expense. Based on its historical experience in dealing with various taxing authorities, the Company has found that it is the administrative practice of the taxing authorities to not seek penalties from the Company for the tax positions it has taken on its returns, related to its unrecognized tax benefits. Therefore, the Company does not accrue penalties for the positions in which it has an unrecognized tax benefit. However, if such penalties were to be accrued, they would be recorded as a component of income tax expense. The Company recognizes unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority, or by expiration of the applicable statute of limitation.

Financial Instruments

Except as otherwise noted herein, NVR believes that insignificant differences exist between the carrying value and the fair value of its financial instruments (see Note 12 herein for further information).

Stock-Based Compensation

The company accounts for its stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*. ASC 718 requires an entity to recognize an expense within its income statement for all share-based payment arrangements, which includes employee stock option and restricted share unit plans. The expense is based on the grant-date fair value of the stock options and restricted share units granted, and is recognized ratably over the requisite service period. The Company calculates the fair value of its non-publicly traded, employee stock options using the Black-Scholes option-pricing model. The grant date fair value of the restricted share units is the closing price of the Company's common stock on the day immediately preceding the date of grant. The Company's equity-based compensation programs are accounted for as equity-classified awards. See Note 10 herein for further discussion of stock-based compensation plans.

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NVR, Inc.

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Comprehensive Income

For the years ended December 31, 2011, 2010 and 2009, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

There have not been any pronouncements issued and implemented during 2011 that we believe will have a material impact on our financial statements.

2. Segment Information, Nature of Operations, and Certain Concentrations

NVR's homebuilding operations primarily construct and sell single-family detached homes, townhomes and condominium buildings under four trade names: Ryan Homes, NVHomes, Fox Ridge Homes, and Rymarc Homes. The Ryan Homes, Fox Ridge Homes, and Rymarc Homes products are marketed primarily to first-time homeowners and first-time move-up buyers. The Ryan Homes product is sold in twenty-five metropolitan areas located in Maryland, Virginia, West Virginia, Pennsylvania, New York, North Carolina, South Carolina, Florida, Ohio, New Jersey, Delaware, Indiana, Illinois and Kentucky. The Fox Ridge Homes product is sold solely in the Nashville, TN metropolitan area. The Rymarc Homes product is sold solely in the Columbia, SC metropolitan area. The NVHomes product is sold in the Washington, D.C., Baltimore, MD, Philadelphia, PA and Maryland Eastern Shore metropolitan areas, and is marketed primarily to move-up and up-scale buyers. NVR derived approximately 46% of its 2011 homebuilding revenues in the Washington, D.C. and Baltimore, MD metropolitan areas.

NVR's mortgage banking segment is a regional mortgage banking operation. Substantially all of the mortgage banking segment's loan closing activity is for NVR's homebuilding customers. NVR's mortgage banking business generates revenues primarily from origination fees, gains on sales of loans, and title fees. A substantial portion of the Company's mortgage operations is conducted in the Washington, D.C. and Baltimore, MD metropolitan areas.

The following disclosure includes four homebuilding reportable segments that aggregate geographically the Company's homebuilding operating segments, and the mortgage banking operations presented as a single reportable segment. The homebuilding reportable segments are comprised of operating divisions in the following geographic areas:

Homebuilding Mid Atlantic Virginia, West Virginia, Maryland, and Delaware

Homebuilding North East New Jersey and eastern Pennsylvania

Homebuilding Mid East Kentucky, New York, Ohio, western Pennsylvania, Indiana and Illinois

Homebuilding South East North Carolina, South Carolina, Florida and Tennessee

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, selling, general and administrative expenses, and a corporate capital allocation charge. The corporate capital allocation charge eliminates in consolidation, is based on the segment's average net assets employed, and is charged using a consistent methodology in the years presented. The corporate capital allocation charge to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment's results are providing the desired rate of return after covering the Company's cost of capital. The Company records charges on contract land

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deposits when it is determined that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are charged to the operating segment upon the determination to terminate a finished lot purchase agreement with the developer, or to restructure a lot purchase agreement resulting in the forfeiture of the deposit. Mortgage banking profit before tax consists of revenues generated from mortgage financing, title insurance and closing services, less the costs of such services and general and administrative costs. Mortgage banking operations are not charged a capital allocation charge.

In addition to the corporate capital allocation and contract land deposit impairments discussed above, the other reconciling items between segment profit and consolidated profit before tax include unallocated corporate overhead (including all management incentive compensation), equity-based compensation expense, consolidation adjustments and external corporate interest expense. NVR's overhead functions, such as accounting, treasury, human resources, etc., are centrally performed and the costs are not allocated to the Company's operating segments. Consolidation adjustments consist of such items necessary to convert the reportable segments' results, which are predominantly maintained on a cash basis, to a full accrual basis for external financial statement presentation purposes, and are not allocated to the Company's operating segments. Likewise, equity-based compensation expense is not charged to the operating segments. External corporate interest expense is primarily comprised of interest charges on the Company's Senior Notes and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

Following are tables presenting segment revenues, profit, assets, interest income, interest expense, depreciation and amortization and expenditures for property and equipment, with reconciliations to the amounts reported for the consolidated enterprise, where applicable:

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Homebuilding Mid Atlantic	\$ 1,582,826	\$ 1,780,521	\$ 1,661,244
Homebuilding North East	221,146	287,561	254,654
Homebuilding Mid East	549,384	632,377	505,431
Homebuilding South East	257,839	280,299	262,138
Mortgage Banking	47,954	61,134	60,381
Total Consolidated Revenues	\$ 2,659,149	\$ 3,041,892	\$ 2,743,848

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(dollars in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Profit:			
Homebuilding Mid Atlantic	\$ 148,373	\$ 209,496	\$ 185,861
Homebuilding North East	13,463	25,090	19,572
Homebuilding Mid East	27,194	56,882	38,012
Homebuilding South East	14,162	10,870	7,384
Mortgage Banking	26,102	35,704	38,138
Total Segment Profit	229,294	338,042	288,967
Contract land deposit impairment reserve (1)	(2,878)	16,206	42,939
Equity-based compensation expense (2)	(64,473)	(53,136)	(46,302)
Corporate capital allocation (3)	71,226	65,971	61,753
Unallocated corporate overhead (4)	(45,355)	(55,992)	(44,103)
Consolidation adjustments and other	20,477	15,848	4,970
Corporate interest expense (5)	(715)	(4,546)	(9,810)
Reconciling items sub-total	(21,718)	(15,649)	9,447
Consolidated Income before Taxes	\$ 207,576	\$ 322,393	\$ 298,414

