

NATIONAL OILWELL VARCO INC  
Form DEF 14A  
April 05, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**SCHEDULE 14A**

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

Filed by the Registrant                       Filed by a Party Other than the Registrant

Check the Appropriate Box

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

**National Oilwell Varco, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Persons(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 14-a6(i)(1) and 0-11.

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

- (2) Aggregate number of securities to which the transaction applies;
  
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined.)
  
- 4) Proposed maximum aggregate value of transaction:
  
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- 1) Amount Previously Paid:
  
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- 3) Filing Party:
  
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**NATIONAL OILWELL VARCO, INC.**

**7909 Parkwood Circle Drive**

**Houston, Texas 77036**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 16, 2012**

DATE: Wednesday, May 16, 2012  
TIME: 10:00 a.m. (Houston time)  
PLACE: National Oilwell Varco  
7909 Parkwood Circle Dr.  
Houston, Texas 77036

**The 2012 annual meeting of stockholders of National Oilwell Varco, Inc. will be held at the Company's corporate headquarters located at 7909 Parkwood Circle Drive, Houston, Texas on Wednesday, May 16, 2012, at 10:00 a.m. local time, for the following purposes:**

1. To elect three directors to hold office for a one-year term;
2. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditors of the company for 2012;
3. To consider and act upon an advisory proposal to approve the compensation of our named executive officers;
4. To consider and act upon a proposal submitted by a stockholder if properly presented at the meeting; and
5. To consider and act upon any other matters that may properly come before the annual meeting or any postponement or adjournment thereof.

**The Board of Directors recommends that you vote FOR the election of the three nominees for director (Proposal 1), FOR the proposal to ratify the appointment of Ernst & Young LLP as Independent Auditors of the Company for 2012 (Proposal 2), and FOR the approval of the compensation of our named executive officers (Proposal 3).**

**The Board of Directors recommends that you vote AGAINST the stockholder proposal (Proposal 4).**

The Board of Directors has set March 26, 2012 as the record date for the annual meeting of the stockholders ( Annual Meeting ). If you were a stockholder of record at the close of business on March 26, 2012, you are entitled to vote at the Annual Meeting. A complete list of these stockholders will be available for examination at the Annual Meeting and during ordinary business hours at our offices at 7909 Parkwood Circle Drive, Houston, Texas for a period of ten days prior to the Annual Meeting.

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You are cordially invited to join us at the Annual Meeting. However, to ensure your representation, we request that you return your signed proxy card at your earliest convenience, whether or not you plan to attend the Annual Meeting. You may revoke your proxy at any time if you wish to attend and vote in person.

By Order of the Board of Directors

*/s/ Dwight W. Rettig*

Dwight W. Rettig  
Senior Vice President, General Counsel and Secretary

Houston, Texas

April 5, 2012

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**NATIONAL OILWELL VARCO, INC.**

**7909 Parkwood Circle Drive**

**Houston, Texas 77036**

**PROXY STATEMENT**

Except as otherwise specifically noted in this Proxy Statement, the Company, we, our, us, and similar words in this Proxy Statement refer to National Oilwell Varco, Inc.

**ANNUAL MEETING:**

Date: Wednesday, May 16, 2012

Time: 10:00 a.m. (Houston time)

Place: National Oilwell Varco  
7909 Parkwood Circle Dr.  
Houston, Texas 77036

**AGENDA:**

Proposal 1: To elect three nominees as directors of the Company for a term of one year.

Proposal 2: To ratify the appointment of Ernst & Young LLP as independent auditors of the Company.

Proposal 3: To approve, on an advisory basis, the compensation of our named executive officers.

Proposal 4: To consider and act upon a stockholder proposal if properly presented at the Annual Meeting.

**The Board of Directors recommends that you vote FOR the election of the three nominees for director (Proposal 1), FOR the proposal to ratify the appointment of Ernst & Young LLP as Independent Auditors of the Company for 2012 (Proposal 2), and FOR the approval of the compensation of our named executive officers (Proposal 3).**

**The Board of Directors recommends that you vote AGAINST the stockholder proposal (Proposal 4).**

**RECORD DATE/ WHO CAN VOTE:**

All stockholders of record at the close of business on March 26, 2012 are entitled to vote. The only class of securities entitled to vote at the Annual Meeting is National Oilwell Varco common stock. Holders of National Oilwell Varco common stock are entitled to one vote per share at the Annual Meeting.

**PROXIES SOLICITED BY:**

Your vote and proxy is being solicited by the Board of Directors for use at the Annual Meeting. This Proxy Statement and enclosed proxy card is being sent on behalf of the Board of Directors to all stockholders beginning on or about April 5, 2012. By completing, signing and returning your proxy card, you will authorize the persons named on the proxy card to vote your shares according to your instructions.



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**PROXIES:**

If your properly executed proxy does not indicate how you wish to vote your common stock, the persons named on the proxy card will vote FOR election of the three nominees for director (Proposal 1), FOR the ratification of the appointment of Ernst & Young LLP as independent auditors (Proposal 2), FOR the approval of the compensation of our named executive officers (Proposal 3), and AGAINST the stockholder proposal (Proposal 4).

**REVOKING YOUR PROXY:**

You can revoke your proxy at any time prior to the time that the vote is taken at the meeting by: (i) filing a written notice revoking your proxy; (ii) filing another proxy bearing a later date; or (iii) casting your vote in person at the Annual Meeting. Your last vote will be the vote that is counted.

**QUORUM:**

As of March 26, 2012, there were 426,156,433 shares of National Oilwell Varco common stock issued and outstanding. The holders of these shares have the right to cast one vote for each share held by them. The presence, in person or by proxy, of stockholders entitled to cast at least 213,078,217 votes constitutes a quorum for adopting the proposals at the Annual Meeting. Abstentions will be included in determining the number of shares present at the meeting for the purpose of determining a quorum, as will broker non-votes. A broker non-vote occurs when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instruction is given. If you have properly signed and returned your proxy card by mail, you will be considered part of the quorum, and the persons named on the proxy card will vote your shares as you have instructed them.

**VOTE REQUIRED FOR APPROVAL:**

For the proposal to elect the three director nominees (Proposal 1), our bylaws require that each director nominee be elected by the majority of votes cast with respect to such nominee (i.e., the number of shares voted for a director nominee must exceed the number of shares voted against that nominee). For additional information regarding our majority voting policy, see page 6 of the proxy statement. You cannot abstain in the election of directors and broker non-votes are not counted. **Brokers are not permitted to vote your shares on the election of directors in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.**

Approval of the proposal to ratify the appointment of Ernst & Young LLP as independent auditors (Proposal 2) and the proposal to approve the compensation of our named executive officers (Proposal 3) will require the affirmative vote of a majority of the shares of our common stock entitled to vote and present in person or by proxy. An abstention will have the same effect as a vote against such proposal. **With respect to Proposal 3, brokers are not permitted to vote your shares on the compensation of our named executive officers in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.**

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Approval of the stockholder proposal (Proposal 4) will require the affirmative vote of a majority of the shares of our common stock entitled to vote and present in person or by proxy. An abstention will have the same effect as a vote against such proposal.

**MULTIPLE PROXY CARDS:**

If you receive multiple proxy cards, this indicates that your shares are held in more than one account, such as two brokerage accounts, and are registered in different names. You should vote each of the proxy cards to ensure that all of your shares are voted.

**HOUSEHOLDING:**

The U.S. Securities and Exchange Commission, or SEC, has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a copy of these materials, other than the Proxy Card, to those stockholders. This process, which is commonly referred to as householding, can mean extra convenience for stockholders and cost savings for the Company. Beneficial stockholders can request information about householding from their banks, brokers, or other holders of record. Through householding, stockholders of record who have the same address and last name will receive only one copy of our Proxy Statement and Annual Report, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure will reduce printing costs and postage fees.

Stockholders who participate in householding will continue to receive separate Proxy Cards. If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of Proxy Statements and Annual Reports, or if you hold stock in more than one account and wish to receive only a single copy of the Proxy Statement or Annual Report for your household, please contact Broadridge Household Department, in writing, at 51 Mercedes Way, Edgewood, New York 11717, or by phone at (800) 542-1061. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate Proxy Statement and Annual Report, please notify your broker if you are a beneficial stockholder.

**COST OF PROXY SOLICITATION:**

We have retained InvestorCom, Inc. to solicit proxies from our stockholders at an estimated fee of \$6,000, plus expenses. This fee does not include the costs of preparing, printing, assembling, delivering and mailing the Proxy Statement. The Company will

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pay for the cost of soliciting proxies. Some of our directors, officers and employees may also solicit proxies personally, without any additional compensation, by telephone or mail. Proxy materials also will be furnished without cost to brokers and other nominees to forward to the beneficial owners of shares held in their names.

**Important Notice Regarding the Availability of Proxy Materials for the**

**Stockholder Meeting to Be Held on Wednesday, May 16, 2012.**

**The Company's 2012 Proxy Statement and the Annual Report to Stockholders for the year ended 2011 are also available at:**

**<http://www.proxyvote.com>**

For directions to the Annual Meeting, please contact investor relations at 713-346-7500.