	As of December 31,		
	2011	2010	2009
Assets:			
Homebuilding Mid Atlantic	\$ 626,157	\$ 492,148	\$ 448,019
Homebuilding North East	55,948	35,827	54,132
Homebuilding Mid East	94,593	78,246	94,225
Homebuilding South East	63,263	43,041	37,663
Mortgage Banking	270,820	196,441	52,696
Total Segment Assets	1,110,781	845,703	686,735
Consolidated variable interest entities	20,182	22,371	70,430
Cash and cash equivalents	475,566	1,190,731	1,248,689
Marketable securities			219,535
Deferred taxes	155,881	184,930	200,340
Intangible assets	48,927	48,927	48,927
Contract land deposit reserve	(70,333)	(73,517)	(94,940)
Consolidation adjustments and other	38,481	40,916	16,054

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Reconciling items sub-total	668,704	1,414,358	1,709,035
Consolidated Assets	\$ 1,779,485	\$ 2,260,061	\$ 2,395,770

	Year Ended December 31,		
	2011	2010	2009
Interest Income:			
Mortgage Banking	\$ 5,702	\$ 5,411	\$ 2,979
Total Segment Interest Income	5,702	5,411	2,979
Other unallocated interest income	3,202	5,301	5,407
Consolidated Interest Income	\$ 8,904	\$ 10,712	\$ 8,386

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	Year Ended December 31,		
	2011	2010	2009
Interest Expense:			
Homebuilding Mid Atlantic	\$ 48,971	\$ 45,082	\$ 41,130
Homebuilding North East	5,776	5,936	6,475
Homebuilding Mid East	11,080	9,669	8,873
Homebuilding South East	5,701	5,641	5,661
Mortgage Banking	875	1,126	1,184
Total Segment Interest Expense	72,403	67,454	63,323
Corporate capital allocation	(71,226)	(65,971)	(61,753)
Senior Note and other interest	715	4,546	9,810
Consolidated Interest Expense	\$ 1,892	\$ 6,029	\$ 11,380
Depreciation and Amortization:			
Homebuilding Mid Atlantic	\$ 3,353	\$ 3,369	\$ 4,351
Homebuilding North East	409	515	612
Homebuilding Mid East	1,398	1,224	1,233
Homebuilding South East	729	758	1,163
Mortgage Banking	295	362	357
Total Segment Depreciation and Amortization	6,184	6,228	7,716
Unallocated corporate	488	1,035	1,997
Consolidated Depreciation and Amortization	\$ 6,672	\$ 7,263	\$ 9,713
Expenditures for Property and Equipment:			
Homebuilding Mid Atlantic	\$ 3,784	\$ 2,165	\$ 1,511
Homebuilding North East	424	440	414
Homebuilding Mid East	5,611	2,247	741
Homebuilding South East	369	583	269
Mortgage Banking	1,049	883	87
Total Segment Expenditures for Property and Equipment	11,237	6,318	3,022
Unallocated corporate	207	625	22
Consolidated Expenditures for Property and Equipment	\$ 11,444	\$ 6,943	\$ 3,044

- (1) This item represents changes to the contract land deposit impairment reserve, which are not allocated to the reportable segments. The 2011 and 2010 variances are attributable to year over year reductions in amounts allocated to our operating segments that had been previously reserved.

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- (2) The increase in equity-based compensation expense in 2011 compared to the prior year was primarily due to recognizing a full year of expense in 2011 related to non-qualified stock options and restricted share units granted in the second quarter of 2010 under the 2010 Equity Incentive Plan. In addition, stock-based compensation expense in 2010 was reduced by an approximate \$7,000 pre-tax reversal of stock-based compensation expense attributable to the adjustment of our option forfeiture estimates based on our actual forfeiture experience.
- (3) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment's monthly average asset balance, and was as follows for the years presented:

	Year Ended December 31,		
	2011	2010	2009
Homebuilding Mid Atlantic	\$ 48,697	\$ 44,758	\$ 40,765
Homebuilding North East	5,763	5,926	6,473
Homebuilding Mid East	11,074	9,657	8,863
Homebuilding South East	5,692	5,630	5,652
Total	\$ 71,226	\$ 65,971	\$ 61,753

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- (4) The decrease in unallocated corporate overhead in 2011 from 2010 was attributable to reduced management incentive costs year over year. The increase in costs in 2010 from 2009 was attributable to increased personnel levels year over year and to higher management incentive costs as the 2009 incentive plan was limited to a payout of 50% of the maximum bonus opportunity, while no similar restrictions were imposed on 2010 incentive compensation.
- (5) The decrease in corporate interest expense in 2011 from 2010 was attributable to the redemption upon maturity of the outstanding senior notes in the second quarter of 2010 and the termination of the working capital credit facility in the fourth quarter of 2010.

3. Variable Interest Entities and Joint Ventures

Fixed Price Purchase Agreements

NVR generally does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if NVR fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots.

NVR believes this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. NVR may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the finished lots under contract. NVR's sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements. In other words, if NVR does not perform under a purchase agreement, NVR loses only its deposit. None of the creditors of any of the development entities with which NVR enters fixed price purchase agreements have recourse to the general credit of NVR. NVR generally does not have any specific performance obligations to purchase a certain number or any of the lots, nor does NVR guarantee completion of the development by the developer or guarantee any of the developers' financial or other liabilities.

NVR is not involved in the design or creation of any of the development entities from which the Company purchases lots under fixed price purchase agreements. The developer's equity holders have the power to direct 100% of the operating activities of the development entity. NVR has no voting rights in any of the development entities. The sole purpose of the development entity's activities is to generate positive cash flow returns to the equity holders. Further, NVR does not share in any of the profit or loss generated by the project's development. The profits and losses are passed directly to the developer's equity holders.

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The deposit placed by NVR pursuant to the fixed price purchase agreement is deemed to be a variable interest in the respective development entities. Those development entities are deemed to be variable interest entities (VIE). Therefore, the development entities with which NVR enters fixed price purchase agreements, including the joint venture limited liability corporations, as discussed below, are evaluated for possible consolidation by NVR. An enterprise must consolidate a VIE when that enterprise has a controlling financial interest in the VIE. An enterprise is deemed to have a controlling financial interest if it has i) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE.

NVR believes the activities that most significantly impact a development entity's economic performance are the operating activities of the entity. Unless and until a development entity completes finished building lots through the development process to be able to sell, the process of which the development entities' equity investors bear the full risk, the entity does not earn any revenues. The operating development activities are managed solely by the development entity's equity investors.

The development entities with which NVR contracts to buy finished lots typically select the respective projects, obtain the necessary zoning approvals, obtain the financing required with no support or guarantees from NVR, select who will purchase the finished lots and at what price, and manage the completion of the infrastructure improvements, all for the purpose of generating a cash flow return to the development entity's equity holders and all independent of NVR. The Company possesses no more than limited protective legal rights through the purchase agreement in the specific finished lots that it is purchasing, and NVR possesses no participative rights in the development entities. Accordingly, NVR does not have the power to direct the activities of a developer that most significantly impact the developer's economic performance. For this reason, NVR has concluded that it is not the primary beneficiary of the development entities with which the Company enters fixed price purchase agreements, and therefore, NVR does not consolidate any of these VIEs.

As of December 31, 2011, NVR controlled approximately 48,200 lots with deposits in cash and letters of credit totaling approximately \$202,300 and \$3,200, respectively. As noted above, NVR's sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements and in very limited circumstances, specific performance obligations. NVR's total risk of loss related to contract land deposits as of December 31, 2011 and 2010 was as follows:

	December 31, 2011		December 31, 2010	
Contract land deposits	\$	202,263	\$	174,303
Loss reserve on contract land deposits		(70,333)		(73,517)
Contract land deposits, net		131,930		100,786
Contingent obligations in the form of letters of credit		3,228		6,610
Contingent specific performance obligations (1)		8,526		1,944
Total risk of loss	\$	143,684	\$	109,340

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- (1) At December 31, 2011 and 2010, the Company was committed to purchase 92 and 43 finished lots under specific performance obligations, respectively.

Joint Ventures

On a limited basis, NVR also obtains finished lots using joint venture limited liability corporations (*JVs*). All *JVs* are typically structured such that NVR is a non-controlling member and is at risk only for the amount the Company has invested, in addition to any deposits placed under fixed price purchase agreements with the joint venture. NVR is not a borrower, guarantor or obligor on any debt of the *JVs*, as applicable. The Company enters into a standard fixed price purchase agreement to purchase lots from these *JVs*, and as a result has a variable interest in these *JVs*.

During the second quarter of 2011, NVR invested \$61,250 for a fifty percent (50%) interest in a joint venture entered into with Morgan Stanley Real Estate Investing, which holds the other fifty percent interest. NVR is not contractually committed to making any additional investments in the joint venture, nor will it be a borrower, guarantor or obligor on any debt of the joint venture, as applicable. The joint venture acquired nine separate parcels of land from entities controlled by a single developer that are in various stages of development and all nine parcels are zoned for their intended use. At December 31, 2011, the joint venture controlled approximately 5,500 lots within the nine parcels, of which approximately 2,800 lots were under contract with NVR and approximately 2,700 were not under contract.

At December 31, 2011, the Company had an aggregate investment totaling approximately \$89,500 in four *JVs*, including the *JV* with Morgan Stanley described above, that are expected to produce approximately 6,700 finished lots. In addition, at December 31, 2011, NVR had additional funding commitments in the aggregate totaling \$5,000 to one of the four *JVs*. The Company has determined that it is not the primary beneficiary of three of the *JVs* because NVR and the other *JV* partner either share power or the other *JV* partner has the controlling financial interest. The aggregate investment in these three *JVs* was approximately \$75,300 and is reported in the *Other assets* line item on the accompanying consolidated balance sheets. For the remaining *JV*, NVR has concluded that it is the primary beneficiary because the Company has the controlling financial interest in the *JV*. The condensed balance sheets at December 31, 2011 and 2010 of the consolidated *JV* were as follows:

	December 31, 2011	December 31, 2010
Cash	\$ 462	\$ 358
Restricted cash	503	501
Other assets	125	126
Land under development	19,092	21,386
Total assets	\$ 20,182	\$ 22,371
Debt	\$ 4,983	\$ 7,592
Accrued expenses	108	59
Equity	15,091	14,720
Total liabilities and equity	\$ 20,182	\$ 22,371

At December 31, 2010, the Company had an aggregate investment totaling approximately \$37,200 in three *JVs*, inclusive of the consolidated *JV* discussed above, and additional funding commitments in the aggregate totaling \$5,000 to one of the three *JVs*. The three *JVs* were expected to produce approximately 1,100 finished lots.

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Distributions received from joint ventures are considered operating cash flows within the accompanying statements of cash flows to the extent of NVR's cumulative share of joint venture income. Any distributions received in excess of that amount are considered a return of capital, and is classified as cash flows from investing activities.

4. Land Under Development

As of December 31, 2011, NVR directly owned three separate raw parcels of land with a carrying value of \$78,045 that it intends to develop into approximately 800 finished lots for use in its homebuilding operations. All of the raw parcels are located in the Washington, D.C. metropolitan area and none of them had any indicators of impairment as of December 31, 2011. Based on current market conditions, NVR may, on a very limited basis, directly acquire additional raw parcels to develop into finished lots. As of December 31, 2010, NVR directly owned four separate raw parcels of land with a carrying value of approximately \$78,000 and expected to produce approximately 890 finished lots.