**PLEASE VOTE - YOUR VOTE IS IMPORTANT**

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**ELECTION OF DIRECTORS**

**PROPOSAL NO. 1 ON THE PROXY CARD**

The Board of Directors of National Oilwell Varco (the Board) and the stockholders of the Company approved last year an amendment to the Company's Amended and Restated Certificate of Incorporation that provides for the phased-in elimination of the classification of the Board and the annual election of all directors.

The Board of Directors is currently divided into three classes, and members of each class are elected to serve for staggered three-year terms. Starting with the election of directors at the 2012 Annual Meeting, such directors or their successors would be elected to one-year terms. Beginning with the 2014 Annual Meeting, the declassification of the Board would be complete and all directors would be subject to annual election.

Directors whose terms expire this year include: Merrill A. Miller, Jr., Greg L. Armstrong, and David D. Harrison.

Merrill A. Miller, Jr., Greg L. Armstrong, and David D. Harrison are nominees for directors for a one-year term expiring at the Annual Meeting in 2013, or when their successors are elected and qualified. We believe each of the nominees will be able to serve if elected. However, if any nominee is unable to serve, the remaining members of the Board have authority to nominate another person, elect a substitute, or reduce the size of the Board. Directors whose terms expire in 2013 and 2014 will continue to serve in accordance with their prior election or appointment. Proxies cannot be voted for a greater number of persons than the number of nominees named.

**Table of Contents****Vote Required for Approval**

National Oilwell Varco's Bylaws require that each director be elected by the majority of votes cast with respect to such director in uncontested elections (the number of shares voted for a director nominee must exceed the number of votes cast against that nominee). In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors would be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. Whether an election is contested or not is determined as of a date that is 14 days in advance of when we file our definitive proxy statement with the SEC; this year's election was determined to be an uncontested election, and the majority vote standard will apply. If a nominee who is serving as a director is not elected at the annual meeting, Delaware law provides that the director would continue to serve on the Board as a holdover director. However, under our Bylaws and Corporate Governance Guidelines, each director must submit an advance, contingent, irrevocable resignation that the Board may accept if the director fails to be elected through a majority vote. In that situation, the Nominating/Corporate Governance Committee would make a recommendation to the Board about whether to accept or reject the resignation, or whether to take other action. The Board will act on the Nominating/Corporate Governance Committee's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. If a nominee who was not already serving as a director fails to receive a majority of votes cast at the annual meeting, Delaware law provides that the nominee does not serve on the Board as a holdover director. In 2012, all director nominees are currently serving on the Board.

**Brokers are not permitted to vote your shares on the election of directors in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.**

**Information Regarding Nominees for Director for Terms Expiring in 2013:**

<b>Name</b>	<b>Age</b>	<b>Expiration Date of Current Term</b>	<b>Biography</b>	<b>Year First Became Director</b>
Merrill A. Miller, Jr.	61	2012	Mr. Miller has been a Director of the Company since May 2001 and Chairman of the Board since July 22, 2005. He also served as Chairman of the Board from May 2002 through March 11, 2005. He served as the Company's Chief Operating Officer from November 2000 through March 11, 2005. He has served as President since November 2000 and as Chief Executive Officer since May 2001. He has served in various senior executive positions with National Oilwell since February 1996. Mr. Miller also serves as a director of Chesapeake Energy Corporation, a company engaged in the development, acquisition, production, exploration, and marketing of onshore oil and natural gas properties in the United States.	2001

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<b>Name</b>	<b>Age</b>	<b>Expiration Date of Current Term</b>	<b>Biography</b>	<b>Year First Became Director</b>
Greg L. Armstrong	53	2012	Mr. Armstrong has been a Director of the Company since March 2005. Mr. Armstrong served as a Director of Varco from May 20, 2004 until its merger with the Company on March 11, 2005. Since 1998, he has been the Chairman of the Board and Chief Executive Officer of Plains All American GP LLC, the general partner and controlling entity of Plains All American Pipeline, L.P., a publicly traded master limited partnership engaged in the business of marketing, gathering, transporting, terminalling and storing crude oil. Since 2010, he has been Chairman of the Board and Chief Executive Officer of PNGS GP LLC, the controlling entity of PAA Natural Gas Storage, L.P., a publicly traded master limited partnership engaged in the natural gas storage business. Mr. Armstrong is a member of the National Petroleum Council and is a director of the Federal Reserve Bank of Dallas, Houston Branch.	2005
David D. Harrison	64	2012	Mr. Harrison has been a Director of the Company since August 2003. He has served as Executive Vice President and Chief Financial Officer of Pentair, Inc., a diversified manufacturer in water technologies and enclosures businesses, since February 2000 until his retirement in February 2007. He also served as Executive Vice President and Chief Financial Officer of Pentair, Inc. from 1994 to 1996. From 1972 through 1994, Mr. Harrison held various domestic and international finance positions with a combination of General Electric and Borg-Warner Chemicals. Mr. Harrison serves as a director of Navistar International Corporation, a holding company whose wholly owned subsidiaries produce International® brand commercial trucks, MaxxForce brand diesel engines, IC brand school buses, and Workhorse brand chassis for motor homes and step vans. Mr. Harrison also serves as a director of James Hardie Industries, a leading fibre cement technology company.	2003

**Your Board of Directors recommends that you vote FOR the election of the three nominees for director.**

**Table of Contents****Information Regarding Continuing Directors:**

<b>Name</b>	<b>Age</b>	<b>Expiration Date of Current Term</b>	<b>Biography</b>	<b>Year First Became Director</b>
Robert E. Beauchamp	52	2014	Mr. Beauchamp has been a Director of the Company since August 2002. Since 1988, he has served in various capacities at BMC Software, Inc., a leading provider of enterprise management solutions, most recently as President and Chief Executive Officer and as Chairman of the Board. During his career with BMC, he also served as senior vice president of research & development, vice president of strategic marketing and corporate development, and director of strategic marketing.	2002
Ben A. Guill	61	2013	Mr. Guill has served as a Director of the Company since 1999. He is a Managing Partner of White Deer Energy, a middle market private equity fund focused on energy investments. Until April 2007, he was President of First Reserve Corporation, a corporate manager of private investments focusing on the energy and energy-related sectors, which he joined in September 1998. Prior to joining First Reserve, Mr. Guill was the Managing Director and Co-head of Investment Banking of Simmons & Company International, an investment-banking firm specializing in the oil service industry.	1999
Roger L. Jarvis	58	2013	Mr. Jarvis has been a Director of the Company since February 2002. Since May 2010, he has served as Chairman of Common Resources II LLC, a privately held company engaged in the business of exploration for and production of hydrocarbons in the United States. Mr. Jarvis previously served as Chairman, Chief Executive Officer and President of Common Resources LLC from 2007 until its acquisition in May 2010. He served as President, Chief Executive Officer and Director of Spinnaker Exploration Company, a natural gas and oil exploration and production company, from 1996 and as its Chairman of the Board from 1998, until its acquisition by Norsk Hydro ASA in December 2005.	2002

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<b>Name</b>	<b>Age</b>	<b>Expiration Date of Current Term</b>	<b>Biography</b>	<b>Year First Became Director</b>
Eric L. Mattson	60	2013	Mr. Mattson has been a Director of the Company since March 2005. Mr. Mattson served as a Director of Varco (and its predecessor, Tuboscope Inc.) from January 1994 until its merger with the Company on March 11, 2005. Mr. Mattson is currently an investor in and serves as the EVP and Chief Financial Officer of Select Energy Services, LLC, a privately held oil service company located in Gainesville, Texas. Prior to that, Mr. Mattson served as Senior Vice President and Chief Financial Officer of VeriCenter, Inc., a private provider of managed hosting services, since 2003, until its acquisition in August 2007. From November 2002 until October 2003, Mr. Mattson worked as an independent consultant. Mr. Mattson was the Chief Financial Officer of Netrail, Inc., a private Internet backbone and broadband service provider, from September 1999 until November 2002. Netrail filed for Chapter 11 Bankruptcy protection in the Northern Georgia district of the United States Bankruptcy Court in July 2001. In November 2002, the Bankruptcy Court approved Netrail's plan of liquidation and appointed a Trustee to effect the plan. At that time, Mr. Mattson ceased to be the Chief Financial Officer of Netrail. From July 1993 until May 1999, Mr. Mattson served as Senior Vice President and Chief Financial Officer of Baker Hughes Incorporated, a provider of products and services to the oil, gas and process industries. Mr. Mattson serves as a director of Rex Energy Corporation, a company engaged in the acquisition, production, exploration and development of oil and gas.	2005
Jeffery A. Smisek	57	2014	Mr. Smisek has been a Director of the Company since March 2005. Mr. Smisek served as a Director of Varco (and its predecessor, Tuboscope Inc.) from February 1998 until its merger with the Company on March 11, 2005. Mr. Smisek has served as President, Chief Executive Officer and a director of United Continental Holdings, Inc. since October 2010. Mr. Smisek previously served as Chairman, President and Chief Executive Officer of Continental Airlines, Inc. from January 2010 until its merger with United Airlines, Inc. in October 2010. Mr. Smisek previously served Continental Airlines, Inc. as: President and Chief Operating Officer from September 2008 until December 2009 and President and a director from December 2004.	2005



**Table of Contents****COMMITTEES AND MEETINGS OF THE BOARD****Committees**

The Board of Directors appoints committees to help carry out its duties. The Board of Directors had the following standing committees: Audit, Compensation, and Nominating/Corporate Governance. Last year, the Board of Directors met five times and the committees met a total of 12 times. Mr. Miller does not serve on any committees. The following table sets forth the committees of the Board of Directors and their members as of the date of this proxy statement, as well as the number of meetings each committee held during 2011:

Director	Audit Committee	Compensation Committee	Nominating/Corporate Governance Committee
Merrill A. Miller, Jr.			
Greg L. Armstrong			
Robert E. Beauchamp			+
Ben A. Guill			
David D. Harrison	+		
Roger L. Jarvis			
Eric L. Mattson			
Jeffery A. Smisek		+	
Number of Meetings Held in 2011	8	2	2

(+) Denotes Chair

**Attendance at Meetings**

Each incumbent director attended at least 75% of the meetings of the Board and committees of which that director was a member.