5. Related Party Transactions

During the year ended December 31, 2011, NVR entered into new forward lot purchase agreements to purchase finished building lots for a total purchase price of approximately \$31,000 with Elm Street Development, Inc. (Elm Street), which is controlled by one of our directors, Mr. Moran. The independent members of our Board approved these transactions. During 2011, 2010 and 2009, NVR purchased developed lots at market prices from Elm Street for approximately \$36,100, \$54,600 and \$46,700. The Company also continues to control a parcel of raw land expected to yield at least 1,000 finished lots through a joint venture entered into with Elm Street during 2009. NVR did not make any additional capital contributions to that joint venture in 2011 or 2010. Further, during 2010, NVR also purchased a zoned, unimproved raw parcel of land from Elm Street for a total purchase price of approximately \$49,000 which is expected to produce approximately 600 finished lots. During 2011, we paid Elm Street approximately \$143 to manage the development of that property. Approximately 100 of these lots were finished and the related cost was transferred from Land under development to Unsold lots and housing units on the accompanying consolidated balance sheet. As of December 31, 2011, approximately \$43,000 in costs related to the purchase and development of this property were recorded in Land under development on the accompanying consolidated balance sheet.

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6. Property, Plant and Equipment, net

	December 31,	
	2011	2010
<i>Homebuilding:</i>		
Office facilities and other	\$ 14,584	\$ 13,554
Model home furniture and fixtures	16,950	16,545
Manufacturing facilities	33,373	28,398
Property under capital leases	3,976	3,976
	68,883	62,473
Less: accumulated depreciation	(45,640)	(42,950)
	\$ 23,243	\$ 19,523
<i>Mortgage Banking:</i>		
Office facilities and other	\$ 4,833	\$ 4,088
Less: accumulated depreciation	(3,139)	(3,138)
	\$ 1,694	\$ 950

Certain property, plant and equipment listed above is collateral for certain debt of NVR as more fully described in Note 7 herein.

7. Debt

	December 31,	
	2011	2010
<i>Homebuilding:</i>		
Other term debt:		
Capital lease obligations due in monthly installments through 2014 (a)	\$ 1,613	\$ 1,751
<i>Mortgage Banking:</i>		
Master repurchase agreement (b)	\$	\$ 90,338

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- (a) The capital lease obligation has a fixed interest rate of 13.0% and is collateralized by buildings and equipment with a net book value of approximately \$495 and \$681 at December 31, 2011 and 2010, respectively.

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(dollars in thousands, except per share data)

The following schedule provides future minimum lease payments under the capital lease together with the present value as of December 31, 2011:

Year ending December 31,	
2012	\$ 609
2013	644
2014	725
2015	
2016	
Thereafter	
	1,978
Amount representing interest	(365)
	\$ 1,613

(b) On August 2, 2011, NVRM entered into a revolving mortgage repurchase agreement with U.S. Bank National Association (the Repurchase Agreement). The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by NVRM. The Repurchase Agreement provides for loan purchases up to \$25,000, subject to certain sub limits. The Repurchase Agreement expires on August 1, 2012.

Advances under the Repurchase Agreement carry a Pricing Rate based on the Libor Rate plus the Libor Margin, or the Default Pricing Rate, as determined under the Repurchase Agreement, provided that the Pricing Rate shall not be less than 3.75%. There are several restrictions on purchased loans, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement. At December 31, 2011 there was no debt outstanding under the Repurchase Agreement. There were no borrowing base limitations at December 31, 2011. The average Pricing Rate for amounts outstanding under the previous repurchase agreement at December 31, 2010 was 4.1%.

The Repurchase Agreement contains various affirmative and negative covenants. The negative covenants include among others, certain limitations on transactions involving acquisitions, mergers, the incurrence of debt, sale of assets and creation of liens upon any of its Mortgage Notes. Additional covenants include (i) a tangible net worth requirement, (ii) a minimum liquidity requirement, (iii) a minimum net income requirement, and (iv) a maximum leverage ratio requirement. The Company was in compliance with all covenants under the Repurchase Agreement at December 31, 2011.

* * * * *

Maturities with respect to the Company s debt as of December 31, 2011 are as follows:

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Year ending December 31,	
2012	\$ 421
2013	520
2014	672
2015	
2016	
Thereafter	
Total	\$ 1,613

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8. Common Stock

There were 4,977,633 and 5,663,556 common shares outstanding at December 31, 2011 and 2010, respectively. As of December 31, 2011, NVR had reacquired a total of approximately 22,400,000 shares of NVR common stock at an aggregate cost of approximately \$4,526,000 since December 31, 1993. The Company repurchased 1,017,588 shares at an aggregate purchase price of approximately \$689,300 during 2011. The Company repurchased 644,562 shares at an aggregate purchase price of approximately \$417,100 during 2010 and did not repurchase any shares during 2009.

Since 1999, the Company has issued shares from the treasury for all stock option exercises. There have been approximately 6,840,000 common shares reissued from the treasury in satisfaction of stock option exercises and other employee benefit obligations. The Company issued 333,380; 359,765 and 418,775 such shares during 2011, 2010 and 2009, respectively.

9. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Current:			
Federal	\$ 45,112	\$ 96,449	\$ 69,911
State	8,004	12,468	8,556
Deferred:			
Federal	21,492	6,352	23,474
State	3,548	1,119	4,293
	\$ 78,156	\$ 116,388	\$ 106,234

In addition to amounts applicable to income before taxes, the following income tax benefits were recorded in shareholders' equity:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Income tax benefits arising from compensation expense for tax purposes in excess of amounts recognized for financial statement purposes	\$ 22,835	\$ 63,558	\$ 66,448

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Deferred income taxes on NVR's consolidated balance sheets were comprised of the following:

	December 31,	
	2011	2010
Deferred tax assets:		
Other accrued expenses and contract land deposit reserve	\$ 83,744	\$ 96,459
Deferred compensation	10,939	11,642
Equity-based compensation expense	35,417	49,469
Inventory	6,622	5,495
Unrecognized tax benefit	25,594	24,514
Other	4,228	5,856
Total deferred tax assets	166,544	193,435
Less: deferred tax liabilities	2,128	948
Net deferred tax position	\$ 164,416	\$ 192,487

Deferred tax assets arise principally as a result of various accruals required for financial reporting purposes, stock option expense and deferred compensation, which are not currently deductible for tax return purposes.