**Audit Committee**

Messrs. Harrison (Chairman), Armstrong, Guill and Mattson are the current members of the Audit Committee. All members of this committee are independent within the meaning of the rules governing audit committees by the New York Stock Exchange, or NYSE.

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

monitor the integrity of the Company's financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures;

select and appoint the Company's independent auditors, pre-approve all audit and non-audit services to be provided, consistent with all applicable laws, to the Company by the Company's independent auditors, and establish the fees and other compensation to be paid to the independent auditors;

monitor the independence and performance of the Company's independent auditors and internal audit function;

establish procedures for the receipt, retention, response to and treatment of complaints, including confidential, anonymous submissions by the Company's employees, regarding accounting, internal controls, disclosure or auditing matters, and provide an

avenue of communication among the independent auditors, management, the internal audit function and the Board of Directors;

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prepare an audit committee report as required by the Securities and Exchange Commission (the SEC) to be included in the Company's annual proxy statement; and

monitor the Company's compliance with legal and regulatory requirements.

A copy of the Audit Committee Charter is available on the Company's website, [www.nov.com](http://www.nov.com), under the Investor Relations/Corporate Governance section.

### ***Audit Committee Financial Expert***

The Board of Directors has determined that all members of the Audit Committee meet the NYSE standard of having accounting or related financial management expertise and meet the SEC's criteria of an Audit Committee Financial Expert.

### **Compensation Committee**

Messrs. Smisek (Chairman), Beauchamp and Jarvis are the current members of the Compensation Committee. All members of the Compensation Committee are independent as defined by the applicable NYSE listing standards.

The Compensation Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

discharge the Board's responsibilities relating to compensation of the Company's directors and executive officers;

approve and evaluate all compensation of directors and executive officers, including salaries, bonuses, and compensation plans, policies and programs of the Company; and

administer all plans of the Company under which shares of common stock may be acquired by directors or executive officers of the Company.

A copy of the Compensation Committee Charter is available on the Company's website, [www.nov.com](http://www.nov.com), under the Investor Relations/Corporate Governance section.

***Compensation Committee Interlocks and Insider Participation.*** Messrs. Smisek, Beauchamp and Jarvis served on the Compensation Committee during 2011. None of these members is a former or current officer or employee of the Company or any of its subsidiaries, is involved in a relationship requiring disclosure as an interlocking executive officer/director, or had any relationship requiring disclosure under Item 404 of Regulation S-K.

### **Nominating/Corporate Governance Committee**

Messrs. Beauchamp (Chairman), Jarvis and Smisek are the current members of the Nominating/Corporate Governance Committee. All members of the Nominating/Corporate Governance Committee are independent as defined by the applicable NYSE listing standards.

The Nominating/Corporate Governance Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

ensure that the Board and its committees are appropriately constituted so that the Board and directors may effectively meet their fiduciary obligations to stockholders and the Company;



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identify individuals qualified to become Board members and recommend to the Board director nominees for each annual meeting of stockholders and candidates to fill vacancies in the Board;

recommend to the Board annually the directors to be appointed to Board committees;

monitor, review, and recommend, when necessary, any changes to the Corporate Governance Guidelines; and

monitor and evaluate annually the effectiveness of the Board and management of the Company, including their effectiveness in implementing the policies and principles of the Corporate Governance Guidelines.

A copy of the Nominating/Corporate Governance Committee Charter is available on the Company's website, [www.nov.com](http://www.nov.com), under the Investor Relations/Corporate Governance section.

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**BOARD OF DIRECTORS**

**Director Nomination Process and Diversity Considerations**

The Nominating/Corporate Governance Committee has the responsibility of identifying candidates for election as directors, reviewing background information relating to candidates for director, and recommending to the Board of Directors nominees for directors to be submitted to stockholders for election. It is the policy of the Committee to consider director candidates recommended by stockholders. Nominees to be evaluated by the Nominating/Corporate Governance Committee are selected by the Committee from candidates recommended by multiple sources, including other directors, management, stockholders, and candidates identified by independent search firms (which firms may be paid by the Company for their services), all of whom will be evaluated based on the same criteria. As of March 26, 2012, we had not received any recommendations from stockholders for potential director candidates. All of the current nominees for director are standing members of the Board that are proposed by the entire Board for re-election. Written suggestions for nominees should be sent to the Secretary of the Company at the address listed below.

The Board of Directors believes that nominees should reflect the following characteristics:

have a reputation for integrity, honesty, candor, fairness and discretion;

be knowledgeable, or willing to become so quickly, in the critical aspects of the Company's businesses and operations;

be experienced and skillful in serving as a competent overseer of, and trusted advisor to, the senior management of at least one substantial enterprise; and

have a range of talent, skill and expertise sufficient to provide sound and prudent guidance with respect to the full scope of the Company's operations and interests.

The Board considers diversity in identifying nominees for director. The Board seeks to achieve a mix of directors that represents a diversity of background and experience, including with respect to gender and race. The Board considers diversity in a variety of different ways and in a fairly expansive manner. The Board not only considers diversity concepts such as race and gender, but also diversity in the sense of differences in viewpoint, professional experience, education, skill and other qualities and attributes that contribute to board heterogeneity. Also considered as part of the diversity analysis is whether the individual has work experience in the Company's industry, or in the broader oil and gas industry. The Company believes the Board benefits from different viewpoints and experiences by having a mix of members of the Board who have experience in the oil and gas industry and those who do not have such experience.

The Nominating/Corporate Governance Committee reviews Board composition annually to ensure that the Board reflects the knowledge, experience, skills, expertise, and diversity required for the Board to fulfill its duties. There are currently no directorship vacancies to be filled on the Board. If and when the need arises for the Company to add a new director to the Board, the Nominating/Corporate Governance Committee will take every reasonable step to ensure that diverse candidates (including, without limitation, women and minority candidates) are in the pool from which nominees are chosen and strive to obtain diverse candidates by searching in traditional corporate environments, as well as government, academia, and non-profit organizations.

Any stockholder of record who is entitled to vote for the election of directors may nominate persons for election as directors if timely written notice in proper form of the intent to make a nomination at the Annual Meeting is received by the Company at National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, TX 77036, Attention: Dwight W. Rettig, Secretary. The notice must be received no later than April 15, 2012 - 10 days after the first public notice of the Annual Meeting is first sent to stockholders. To be in proper form, the notice must contain

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prescribed information about the proponent and each nominee, including such information about each nominee as would have been required to be included in a proxy statement filed pursuant to the rules of the SEC had such nominee been nominated by the Board of Directors.

### **Director Qualifications**

The Company believes that each member of its Board of Directors possess the basic attributes of being a director of the Company, namely having a reputation for integrity, honesty, candor, fairness and discretion. Each director has also become knowledgeable in major aspects of the Company's business and operations, which has allowed the Board to provide better oversight functions to the Company. In addition to the experience, qualifications and skills of each director set forth in their biographies starting on page 6 of this proxy statement, the Company also considered the following factors in determining that the board member should serve on the Board:

Mr. Armstrong provides valuable service and experience to the Audit Committee, due to his experience serving as an auditor for a major accounting firm, approximately 30 years of being a certified public accountant and seven years of experience serving as a chief financial officer. Mr. Armstrong has been an officer of a publicly traded energy company since 1981, occupying positions of increasing importance ranging from controller, to CFO, to COO and CEO. Through service in these roles, he gained extensive experience in assessing the risks associated with various energy industry cycles. He also gained valuable outside board experience from his previous tenure as a director of BreitBurn Energy Partners.

Mr. Beauchamp has served as the chief executive officer and chairman of the board of a publicly traded company for the past 11 years. Mr. Beauchamp has extensive business experience in the information technology sector, including occupying positions in the areas of sales, marketing, research and development and corporate development. Mr. Beauchamp's experience outside the energy industry helps provide a different perspective for the Company. He has a bachelor's degree in finance, as well as a masters degree in management.

Mr. Guill provides valuable service and experience to the Audit Committee, due to his MBA degree, 18 years of experience in investment banking and 11 years of experience in private equity. Mr. Guill also served as president of a private investment firm focused on the energy sector. Mr. Guill has 30 years of experience in the energy industry as an investment banker and private equity investor. Mr. Guill also gained valuable outside board experience from his previous tenures as a director of: Dresser, Inc., Quanta Services, Inc., T-3 Energy Services, Inc., Chart Industries, Inc. and the general partner of Cheniere Energy Partners, L.P.