Management believes that the Company will have sufficient available carry-backs and future taxable income to make it more likely than not that the net deferred tax assets will be realized. Federal taxable income is estimated to be \$72,351 for the year ended December 31, 2011, and was \$117,801 for the year ended December 31, 2010.

A reconciliation of income tax expense in the accompanying consolidated statements of income to the amount computed by applying the statutory Federal income tax rate of 35% to income before taxes is as follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Income taxes computed at the Federal statutory rate	\$ 72,652	\$ 112,838	\$ 104,445
State income taxes, net of Federal income tax benefit	8,071	7,731	7,467
Other, net	(2,567)	(4,181)	(5,678)
	\$ 78,156	\$ 116,388	\$ 106,234

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The Company's effective tax rate in 2011, 2010 and 2009 was 37.65%, 36.10% and 35.60%, respectively. The 2009 effective tax rate was favorably impacted by the expiration of certain tax reserves, the receipt of tax refunds from the amendment of certain prior year federal and state returns, and a tax benefit related to compensation expense recorded for certain outstanding option grants that were previously considered to be a permanent non-deductible tax difference.

The Company files a consolidated U.S. federal income tax return, as well as state and local tax returns in all jurisdictions where the Company maintains operations. With few exceptions, the Company is no longer subject to income tax examinations by tax authorities for years prior to 2008.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Balance at beginning of year	\$ 44,722	\$ 48,669
Additions for tax positions for prior years		
Additions based on tax positions related to the current year	3,291	4,092
Reductions for tax positions of prior years	(2,964)	(8,039)
Settlements		
Balance at end of year	\$ 45,049	\$ 44,722

If recognized, the total amount of unrecognized tax benefits that would affect the effective tax rate (on a net basis) is \$29,283.

The Company recognizes interest related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2011, 2010 and 2009 the Company accrued interest on unrecognized tax benefits in the amounts of \$2,076, \$573 and \$932, respectively. As of December 31, 2011 and 2010, the Company had a total of \$24,797 and \$22,721, respectively, of accrued interest on unrecognized tax benefits which are included in Accrued expenses and other liabilities on the accompanying consolidated balance sheets. Based on its historical experience in dealing with various taxing authorities, the Company has found that it is the administrative practice of these authorities to not seek penalties from the Company for the tax positions it has taken on its returns, related to its unrecognized tax benefits. Therefore, the Company does not accrue penalties for the positions in which it has an unrecognized tax benefit. However, if such penalties were to be accrued, they would be recorded as a component of income tax expense.

The Company believes that within the next 12 months, it is reasonably possible that the unrecognized tax benefits will be reduced by approximately \$3,945 due to statute expiration in various state jurisdictions. The Company is currently under audit by the states of New Jersey, South Carolina and Tennessee.

10. Equity-Based Compensation, Profit Sharing and Deferred Compensation Plans

Equity-Based Compensation Plans

NVR's equity-based compensation plans provide for the granting of non-qualified stock options to purchase shares of NVR common stock (Options) and restricted share units (RSUs) to key management employees, including executive officers and Board members, of the Company. The exercise price of Options granted is equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant, and RSUs are issued at a \$0 exercise price. Options are granted for a ten-year term and typically vest in separate tranches over periods of 3 to 6 years, depending upon the plan from which the shares were granted, based solely on continued employment or continued service as a Director. RSUs generally vest in separate tranches over a period of 2 years, based solely on continued employment or continued service as a Director. At December 31, 2011, there was an aggregate of 737,702 options and 154,483 RSUs outstanding, and there were an additional 239,646 available shares to be granted under existing equity-based compensation plans. Of the available shares to be granted, up to 85,517 shares may be granted in the form of RSUs.

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The following is a summary description of each of the Company's equity-based compensation plans for any plan with grants outstanding at December 31, 2011:

During 1996, the Company's shareholders approved the Board of Directors' adoption of the Management Long-Term Stock Option Plan (the 1996 Option Plan). There were 2,000,000 Options authorized under the Management Long Term Stock Option Plan. All Options were granted at an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant. The outstanding Options expire 10 years after the dates upon which they were granted, and vest annually in 25% increments beginning on December 31, 2006, or later depending on the date of grant. There are no grants remaining available to issue from the 1996 Option Plan.

During 1999, the Company's shareholders approved the Board of Directors' adoption of the 1998 Management Long-Term Stock Option Plan (the 1998 Option Plan). There were 1,000,000 Options authorized under the 1998 Option Plan. All Options were granted at an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant. The Options expire 10 years after the dates upon which they were granted. The outstanding Options generally vest in 25% increments beginning on December 31, 2006, or later depending on the date of grant. There are no grants remaining available to issue from the 1998 Option Plan.

During 1999, the Company's shareholders approved the Board of Directors' adoption of the 1998 Directors' Long Term Stock Option Plan (the 1998 Directors' Plan). There were 150,000 Options to purchase shares of common stock authorized for grant to the Company's outside directors under the 1998 Directors' Plan. All Options were granted at an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant. The Options were granted for a 10-year period and generally vest annually in twenty-five percent (25%) increments beginning on December 31, 2006, or later as determined by the date of grant. There are no grants remaining available to issue from the 1998 Directors' Plan.

During 2000, the Board approved the 2000 Broadly-Based Stock Option Plan (the 2000 Plan). The Company did not seek approval from its shareholders for the 2000 Plan. There were 2,000,000 Options authorized under the 2000 Plan. All Options were granted at an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant. Grants under the 2000 Plan were available to both employees and members of the Board. The distribution of Options to key employees and members of the board, in aggregate, were limited to 50% or less of the total options authorized under the 2000 Plan. Options granted under the 2000 Plan expire 10 years from the date of grant, and generally vest annually in 25% increments beginning on December 31, 2006, or later depending on the date of grant. There are no grants remaining available to issue from the 2000 Plan.