Mr. Harrison provides valuable service and experience to the Audit Committee, due to his MBA degree, 26 years of being a certified management accountant and 13 years of experience serving as a chief financial officer and chief accounting officer of publicly traded companies. Mr. Harrison has 41 years of continuous experience in major domestic and foreign companies in a variety of different industries. Mr. Harrison's experience outside the energy industry helps provide a different perspective for the Company. He has a bachelor's degree in accounting. He has also gained valuable outside board experience from his tenure as a director of Navistar International Corporation and James Hardie Industries.

Mr. Jarvis served as the chief executive officer and chairman of the board of a publicly traded company in the oil and gas industry for 10 years. Mr. Jarvis has extensive experience in the oil and gas exploration business involving the drilling, completion and production of oil and gas wells, both offshore and onshore. As a result of this extensive experience, Mr. Jarvis is very familiar with the strategic and project planning processes that impact the Company's business. He also gained valuable outside board experience from his previous tenure as a director of the Bill Barret Corporation.

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Mr. Mattson provides valuable service and experience to the Audit Committee, due to his MBA degree and 38 years of financial experience, including 19 years as a chief financial officer of four different companies. Mr. Mattson has extensive experience in the oil service business, having worked in that industry for over 30 years. He also has extensive mergers and acquisitions experience of over 30 years on a global basis. Mr. Mattson has dealt with all facets of potential risk areas for a global energy service company, as a former chief financial officer of Baker Hughes, and brings that experience and perspective to the Company.

Mr. Miller has been an officer of a publicly traded company since 1996, occupying positions of increasing importance from business group president, to COO, to CEO. Mr. Miller has extensive experience with the Company and the oil service industry. Mr. Miller has an MBA degree, and is a graduate of the US Military Academy, West Point. Mr. Miller has also gained valuable outside board experience from his previous tenure as a director of Penn Virginia Corporation and his current tenure as a director of Chesapeake Energy Corporation.

Mr. Smisek has been an executive officer of a publicly traded company since 1995, occupying positions of increasing importance ranging from General Counsel, to President and COO, to Chairman and CEO. Mr. Smisek has extensive business experience in the airline industry, which helps provide a different perspective for the Company. Mr. Smisek has a law degree and has prior experience practicing law for a major law firm, which provides him with extensive experience in assessing and dealing with different types of risks. He has also gained valuable outside board experience from his tenure as a director and chairman of the board of Continental Airlines, and his current tenure as a director of United Continental Holdings.



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**AUDIT COMMITTEE REPORT**

The responsibilities of the Audit Committee, which are set forth in the Audit Committee Charter adopted by the Board of Directors, include providing oversight to the Company's financial reporting process through periodic combined and separate meetings with the Company's independent auditors and management to review accounting, auditing, internal controls and financial reporting matters. The management of the Company is responsible for the preparation and integrity of the financial reporting information and related systems of internal controls. The Audit Committee, in carrying out its role, relies on the Company's senior management, including senior financial management, and its independent auditors.

The Board of Directors has determined that all of the members of the Audit Committee are independent based on the guidelines set forth by the NYSE and SEC rules for the independence of Audit Committee members. The Audit Committee held eight (8) meetings in 2011, and at each regularly scheduled quarterly meeting met separately in executive session with both the internal audit vice president and the independent audit partner, without management being present.

The Audit Committee reviewed and discussed with senior management the audited financial statements included in the Company's Annual Report on Form 10-K. Management has confirmed to the Audit Committee that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles.

The Audit Committee discussed with Ernst & Young LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards (SAS) No. 61 (Codification of Statements on Auditing Standards, AU Sec. 380), as may be modified or supplemented. SAS No. 61 requires independent auditors to communicate certain matters related to the conduct of an audit to those who have responsibility for oversight of the financial reporting process, specifically the audit committee. Among the matters to be communicated to the audit committee are: (1) methods used to account for significant unusual transactions; (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus; (3) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates; and (4) disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements. In addition, the Audit Committee reviewed with Ernst & Young their judgment as to the quality, not just the acceptability, of the Company's accounting principles.

The Audit Committee has received the written disclosures and the letter from Ernst & Young required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young's communication with the Audit Committee concerning independence, and has discussed Ernst & Young's independence with Ernst & Young.

Based on the review of the financial statements, the discussion with Ernst & Young regarding SAS No. 61, the discussion with Ernst & Young of the applicable requirements of the Public Company Accounting Oversight Board concerning independence, and receipt from them of the required written disclosures, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's 2011 Annual Report on Form 10-K.

Notwithstanding the foregoing, the Audit Committee's charter clarifies that it is not the Audit Committee's duty to conduct audits or to determine that the Company's financial statements are

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complete and accurate and are in accordance with generally accepted accounting principles ( GAAP ). Management is responsible for the Company s financial reporting process, including its system of internal controls, and for the preparation of financial statements in accordance with GAAP. Management is also responsible for assuring compliance with laws and regulations and the Company s corporate policies, subject to the Audit Committee s oversight in the areas covered by the Audit Committee s charter. The independent auditors are responsible for expressing opinions on those financial statements and on the effectiveness of the Company s internal control over financial reporting.

**Members of the Audit Committee**

David D. Harrison, Committee Chairman

Greg L. Armstrong

Ben A. Guill

Eric L. Mattson

**Table of Contents****RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS****PROPOSAL NO. 2 ON THE PROXY CARD****Information Regarding our Independent Auditors**

The Audit Committee of the Board of Directors has reappointed Ernst & Young LLP as independent auditors for 2012. Stockholders are being asked to vote upon the ratification of the appointment. Representatives of Ernst & Young will attend the Annual Meeting, where they will be available to respond to appropriate questions and have the opportunity to make a statement if they desire.

**Vote Required for Approval**

The proposal to ratify the appointment of Ernst & Young LLP as independent auditors will require approval of a majority of the shares of our common stock entitled to vote and present in person or by proxy. In accordance with NYSE rules, a proposal to ratify independent auditors is considered to be a discretionary item. This means that brokerage firms may vote in their discretion on this matter on behalf of beneficial owners who have not furnished voting instructions within the time period specified in the voting instructions submitted by such brokerage firms. Abstentions, which will be counted as votes present for the purpose of determining a quorum, will have the effect of a vote against the proposal. Your shares will be voted as you specify on your proxy. If your properly executed proxy does not specify how you want your shares voted, we will vote them for the ratification of the appointment of Ernst & Young LLP as independent auditors.

**Audit Fees**

The Audit Committee pre-approves all services provided by the Company's independent auditors to the Company and its subsidiaries. Consideration and approval of such services generally occurs in the regularly scheduled quarterly meetings of the Audit Committee. The Audit Committee has delegated the Chairman of the Audit Committee to pre-approve allowed non-audit services, subject to review by the full committee at the next regularly scheduled meeting. The Audit Committee has considered whether the provision of all services other than those rendered for the audit of the Company's financial statements is compatible with maintaining Ernst & Young's independence and has concluded that their independence is not compromised.

The following table sets forth Ernst & Young LLP's fees for services rendered during 2010 and 2011. All services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

	2011	2010
	<i>(in thousands)</i>	
Audit Fees	\$ 7,702	\$ 6,692
Audit Related Fees <sup>(1)</sup>	187	222
Tax Fees <sup>(2)</sup>	4,706	4,396
All Other Fees		
<b>Total</b>	<b>\$ 12,596</b>	<b>\$ 11,310</b>

<sup>(1)</sup> Consists primarily of fees for audits of employee benefit plans, due diligence related to acquisition transactions, and international accounting consultations.

<sup>(2)</sup> Consists primarily of fees for compliance, planning and advice with respect to various domestic and foreign corporate tax matters.

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**Your Board of Directors recommends that you vote FOR the proposal to ratify the appointment of Ernst & Young LLP.**

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### **APPROVAL OF COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS - PROPOSAL NO. 3 ON THE PROXY CARD**

A proposal will be presented at the meeting asking stockholders to approve on an advisory basis the compensation of the Company's named executive officers as described in this proxy statement.

#### **Why You Should Approve our Executive Compensation Program**

The Company's compensation philosophy is designed to attract and retain executive talent and emphasize pay for performance, including the creation of shareholder value. The Company encourages its stockholders to read the Executive Compensation section of this proxy statement, including the compensation tables, as well as the Compensation Discussion and Analysis (CD&A) section of this proxy statement, for a more detailed discussion of our compensation programs and policies. The Company believes its compensation programs and policies are appropriate and effective in implementing its compensation philosophy and in achieving its goals, and that they are aligned with stockholder interests and worthy of continued stockholder support.

We believe that stockholders should consider the following in determining whether to approve this proposal:

#### **Compensation Program is Closely Linked to Stockholder Value**

An important portion of each executive's compensation at the Company is in the form of long-term incentive awards, which are directly linked to the Company's performance and the creation of stockholder value. The Company's long-term incentive awards consist of: stock options and performance-based restricted stock. We believe this mix appropriately motivates long-term performance and rewards executives for both absolute gains in share price and relative financial performance against a designated peer group.