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During 2010, the Company's shareholders approved the Board of Directors' adoption of the 2010 Equity Incentive Plan (the "2010 Equity Plan"). The 2010 Equity Plan authorizes the Company to issue non-qualified stock options ("Options") and restricted share units ("RSUs") to key management employees, including executive officers and Board members, to acquire up to an aggregate 700,000 shares of the Company's common stock. Of the 700,000 aggregate shares available to issue, up to 240,000 may be granted in the form of RSUs. All Options are granted at an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the day prior to the date of grant, and all RSUs are granted at a \$0 exercise price. The Options are granted for a 10-year period. The RSUs generally vest annually in 50% increments beginning on December 31, 2011, or later as determined by the date of grant, and the Options generally vest as to 50% of the underlying shares in annual increments beginning on December 31, 2013, or later as determined by the date of grant. At December 31, 2011, there were 239,646 shares available to be granted under the 2010 Equity Plan, of which 85,517 may be granted as RSUs.

During 2011, the Company issued 39,960 Options and 11,394 RSUs under the 2010 Equity Plan. The exercise price of each Option granted was equal to the closing price of the Company's common stock on the day immediately preceding the date of grant, and each RSU was granted at a \$0 exercise price. Each Option was granted for a term of ten (10) years from the date of grant. The majority of the Options and RSUs granted under the 2010 Equity Plan will vest in 50% increments with the beginning vesting dates ranging from December 31, 2013 through December 31, 2015 for the Options and December 31, 2011 through December 31, 2015 for the RSUs. All Options and RSUs granted are subject to the grantee's continued employment or continued service as a Director, as applicable.

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The following table provides additional information relative to NVR's equity-based compensation plans for the year ended December 31, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value
Stock Options				
Outstanding at beginning of period	1,053,425	\$ 529.18		
Granted	39,960	711.86		
Exercised	(333,380)	324.92		
Forfeited	(21,835)	669.63		
Expired	(468)	769.40		
Outstanding at end of period	737,702	\$ 627.08	6.9	\$ 43,465
Exercisable at end of period	258,900	\$ 509.73	4.1	\$ 45,636
RSUs (1)				
Outstanding at beginning of period	149,727			
Granted	11,394			
Forfeited	(6,638)			
Outstanding at end of period	154,483			\$ 105,975
Vested at end of period	73,130			\$ 50,167

(1) RSU grants were issued at a \$0 exercise price.

To estimate the grant-date fair value of its stock options, the Company uses the Black-Scholes option-pricing model. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the following factors: the option's exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a risk-free interest rate; the estimated option term; and the expected volatility. For the risk-free interest rate, the Company uses a U.S. Treasury Strip due in a number of years equal to the option's expected term. NVR has concluded that its historical exercise experience is the best estimate of future exercise patterns to determine an option's expected term. To estimate expected volatility, NVR analyzed the historic volatility of its common stock over a period equal to the option's expected term. The fair value of the Options granted during 2011, 2010 and 2009 were estimated on the grant date using the Black-Scholes option-pricing model based on the following assumptions:

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	2011	2010	2009
Estimated option life	4.79 years	5.02 years	4.70 years
Risk free interest rate (range)	0.44% - 2.86%	0.99% - 2.84%	1.78% - 3.65%
Expected volatility (range)	31.29% - 37.43%	34.34% - 41.12%	31.83% - 41.72%
Expected dividend rate	0.00%	0.00%	0.00%
Weighted average grant-date fair value per share of options granted	\$ 230.38	\$ 256.35	\$ 187.10

In accordance with ASC Topic 718, *Compensation-Stock Compensation*, the fair value of the RSUs is measured as if they were vested and issued on the grant date. Additionally, under ASC 718, service only restrictions on vesting of RSUs are not reflected in the fair value calculation at the grant date. As a result, the fair value of the RSUs was the closing price of the Company's common stock on the day immediately preceding the date of grant. The weighted average fair value of the RSUs granted in the current year was \$714.59 per share.

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Compensation cost for Options and RSUs is recognized on a straight-line basis over the requisite service period for the entire award (from the date of grant through the period of the last separately vesting portion of the grant). For the recognition of equity-based compensation, the RSUs are treated as a separate award from the Options. Compensation cost is recognized within the income statement in the same expense line as the cash compensation paid to the respective employees. ASC 718 also requires the Company to estimate forfeitures in calculating the expense related to equity-based compensation and requires that the compensation costs of equity-based awards be recognized net of estimated forfeitures. The impact on compensation costs due to changes in the expected forfeiture rate will be recognized in the period that they become known. In 2011, 2010, and 2009, the Company recognized \$64,473, \$53,136 and \$46,302 in equity-based compensation costs, respectively, and approximately \$23,600, \$19,200 and \$18,000 tax benefit related to equity-based compensation costs, respectively.

As of December 31, 2011, the total unrecognized compensation cost for all outstanding Options and RSUs equals approximately \$116,672, net of estimated forfeitures. The unrecognized compensation cost will be recognized over each grant's applicable vesting period with the latest vesting date being December 31, 2016. The weighted-average period over which the unrecognized compensation will be recorded is equal to approximately 1.7 years.

The Company settles option exercises by issuing shares of treasury stock to option holders. Shares are relieved from the treasury account based on the weighted average cost of treasury shares acquired. During the years ended December 31, 2011, 2010 and 2009, options to purchase shares of the Company's common stock of 333,380; 359,765 and 418,775 were exercised. Information with respect to the exercised options is as follows:

	2011	2010	2009
Aggregate exercise proceeds (1)	\$ 108,322	\$ 78,626	\$ 79,157
Aggregate intrinsic value on exercise dates	\$ 142,381	\$ 165,007	\$ 135,652

- (1) Aggregate exercise proceeds include the option exercise price received in cash or the fair market value of NVR stock surrendered by the optionee in lieu of cash.

Profit Sharing Plans

NVR has a trustee-administered, profit sharing retirement plan (the Profit Sharing Plan) and an Employee Stock Ownership Plan (ESOP) covering substantially all employees. The Profit Sharing Plan and the ESOP provide for annual discretionary contributions in amounts as determined by the NVR Board of Directors. The combined plan contribution for the years ended December 31, 2011, 2010 and 2009 was \$6,616, \$6,567 and \$6,447, respectively. The ESOP purchased approximately 9,300 and 8,700 shares of NVR common stock in the open market for the 2011 and 2010 plan year contributions, respectively, using cash contributions provided by the Company. As of December 31, 2011, all shares held by the ESOP had been allocated to participants' accounts. The 2011 plan year contribution was funded and fully allocated to participants in February 2012.