#### **Strong Pay-for-Performance Orientation**

*Incentive Plan awards are aligned with our performance:* For 2011, we made bonus payments to the Company's named executive officers at the maximum level payout because our financial results were well in excess of our financial goals set for 2011.

*Base salaries:* In 2011, the Company did not adjust the base salary levels for its named executive officers and CEO, even though the Company achieved strong financial and operational performance.

#### **Compensation Program Has Appropriate Long-term Orientation**

*Minimum three-year vesting for equity awards:* The Company encourages a long-term orientation by its executives through the use of three-year vesting requirements for options and performance based restricted stock.

#### **Summary of Good Governance and Risk Mitigating Factors**

*Limited Bonus payouts:* Bonus awards cannot exceed 200% of target, limiting excessive awards for short-term performance.

*Balanced pay mix:* The mix of pay is balanced between annual and long-term compensation.

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*Multiple year vesting of long-term incentives:* Long-term incentive awards do not fully vest until a minimum of three years after the grant.

*CEO Pay:* CEO base salary level has generally been well below the competitive peer median, in spite of the Company's strong financial and operational performance over the past few years. This is due to the CEO declining increases in base salary recommended by the Compensation Committee and voluntarily reducing his base salary in 2009.

The Company's compensation program for its named executive officers has been thoughtfully designed to support the Company's long-term business strategies and drive creation of stockholder value. The program does not encourage excessive risk-taking by management. It is aligned with the competitive market for talent, and highly sensitive to Company performance. The Company believes its program delivers reasonable pay that is strongly linked to Company performance over time.

The following resolution will be submitted for a stockholder vote at the 2012 annual meeting:

RESOLVED, that the stockholders of the Company approve, on an advisory basis, the compensation of the Company's named executive officers listed in the 2011 Summary Compensation Table included in the proxy statement for this meeting, as such compensation is disclosed pursuant to Item 402 of Regulation S-K in this proxy statement under the section entitled "Executive Compensation", including the compensation tables and other narrative executive compensation disclosures set forth under that section, as well as the section in the proxy statement entitled "Compensation Discussion and Analysis".

This advisory vote on the compensation of the Company's named executive officers gives stockholders another mechanism to convey their views about the Company's compensation programs and policies. Although your vote on executive compensation is not binding on the Company, the Board values the views of stockholders. The Board and Compensation Committee will review the results of the vote and take them into consideration in addressing future compensation policies and decisions.

**Your Board of Directors recommends that you vote FOR the proposal to approve the compensation of our named executive officers.**

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**STOCKHOLDER PROPOSAL REGARDING REPORT ON  
POLITICAL CONTRIBUTIONS AND EXPENDITURES -  
PROPOSAL NO. 4 ON THE PROXY CARD**

**Your Board of Directors recommends that you vote AGAINST this proposal.**

The Company has been notified by four shareholders, the names and shareholdings of which will be furnished promptly to any shareholder upon request to the Company's executive offices, that they intend to propose the following resolution at the 2012 annual meeting:

**Resolved**, the shareholders of National Oilwell Varco (the Company) hereby request that the Company provide a report, updated semiannually, disclosing the Company's:

Monetary and non-monetary contributions and expenditures (direct and indirect) used to participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, and used in any attempt to influence the general public, or segments thereof, with respect to elections or referenda. The report shall include an accounting through an itemized report that includes the identity of the recipient as well as the amount paid to each recipient of the Company's funds that are used for political contributions or expenditures as described above.

The report shall be presented to the board of directors or relevant board oversight committee and posted on the Company's website.

**Stockholder Supporting Statement**

As long-term shareholders of National Oilwell Varco, we support transparency and accountability in corporate spending on political activities. These include any activities considered intervention in any political campaign under the Internal Revenue Code, such as direct and indirect political contributions to candidates, political parties, or political organizations; independent expenditures; or electioneering communications on behalf of federal, state or local candidates.

Disclosure is consistent with public policy, in the best interest of the company and its shareholders and critical for compliance with federal ethics laws. Moreover, the Supreme Court's *Citizens United* decision recognized the importance of political spending disclosure for shareholders when it said "[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages. Gaps in transparency and accountability may expose the Company to reputational and business risks that could threaten long-term shareholder value.

Relying on publicly available data does not provide a complete picture of the Company's political expenditures. For example, the Company's payments to trade associations used for political activities are undisclosed and unknown. In many cases, even management does not know how trade associations use their company's money politically. The proposal asks the Company to disclose all of its political spending, including payments to trade associations and other tax exempt organizations for political purposes. This would bring National Oilwell Varco in line with a growing number of leading companies, including Aetna, American Electric Power and Microsoft that support political disclosure and accountability and present this information on their websites.

The Company's Board and its shareholders need complete disclosure to be able to fully evaluate the political use of corporate assets. Thus, we urge your support for this critical governance reform.

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**The Board recommends that you vote AGAINST this proposal for the following reasons:**

The Company does not allow use of its own corporate funds or resources for participation or intervention in any political campaign on behalf of, or in opposition to, any candidate for public office, or allow use of such funds or resources to influence the general public, or segments thereof, with respect to public elections or referenda. The Company fully supports its employees involvement in the political process. However, employee participation in the political process must be done on the employee's own time and expense. Employees are not permitted use of Company property, facilities, time or funds for political activities. Further, employees are not permitted to make any political contribution as a representative of the Company.

The Company belongs to several trade associations and pays regular dues to these groups. The Company does not make additional, non-dues contributions to these organizations to fund the groups' political expenditures. The Company does not have a political action committee.

The Company is committed to conducting business ethically, with integrity, and in accordance with law. The Company has various codes of conduct and ethics designed to focus its Board, management and its employees on areas of ethical risk, provide guidance to personnel to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct and help foster a culture of honesty and accountability. The Company's Board of Directors has oversight responsibility over these codes of conduct and ethics, and the Board, or appropriate committee thereof, will periodically review and assess the appropriateness of these codes and policies.

The Company's policy and position regarding political contributions and expenditures is posted on the Company's website.

Because the Company does not allow use of its corporate funds or resources for such political activities and the Company has disclosed its position regarding political contributions and expenditures on the Company's website, the Board believes that additional disclosure is unnecessary and would not further the interests of the Company's stockholders.

**Therefore, the Board recommends that you vote AGAINST this proposal.**



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**CORPORATE GOVERNANCE**

National Oilwell Varco's Board of Directors is committed to promoting transparency in reporting information about the Company, complying with the spirit as well as the literal requirements of applicable laws, rules and regulations, and corporate behavior that conforms to corporate governance standards that substantially exceed the consensus view of minimum acceptable corporate governance standards. The Board of Directors adopted Corporate Governance Guidelines which established provisions for the Board's composition and function, Board committees and committee membership, evaluation of director independence, the roles of the Chairman of the Board, the Chief Executive Officer and the Lead Director, the evaluation of the Chief Executive Officer, regular meetings of non-employee directors, board conduct and review, selection and orientation of directors, director compensation, access to management and independent advisors, and annual review of the Corporate Governance Guidelines. A copy of the Corporate Governance Guidelines is available on the Company's website, [www.nov.com](http://www.nov.com), under the Investor Relations/Corporate Governance section. The Company will furnish print copies of the Corporate Governance Guidelines, as well as its Committee charters, to interested stockholders without charge, upon request. Written requests for such copies should be addressed to: Dwight W. Rettig, Secretary, National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, Texas 77036.

**Director Independence**

The Corporate Governance Guidelines address, among other things, standards for evaluating the independence of the Company's directors. The Board undertakes an annual review of director independence and considers transactions and relationships during the prior year between each director or any member of his or her immediate family and the Company and its affiliates, including those reported under "Certain Relationships and Related Transactions" in this Proxy Statement. In February 2012, as a result of this annual review, the Board affirmatively determined that a majority of the members of the Board of Directors are independent of the Company and its management under the standards set forth in the Corporate Governance Guidelines. The following directors were affirmed as independent: Greg L. Armstrong, Robert E. Beauchamp, Ben A. Guill, David D. Harrison, Roger L. Jarvis, Eric L. Mattson, and Jeffery A. Smisek.

**Board Leadership**

Currently, the roles of Chairman of the Board and Chief Executive Officer are combined at the Company. The Company believes that effective corporate governance, including the independent oversight of management, does not require that the Chairman of the Board be an independent director or that the offices of Chairman and Chief Executive Officer be separated. The Company believes that its stockholders are best served by a Board that has the flexibility to establish a leadership structure that fits the needs of the Company at a particular point in time.

The Board believes that our current Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with our business and most capable of effectively identifying strategic priorities and leading the discussion and execution of our strategy. The Board also believes that the combined role of Chairman and Chief Executive Officer facilitates information flow between management and the Board.

To assist with providing independent oversight of management and the Company's strategy, the non-employee members of the Board of Directors have appointed Greg L. Armstrong, an

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independent director, as Lead Director. The Lead Director is responsible for: (1) developing the agenda for, and presiding over the executive sessions of, the Board's non-management directors, (2) facilitating communications between the Chairman of the Board and other members of the Board, (3) coordinating, with the Chairman, the assessment of the committee structure, organization, and charters, and evaluating the need for any changes, (4) acting as principal liaison between the non-management directors and the Chief Executive Officer on matters dealt with in executive session, and (5) assuming such further tasks as the independent directors may determine.