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Deferred Compensation Plans

The Company has two deferred compensation plans (Deferred Comp Plans). The specific purpose of the Deferred Comp Plans is to i) 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 the Company would realize a tax deduction for the amounts paid, and ii) to enable certain of our employees who are subject to the Company's stock holding requirements to acquire shares of our common stock on a pre-tax basis in order to more quickly meet, and maintain compliance with those stock holding requirements. Amounts deferred into the Deferred Comp Plans are invested in NVR common stock, held in a rabbi trust account, and are paid out in a fixed number of shares upon expiration of the deferral period.

The rabbi trust account held 152,964 and 158,894 shares of NVR common stock as of December 31, 2011 and 2010, respectively. During 2011, 5,930 shares of NVR common stock were issued from the rabbi trust related to deferred compensation for which the deferral period ended. There were no shares of NVR common stock contributed to the rabbi trust in 2011 or 2010. Shares held by the Deferred Comp Plan are treated as outstanding shares in the Company's earnings per share calculation for each of the years ended December 31, 2011, 2010 and 2009.

11. Commitments and Contingent Liabilities

NVR is committed under multiple non-cancelable operating leases involving office space, model homes, manufacturing facilities, automobiles and equipment. Future minimum lease payments under these operating leases as of December 31, 2011 are as follows:

Year ended December 31,	
2012	\$ 16,983
2013	11,929
2014	9,803
2015	7,219
2016	5,659
Thereafter	14,351
	65,944
Sublease income	(927)
	\$ 65,017

Total rent expense incurred under operating leases was approximately \$33,607, \$33,172 and \$36,699 for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company generally does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if the Company fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots. The Company believes this lot acquisition strategy reduces the financial requirements and risks associated with direct land

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ownership and land development. The Company generally seeks to maintain control over a supply of lots believed to be suitable to meet its five-year business plan. At December 31, 2011, assuming that contractual development milestones are met, the Company is committed to placing additional forfeitable deposits with land developers under existing lot option contracts of \$47,525. The Company also has eight specific performance contracts pursuant to which the Company is committed to purchasing 92 finished lots at an aggregate purchase price of approximately \$8,500.

During the ordinary course of operating the mortgage banking and homebuilding businesses, the Company is required to enter into bond or letter of credit arrangements with local municipalities, government agencies, or land developers to collateralize its obligations under various contracts. The Company had approximately \$46,300 of contingent obligations under such agreements (including \$10,623 for letters of credit issued under an uncommitted, collateralized letter of credit facility) as of December 31, 2011. The Company believes it will fulfill its obligations under the related contracts and does not anticipate any material losses under these bonds or letters of credit.

The following table reflects the changes in the Company's warranty reserve (see Note 1 herein for further discussion of warranty/product liability reserves):

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Warranty reserve, beginning of year	\$ 69,787	\$ 64,417	\$ 68,084
Provision	37,040	44,633	35,688
Payments	(42,819)	(39,263)	(39,355)
Warranty reserve, end of year	\$ 64,008	\$ 69,787	\$ 64,417

On July 18, 2007, former and current employees filed lawsuits against the Company in the Court of Common Pleas in Allegheny County, Pennsylvania and Hamilton County, Ohio, in Superior Court in Durham County, North Carolina, and in the Circuit Court in Montgomery County, Maryland, and on July 19, 2007 in the Superior Court in New Jersey, alleging that the Company incorrectly classified its sales and marketing representatives as being exempt from overtime wages. These lawsuits are similar in nature to another lawsuit filed on October 29, 2004 by another former employee in the United States District Court for the Western District of New York. The complaints seek injunctive relief, an award of unpaid wages, including fringe benefits, liquidated damages equal to the overtime wages allegedly due and not paid, attorney and other fees and interest, and where available, multiple damages. The suits were filed as purported class actions. However, while a number of individuals have filed consents to join and assert federal claims in the New York action, none of the groups of employees that the lawsuits purport to represent have been certified as a class. The lawsuits filed in Ohio, Pennsylvania, Maryland, New Jersey and North Carolina have been stayed pending further developments in the New York action.

The Company believes that its compensation practices in regard to sales and marketing representatives are entirely lawful and in compliance with two letter rulings from the United States Department of Labor (DOL) issued in January 2007. The three courts to most recently consider similar claims against other homebuilders have acknowledged the DOL's position that sales and marketing representatives were properly classified as exempt from overtime wages and the only court to have directly addressed the exempt status of such employees concluded that the DOL's position was valid. Accordingly, the Company has vigorously defended and intends to continue to vigorously defend these lawsuits. Because the Company is unable to determine the likelihood of an unfavorable outcome of this case, or the amount of damages, if any, the Company has not recorded any associated liabilities on the accompanying consolidated balance sheets.

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In June 2010, the Company received a Request for Information from the United States Environmental Protection Agency (EPA) pursuant to Section 308 of the Clean Water Act. The request sought information about storm water discharge practices in connection with homebuilding projects completed or underway by the Company in New York and New Jersey. The Company cooperated with this request, and provided information to the EPA. The Company has since been informed by the United States Department of Justice (DOJ) that the EPA forwarded the information on the matter to the DOJ, and the DOJ requested that the Company meet with the government to discuss the status of the case. A meeting took place in late January, 2012 with representatives from both the EPA and DOJ. It is as yet unclear what next steps the DOJ will take in the matter. The Company intends to continue cooperating with any future EPA and/or DOJ inquiries. At this time, the Company cannot predict the outcome of this inquiry, nor can it reasonably estimate the potential costs that may be associated with its eventual resolution.

In August 2011, the Wage and Hour Division of the U.S. Department of Labor (DOL) notified the Company that it was initiating an investigation to determine the Company s compliance with the Fair Standards Labor Act (FSLA). In the notice, the DOL requested certain information, including payroll data for a two year period and multiple community-specific items related to the Company s homebuilding operations. The Company has cooperated with this information request, has either provided or made available the information that the DOL has requested and expects to continue to cooperate with the DOL s investigation. The Company believes that its payroll practices are in compliance with the FSLA. At this time, the Company cannot predict the outcome of this investigation, nor can it reasonably estimate the potential costs that may be associated with its eventual resolution.

The Company and its subsidiaries are also involved in various other litigation arising in the ordinary course of business. In the opinion of management, and based on advice of legal counsel, this litigation is not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company. Legal costs incurred in connection with outstanding litigation are expensed as incurred.

12. Fair Value

Financial Instruments

Except as otherwise noted here, NVR believes that insignificant differences exist between the carrying value and the fair value of its financial instruments.

Derivative Instruments and Mortgage Loans Held for Sale

In the normal course of business, NVR s mortgage banking segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers lock-in a specified interest rate within time frames established by NVR. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the lock-in of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to

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the specific rate lock commitments. NVR does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives and, accordingly, are marked to fair value through earnings. At December 31, 2011, there were contractual commitments to extend credit to borrowers aggregating \$126,929 and open forward delivery contracts aggregating \$353,555.

GAAP assigns a fair value hierarchy to the inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value of the Company's rate lock commitments to borrowers and the related input levels includes, as applicable:

- i) the assumed gain/loss of the expected resultant loan sale (level 2);
- ii) the effects of interest rate movements between the date of the rate lock and the balance sheet date (level 2); and
- iii) the value of the servicing rights associated with the loan (level 2).

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons and the excess servicing to be received or buydown fees to be paid upon securitization of the loan. The excess servicing and buydown fees are calculated pursuant to contractual terms with investors. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells all of its loans on a servicing released basis, and receives a servicing released premium upon sale. Thus, the value of the servicing rights, which averaged 63 basis points of the loan amount as of December 31, 2011, is included in the fair value measurement and is based upon contractual terms with investors and varies depending on the loan type. The Company assumes an approximate 9% fallout rate when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on historical experience.

The fair value of the Company's forward sales contracts to broker/dealers solely considers the market price movement of the same type of security between the trade date and the balance sheet date (level 2). The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Mortgage loans held for sale are recorded at fair value when closed, and thereafter are carried at the lower of cost or fair value, net of deferred origination costs, until sold. The fair value of loans held for sale of \$252,352 included on the accompanying consolidated balance sheet has been increased by \$1,526 from the aggregate principal balance of \$250,826.

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(dollars in thousands, except per share data)

The undesignated derivative instruments are included on the accompanying consolidated balance sheet as follows:

	Balance Sheet Location	Fair Value December 31, 2011
Derivative Assets:		
Rate Lock Commitments	NVRM - Other assets	\$ 833
Derivative Liabilities:		
Forward Sales Contracts	NVRM - Accounts payable and other liabilities	\$ 2,430

The fair value measurement as of December 31, 2011 was as follows:

	Notional or Principal Amount	Assumed Gain (Loss) From Loan Sale	Interest Rate Movement Effect	Servicing Rights Value	Security Price Change	Total Fair Value Measurement Gain/(Loss)
Rate lock commitments	\$ 126,929	\$ (393)	\$ 548	\$ 678	\$	\$ 833
Forward sales contracts	\$ 353,555				(2,430)	(2,430)
Mortgages held for sale	\$ 250,826	(842)	720	1,648		1,526
Total Fair Value Measurement, December 31, 2011		\$ (1,235)	\$ 1,268	\$ 2,326	\$ (2,430)	\$ (71)

For the years ended December 31, 2011 and 2010, NVRM recorded fair value adjustment losses of \$1,080 and \$335, respectively, and for the year ended December 31, 2009, recorded a fair value adjustment gain of \$437. Unrealized losses/gains from the change in the fair value measurements are included in earnings as a component of mortgage banking fees in the accompanying consolidated statements of income. The fair value measurement will be impacted in the future by the change in the value of the servicing rights, security price fluctuations, and the volume and product mix of the Company's closed loans and locked loan commitments.

13. Mortgage Loan Loss Allowance

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During the years ended December 31, 2011, 2010 and 2009, the Company recorded pre-tax charges for loan losses related to mortgage loans sold of approximately \$5,100, \$6,200 and \$200, respectively. Included in the Mortgage Banking segment's Accounts payable and other liabilities line item on the accompanying consolidated balance sheets is a mortgage loan loss allowance equal to approximately \$12,850 and \$8,200 at December 31, 2011 and 2010, respectively.

14. Quarterly Results (unaudited)

The following table sets forth unaudited selected financial data and operating information on a quarterly basis for the years ended December 31, 2011 and 2010.

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NVR, Inc.

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(dollars in thousands, except per share data)

	Year Ended December 31, 2011			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Revenues-homebuilding operations	\$ 728,808	\$ 696,980	\$ 682,663	\$ 502,744
Gross profit homebuilding operations	\$ 112,086	\$ 124,598	\$ 124,062	\$ 84,824
Mortgage banking fees	\$ 12,480	\$ 10,496	\$ 13,218	\$ 11,760
Net income	\$ 32,392	\$ 43,409	\$ 38,445	\$ 15,174
Diluted earnings per share	\$ 6.32	\$ 7.98	\$ 6.48	\$ 2.52
Contracts for sale, net of cancellations (units)	2,158	2,218	2,468	2,403
Settlements (units)	2,391	2,255	2,207	1,634
Backlog, end of period (units)	3,676	3,909	3,946	3,685
Loans closed	\$ 520,919	\$ 489,866	\$ 504,116	\$ 353,571

	Year Ended December 31, 2010			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Revenues-homebuilding operations	\$ 794,470	\$ 661,935	\$ 946,972	\$ 577,381
Gross profit homebuilding operations	\$ 139,505	\$ 121,152	\$ 175,497	\$ 106,312
Mortgage banking fees	\$ 16,535	\$ 14,234	\$ 17,532	\$ 12,833
Net income	\$ 58,698	\$ 43,944	\$ 71,276	\$ 32,087
Diluted earnings per share	\$ 9.96	\$ 7.31	\$ 11.13	\$ 5.01
Contracts for sale, net of cancellations (units)	1,765	2,151	2,559	2,940
Settlements (units)	2,639	2,127	3,345	1,919
Backlog, end of period (units)	2,916	3,790	3,766	4,552
Loans closed	\$ 597,949	\$ 497,404	\$ 706,551	\$ 418,042