The Board also holds executive sessions on a quarterly basis at which only non-employee directors are present. In addition, the committees of the Board provide independent oversight of management. Each of the committees of the Board is composed entirely of independent directors.

The Board has concluded that the combined role of Chairman and Chief Executive Officer, together with an independent Lead Director having the duties described above, is in the best interest of stockholders because it provides an appropriate balance between our Chairman's ability to lead the Board and the Company and the ability of our independent directors, under the leadership of our Lead Director, to provide independent objective oversight of our management.

### **Board Role in Risk Oversight**

The Board of Directors and its committees help conduct certain risk oversight functions for the Company. The Board is periodically advised on the status of various factors that could impact the business and operating results of the Company, including oil and gas prices and the Company's backlog for drilling equipment. The full Board is also responsible for reviewing the Company's strategy, business plan, and capital expenditure budget at least annually. Through these various functions, the Board is able to monitor these risks and assist the Company in determining whether certain mitigating actions, if any, need to be taken.

The Audit Committee serves an important role in providing risk oversight, as further detailed in its charter. One of the Audit Committee's primary duties and responsibilities is to monitor the integrity of the Company's financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures. The Audit Committee is also responsible for establishing procedures for the receipt, retention, response to and treatment of complaints, including confidential, anonymous submissions by the Company's employees, regarding accounting, internal controls, disclosure or auditing matters, and providing an avenue of communication among the independent auditors, management, the internal audit function and the Board. In addition, the Audit Committee monitors the Company's compliance with legal and regulatory requirements. The Company considers the Audit Committee an important part of the risk management process, and senior management works closely with the Audit Committee on these matters in managing material risks to the Company.

The other committees of the Board also assist in the risk oversight function. The Nominating/Corporate Governance Committee is responsible for ensuring that the Board and its committees are appropriately constituted so that the Board and its directors may effectively meet their fiduciary obligations to stockholders and the Company. The Nominating/Corporate Governance Committee is also responsible for monitoring and evaluating on an annual basis the effectiveness of the Board and management of the Company, including their effectiveness in implementing the policies and principles of the Corporate Governance Guidelines. The Compensation Committee is responsible for compensation of the Company's directors and executive officers. These various responsibilities of these committees allow them to work with the Company to make sure these areas do not pose undue risks to the Company.

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### **Risk Assessment in Compensation Programs**

Consistent with SEC disclosure requirements, the Company and its Compensation Committee have assessed the Company's compensation programs and have concluded that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. Company management and the Compensation Committee assessed the Company's executive and broad-based compensation programs to determine if the programs' provisions and operations create undesired or unintentional risk of a material nature. Although we reviewed all material compensation programs, we focused on the programs with variability of payout, with the ability of a participant to directly affect payout and the controls on participant action and payout.

During such review, it was noted that the variable forms of compensation, namely the annual cash incentive bonus program and long-term equity incentives, have structural limitations and other mitigating controls, which are designed to prevent the Company from being exposed to unexpected or unbudgeted materially adverse events. For example, bonus payments to an executive under the annual cash incentive bonus program are capped at a certain percentage of the executive's base salary, and the number of shares of restricted stock and stock options granted under the Company's long-term equity incentive plan are fixed amounts of shares.

After such review and assessment, the Company and the Compensation Committee believe that the Company's compensation policies and practices do not create inappropriate or unintended significant risk to the Company as a whole. The Company and the Compensation Committee also believe that the Company's incentive compensation arrangements provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks, and are supported by the oversight and administration of the Compensation Committee with regard to executive compensation programs.

### **Policies on Business Ethics and Conduct**

The Company has a long-standing Business Ethics Policy. In April 2003, the Board adopted the Code of Business Conduct and Ethics For Members of the Board of Directors and Executive Officers and the Code of Ethics for Senior Financial Officers. These codes are designed to focus the Board and management on areas of ethical risk, provide guidance to personnel to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct and help to foster a culture of honesty and accountability. As set forth in the Corporate Governance Guidelines, the Board may not waive the application of the Company's policies on business ethics and conduct for any Director or Executive Officer. Copies of the Code of Business Conduct and Ethics For Members of the Board of Directors and Executive Officers and the Code of Ethics for Senior Financial Officers, as well as the code of ethics applicable to employees of the Company, are available on the Company's website, [www.nov.com](http://www.nov.com), under the Investor Relations/Corporate Governance section. The Company will furnish print copies of these Codes to interested stockholders without charge, upon request. Written requests for such copies should be addressed to: Dwight W. Rettig, Secretary, National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, Texas 77036.

### **Communications with Directors**

The Board has provided a process for interested parties to communicate with our non-employee directors. Parties wishing to communicate confidentially with our non-employee directors may do so by calling 1-800-372-3956. This procedure is described on the Company's website, [www.nov.com](http://www.nov.com), in the Investor Relations/Corporate Governance section. Calls to this number will be answered by an independent, automated system 24 hours a day, 365 days a year. A transcript

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of the call will be delivered to a member of the Audit Committee. Parties wishing to send written communications to the Board, other than sales-related communications, should send a letter addressed to the member or members of the Board to whom the communication is directed, care of the Secretary, National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, Texas, 77036. All such communications will be forwarded to the Board member or members specified.

**Director Attendance at Annual Meetings**

The Company does not have a formal policy with respect to director attendance at annual stockholder meetings. In 2011, all members of the Board were in attendance at the annual meeting.

**NYSE Corporate Governance Matters**

As a listed company with the NYSE, our Chief Executive Officer, as required under Section 303A.12(a) of the NYSE Listed Company Manual, must certify to the NYSE each year whether or not he is aware of any violation by the Company of NYSE Corporate Governance listing standards as of the date of the certification. On June 1, 2011, the Company's Chief Executive Officer submitted such a certification to the NYSE which stated that he was not aware of any violation by the Company of the NYSE Corporate Governance listing standards.

On February 23, 2012, the Company filed its 2011 Form 10-K with the SEC, which included as Exhibits 31.1 and 31.2 the Chief Executive Officer and Chief Financial Officer certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

**Table of Contents****EXECUTIVE OFFICERS**

The following persons are our current executive officers. The executive officers of the Company serve at the pleasure of the Board of Directors and are subject to annual appointment by the Board of Directors. None of the executive officers, directors, or nominees for director has any family relationships with each other.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Biography</b>
Merrill A. Miller, Jr.	61	President and Chief Executive Officer	Mr. Miller has served as the Company's President since November 2000, Chief Executive Officer since May 2001 and Chairman of the Board since July 22, 2005. Mr. Miller also served as Chairman of the Board from May 2002 through March 11, 2005. He served as the Company's Chief Operating Officer from November 2000 through March 11, 2005. He has served in various senior executive positions with the Company since February 1996. Mr. Miller also serves as a director of Chesapeake Energy Corporation, a company engaged in the development, acquisition, production, exploration, and marketing of onshore oil and natural gas properties in the United States.
Robert W. Blanchard	50	Vice President, Corporate Controller and Chief Accounting Officer	Mr. Blanchard has served as the Company's Vice President, Corporate Controller and Chief Accounting Officer since May 2005. Mr. Blanchard served as Controller of Varco from 1999 and as its Vice President from 2002 until its merger with the Company on March 11, 2005.
Mark A. Reese	53	President - Rig Technology	Mr. Reese has served as President - Rig Technology since August 2007. Mr. Reese served as President - Expendable Products from January 2004 to August 2007. He served as President of the Company's Mission Products Group from August 2000 to January 2004. From May 1997 to August 2000 he was Vice President of Operations for the Company's Distribution Services Group.
Dwight W. Rettig	51	Senior Vice President, General Counsel and Secretary	Mr. Rettig has served as the Company's Senior Vice President since February 2009, as the Company's Vice President and General Counsel since February 1999, and from February 1998 to February 1999 as General Counsel of the Company's Distribution Services Group.

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<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Biography</b>
Clay C. Williams	49	Executive Vice President and Chief Financial Officer	Mr. Williams has served as the Company's Executive Vice President since February 2009, and as the Company's Senior Vice President and Chief Financial Officer since March 2005. He served as Varco's Vice President and Chief Financial Officer from January 2003 until its merger with the Company on March 11, 2005. From May 2002 until January 2003, Mr. Williams served as Varco's Vice President Finance and Corporate Development. From February 2001 until May 2002, and from February 1997 until February 2000, he served as Varco's Vice President - Corporate Development. Mr. Williams serves as a director of Benchmark Electronics, Inc., a company engaged in providing electronic manufacturing services in the United States and internationally.

**Table of Contents****STOCK OWNERSHIP****Security Ownership of Certain Beneficial Owners**

Based on information filed with the SEC as of the most recent practicable date, this table shows the number and percentage of shares beneficially owned by owners of more than five percent of the outstanding shares of the common stock of the Company at December 31, 2011. The number and percentage of shares of common stock beneficially owned is based on 423,900,601 shares outstanding as of December 31, 2011.

<b>5% Owners</b>	<b>No. of Shares</b>	<b>Percent of Class</b>
BlackRock, Inc. (1) 40 East 52 <sup>nd</sup> Street New York, NY 10022	29,299,620	6.9%

- (1) Shares owned at December 31, 2011, as reflected in Amendment No.2 to Schedule 13G filed with the SEC on February 13, 2012 by BlackRock, Inc. ( "Blackrock" ). Within the Blackrock group are the following subsidiaries: BlackRock Japan Co. Ltd., BlackRock Advisors (UK) Limited, BlackRock Asset Management Deutschland AG, BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Canada Limited, BlackRock Asset Management Australia Limited, BlackRock Advisors, LLC, BlackRock Capital Management, Inc., BlackRock Financial Management, Inc., BlackRock Investment Management, LLC, Blackrock Investment Management (Australia) Limited, BlackRock Investment Management (Korea) Ltd., BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Fund Managers Limited, BlackRock Asset Management Ireland Limited, BlackRock International Limited, and BlackRock Investment Management (UK) Limited.

**Table of Contents****Security Ownership of Management**

This table shows the number and percentage of shares of the Company's common stock beneficially owned as of March 26, 2012 by each of our current directors and executive officers and by all current directors and executive officers as a group. The number and percentage of shares of common stock beneficially owned is based on 426,156,433 shares outstanding as of March 26, 2012. Beneficial ownership includes any shares as to which the director or executive officer has the right to acquire within 60 days of March 26, 2012 through the exercise of any stock option, warrant or other right. Each stockholder has sole voting and investment power, or shares these powers with his spouse, with respect to the shares beneficially owned.

Name of Individual	Shares Beneficially Owned		Percent of Class*
	Number of Common Shares <sup>(1)</sup>	Outstanding Options Exercisable Within 60 Days	
Greg L. Armstrong	17,460	51,061	*
Robert E. Beauchamp	27,116	46,061	*
Robert W. Blanchard	31,911	6,850	*
Ben A. Guill	31,430	51,061	*
David D. Harrison	16,116	51,061	*
Roger L. Jarvis	11,215	66,061	*
Eric L. Mattson	46,006	36,061	*
Merrill A. Miller, Jr	538,404	162,000	*
Mark A. Reese	36,043	8,100	*
Dwight W. Rettig	48,754	18,767	*
Jeffery A. Smisek	26,004	42,403	*
Clay C. Williams	141,879	96,870	*
All current directors and executive officers as a group (12 persons)	972,338	636,356	*

\* Less than 1 percent.

<sup>(1)</sup> Includes shares deemed held by executive officers and directors in the Company's 401(k) plans and deferred compensation plans.



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**COMPENSATION DISCUSSION AND ANALYSIS**

**General Overview**

National Oilwell Varco's executive compensation program is administered by the Compensation Committee of the Board of Directors. The Compensation Committee establishes specific compensation levels for the Company's executive officers and administers the Company's long-term incentive award plans. The Compensation Committee's objective regarding executive compensation is to design and implement a compensation program that will attract and retain the best available individuals to serve on the Company's executive team and properly incentivize those executives to achieve the Company's short-term and long-term financial and operational goals. To this end, the Compensation Committee strives to provide compensation packages for key executives that generally offer compensation opportunities in the median range of oilfield service companies described below. Data sources reviewed by the Compensation Committee and its independent compensation consultants include industry survey groups, national survey databases, proxy disclosures and general trend data, which are updated annually. The Compensation Committee reviews all elements of executive compensation both separately and in the aggregate.

Major components of the executive compensation program for 2011 were base salary, participation in the Company's annual cash incentive (bonus) plan and the grant of non-qualified stock options and performance-based restricted stock awards (long-term incentives).

**Compensation Philosophy**

The Company believes it is important for each executive to have a fixed amount of cash compensation, in the form of base salary, that is not dependent on the performance or results of the Company. The Company recognizes that a certain amount of financial certainty must be provided to its executives as part of their compensation.

While the Company believes a competitive base salary is needed to attract and retain talented executives, the Company's compensation program also places a strong emphasis on performance driven annual and long-term incentives to align the executive's interests with stockholder value. The annual and long-term incentives are calculated and paid based primarily on financial measures of profitability and stockholder value creation. Executives of the Company are incentivized to increase the Company's profitability and stockholder return in order to earn a major portion of their compensation package.

The Company seeks to structure a balance between achieving strong short-term annual results and ensuring the Company's long-term success and viability. The Company wants each of its executives to balance his or her focus between the Company's day-to-day operational performance and the Company's long-term goals and strategies. To reinforce the importance of balancing these perspectives, the Company's executives are provided both short and long-term incentives.

Base salary is designed to compensate the executive for his or her performance of normal, everyday job functions. The Company's annual cash incentive (bonus) plan and long-term incentives are designed to reward the executive for executing business plans that will benefit the Company in the short and long-term. The Company believes that the mix of short and long-term incentives allows the Company to deliver results aligned with the interests of stockholders. Stock options create a focus on share price appreciation, while the annual cash incentive (bonus) and performance-based restricted stock awards emphasize financial performance, both absolute and relative.

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Given the inherent nature of these forms of compensation, the Company understands that its annual cash incentives and long-term compensation will result in varying compensation for its executives each year. Because of this, the Company has tried to design its annual cash incentives and long-term compensation program in such a way to provide substantive financial benefits to its executives during times when the Company's financial and operational performance is strong, while motivating executives to stay with the Company during times when the Company's performance may not be as strong.

There are no compensation policy differences among the individual executives, except that the more senior officers, such as the chief executive officer, receive higher compensation consistent with their increased responsibilities. These differences are reviewed and considered in connection with the compensation analysis performed by the Compensation Committee.

## **Competitive Positioning**

Because of these goals and objectives for executive compensation, the Company believes each element of compensation should be properly designed, as well as competitive with the marketplace, to incentivize its executives in the manner stated above.

As part of its process to establish compensation levels for the Company's named executive officers, the Compensation Committee compares total compensation and base salary for each of its named executive officers against the median total compensation and median base salary earned by comparable executive officers at companies in a designated peer group. When analyzing peer group data, the Compensation Committee does not establish a specific numeric range around the median data points, which it considers reasonable or acceptable. Rather, in setting compensation for any particular named executive officer, the Compensation Committee considers any variance from the median, taking into account other factors as discussed below, and determines whether such variance is appropriate. If the Compensation Committee determines that any variance is unwarranted, the Compensation Committee will make appropriate adjustments to the compensation levels.

The Company does not target a specific percentile of its designated peer group for its annual cash incentive compensation or its long-term equity compensation. The Compensation Committee recognizes that these elements of compensation can vary significantly in value from year to year, making comparisons to peer group data less meaningful.

In January 2011, the Compensation Committee engaged its own independent compensation consultant, Frederic W. Cook & Co. (Frederic Cook), to update its annual competitive review of executive compensation for the Company's top five executives relative to its peer companies, as well as to analyze internal pay equity and share usage and dilution. Frederic Cook utilized the following peer group against which to compare executive pay: Baker Hughes, Inc.; BJ Services Co.; Cameron International Corporation; Dresser-Rand Group, Inc.; FMC Technologies Inc.; Halliburton Co.; Schlumberger Ltd.; Smith International, Inc.; and Weatherford International Ltd. The peer group consisted of companies in the oilfield services sector with varying ranges of market capitalization and revenues. The Company's revenue and market capitalization prior to the time of such review were each near the median revenue and median market capitalization, respectively, for the peer group. The peer group was used to benchmark executive compensation levels against companies that have executive positions with responsibilities similar in breadth and scope to those of the Company and have businesses that compete with the Company for executive talent. Benchmarking and aligning base salaries are critical to a competitive compensation program.

Frederic Cook analyzed and compared each position's responsibilities and job title to develop competitive market data based on data from proxy statements. Frederic Cook's proxy analysis

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focused on the top five executives. Its executive compensation review covered the following elements of compensation: base salaries, annual bonuses, and equity compensation. Frederic Cook generated data on the components of the Company's compensation program compared to the market 25<sup>th</sup> percentile, market 50<sup>th</sup> percentile, and market 75<sup>th</sup> percentile of the designated peer group.

Based on the compiled data and the comparisons prepared by Frederic Cook, the Compensation Committee, in consultation with the Company and Frederic Cook, determined that the total direct compensation for the Company's named executive officers relative to the designated peer group was generally positioned between the market 25<sup>th</sup> percentile and the median of the peers, but typically closer to the 25<sup>th</sup> percentile. In terms of compensation mix, the Company's CEO closely mirrored that of his peers, while the Company's top two through five executives had a moderately lower concentration of their total compensation in equity than the peers.

Regarding internal pay equity, defined for these purposes as the multiple of CEO compensation to the next highest paid executive at a company, and the multiple of CEO compensation to the average of the 2<sup>nd</sup> through 5<sup>th</sup> highest paid executives, the internal pay equity comparisons indicated that the Company's multiple was above the median of its peers under both measurements, but still within a reasonable range. Regarding the Company's share run rate, the data indicated that the Company's levels were below the median of the peers. Overhang levels for the Company were also determined to be below the median of the peers.

### **Components of Compensation**

The following describes the elements of the Company's compensation program for 2011, why they were selected, and how the amounts of each element were determined.

#### *Base Salary*

Base salaries provide executives with a fixed level of monthly cash income. While the Compensation Committee is aware of competitive levels, actual salary levels are based on factors including tenure, individual performance and level and scope of responsibility. The Company does not give specific weights to these factors. The Compensation Committee determines median base salary levels by having Frederic Cook conduct a comprehensive review of information provided in proxy statements filed by our peer companies. Generally, each executive is reviewed by the Compensation Committee individually on an annual basis. Salary adjustments are based on the individual's experience and background, the individual's performance during the prior year, the general movement of salaries in the marketplace, our financial position and, for each executive other than the chief executive officer, the recommendations of our chief executive officer. The Compensation Committee does not establish specific, individual goals for the Company's named executive officers, other than the chief executive officer (see Compensation of the Chief Executive Officer below for a discussion of the chief executive officer's goals). The Compensation Committee's analysis of the individual performance of any particular named executive officer, other than the chief executive officer, is subjective in nature and takes into account the recommendations of the chief executive officer. As a result of these factors, an executive's base salary may be above or below the targeted median at any point in time.

In February 2011, the Compensation Committee reviewed with Frederic Cook the base salaries of the named executive officers. The Compensation Committee considered each named executive officer's base salary relative to his peers. The Compensation Committee also considered in its review of base salary compensation for the top five executives the scope and size of the Company and the financial and operating performance of the Company during 2010. The Compensation Committee also considered that the Company's named executive officers' last base salary adjustments occurred in February 2010. The Compensation Committee also noted that the Chief Executive Officer of the Company did not recommend any increases or adjustments to the base salary of any of the other named executive officers.

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Based on these factors, the Company's named executive officers, other than its chief executive officer, did not receive any adjustments to their base salaries in 2011. The base salaries of the Company's named executive officers, other than its chief executive officer, in effect at the end of 2011 were as follows: Mr. Williams - \$600,000; Mr. Reese - \$525,000; Mr. Rettig - \$500,000; and Mr. Blanchard - \$325,000. The Compensation Committee noted that it had approved base salary increases in 2010 for the named executive officers. The Compensation Committee also noted that even though the Company achieved strong financial and operating results in 2010, the Compensation Committee agreed to follow the Chief Executive Officer's recommendation to keep the base salaries of the named executive officers unchanged.

### *Annual Incentive Award*

The objectives of the Company's annual cash incentive bonus plan are to incent performance to achieve the Company's corporate growth and profitability goals, encourage smart investments and prudent employment of capital, and provide competitive compensation packages to attract and retain management talent.

Substantially all exempt employees, including executive officers, participated in the Company's annual incentive plan in 2011, aligning a portion of each employee's cash compensation with Company performance against a predetermined operating profit target. As in prior years, the incentive plan provided for cash awards if objectives related to the Company's achievement of a certain specified operating profit target based on the Company's financial plan were met. The Company's annual financial plan, including the Company's target operating profit level, is established through a comprehensive budget and financial planning process, which includes a detailed analysis of the Company's market outlook and available strategic alternatives, and is approved by the Board each year.

The designated performance objective under the incentive plan is the Company's operating profit. Each participant is assigned a target level percentage bonus, which ranges from 5% to 120% of salary, depending on the level of the participant. There are three multiplier levels of the target level percentage bonus set under the incentive plan using this single performance metric - minimum (10%), target (100%) and maximum (200%). Based on the Company's annual financial plan, each level is assigned a specified operating profit net of the bonus expense. Entry level is the minimum level of operating profit for which the Company provides an annual incentive payout. If the Company's operating profit is less than the entry level threshold, then there is no payout in that fiscal year. If the Company achieves the entry level threshold, the minimum level payout of 10% of the target level percentage bonus is earned. The target multiplier level (100% of the participant's applicable percentage of base salary) is earned when the target operating profit is reached by the Company. For the maximum level multiplier of 200% of the target level percentage bonus to occur, the Company's operating profit must equal or exceed the maximum operating profit goal that was set for the incentive plan. Results falling between the stated thresholds of minimum, target and maximum will result in an interpolated, or sliding scale payout.

The Compensation Committee believes the use of operating profit as the designated performance objective under the annual incentive plan best aligns the interests of the Company's stockholders and the Company's executive officers. The target objective is set at the target operating profit level provided under the Company's annual financial plan approved by the Board. The target objective is set at a level that the Company believes is challenging to meet but achievable if the Company properly executes its operational plan and market conditions are as forecasted by the Company at the beginning of the year. The minimum and maximum level of operating profit

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under the incentive plan are set based off of the target objective, so that the minimum objective is approximately 80% of the target objective and the maximum objective is approximately 110% of the target objective. The Compensation Committee believes this objective, formulaic measure allows the minimum objective to be set at a level that the Company can achieve even if forecasted market conditions are not as favorable as anticipated and/or the Company's operational plan is not executed as efficiently as planned. The minimum objective serves to motivate the Company's executives to continue to work towards executing the Company's operational plan if market conditions, which are generally outside the control of the Company, are not as favorable as forecasted. The Compensation Committee believes this objective, formulaic measure allows the maximum objective to be set at a level that would be very challenging for the Company to achieve. The Compensation Committee believes that, for the maximum objective to be achieved, a combination of market conditions being more favorable than initially forecasted and the Company executing its operational plan in a highly efficient manner would need to occur.

All participants in the incentive plan have a minimum of 25% of their bonus awards tied to the Company's consolidated corporate operating profit, while senior executives, including business unit heads, have a minimum of 50% of their bonus awards tied to the Company's consolidated corporate operating profit, with the remainder of their bonus awards, if applicable, tied to their business unit performance. 100% of each named executive officer's annual bonus award is tied to the operating profit of the Company. Participant award opportunities will vary depending upon individual levels of participation in the incentive plan (participation level). The Company designed the incentive plan with the idea that a portion of each executive's cash compensation should be tied to the financial and operating performance of the Company.

Payouts are calculated by multiplying (A) the performance result multiplier which can be anywhere from 10% (minimum) to 100% (target) to 200% (maximum), depending on operating profit performance by (B) the participant's base salary by (C) the participant's designated target percentage of base salary (participation level). For 2011, the chief executive officer's participation level was 120%, the chief financial officer's participation level was 80%, and the other executive officers' participation level was 75%. These participation level percentages are based on each executive's level of responsibility for the Company's financial performance.

The following examples calculate an annual incentive award payment for Mr. Miller assuming (1) the Company's 2011 operating profit was equal to the operating profit target set under the incentive plan and (2) the Company's 2011 operating profit exceeded the maximum operating profit target set under the incentive plan:

(1) 100% (performance result) x \$950,000 (base salary) x 120% (participation level) = \$1,140,000

(2) 200% (performance result) x \$950,000 (base salary) x 120% (participation level) = \$2,280,000

Additionally, certain key executives, including all executive officers, were subject to a 25% maximum adjustment to their bonus payouts. If a predetermined capital employed target (defined as total assets, excluding cash, minus total liabilities, excluding debt) was exceeded, the bonus payout would be reduced by up to 25%. If a predetermined capital employed target was not exceeded, the bonus payout would be increased by up to 25%; provided that in no event may the 200% maximum target incentive amount be exceeded. The Compensation Committee does not have the discretion to increase or decrease payouts under the Company's annual cash incentive bonus plan.

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The predetermined capital employed modifier is set at the level provided under the Company's annual financial plan approved by the Board. For the Company's actual capital employed modifier not to exceed the predetermined capital employed modifier, and thus result in an increased bonus payment, the Company must efficiently and properly utilize and deploy the Company's assets. If the Company does not properly and efficiently deploy its assets, the actual capital employed modifier will exceed the predetermined capital employed modifier, and thus result in a reduced bonus payment. Results falling above or below the stated predetermined capital employed modifier will result in an interpolated, or sliding scale, percentage reduction or increase in the bonus payout.

Historically, the actual operating profit for the Company has fallen above and below the target objective, and the actual capital employed modifier has increased and decreased bonus payments. In years where market conditions were very favorable and the Company efficiently executed its operational plan, the Company's actual operating profit exceeded the target objective and the capital employed modifier increased bonus payments. In years where market conditions were not as favorable and the Company was not able to efficiently execute its operational plan, the Company's actual operating profit fell below the target objective (and in certain instances, the capital employed modifier reduced bonus payments). In the past eight years under the Company's annual incentive program, actual operating profit has exceeded the target objective five times, while actual operating profit has been below the target objective three times. During that same period, the capital employed modifier has resulted in a positive bonus payment adjustment three times, a negative bonus adjustment two times, and no adjustment three times.

Based on the Company's financial results - the Company's actual operating profit for 2011 exceeded the maximum operating profit target set under the Company's annual incentive plan, and after taking into account the capital employed modifier - bonus payments were made to the Company's named executive officers, other than its chief executive officer, as follows: Mr. Williams - \$960,000; Mr. Reese - \$787,500; Mr. Rettig - \$750,000; and Mr. Blanchard - \$487,500. These bonus payouts reflected the strong financial performance the Company achieved in 2011. The predetermined capital employed modifier for 2011 was compared to the actual capital employed number calculated for 2011. As a result of such calculation, it was determined that the capital employed modifier had no effect on the final payout amounts.

The Company's annual incentive plan is designed to reward its executives in line with the financial performance of the Company on an annual basis. When the Company is achieving strong financial results, its executives will be rewarded well through its annual incentive plan. The Company believes this structure helps keep the executives properly motivated to continue helping the Company achieve these strong results. While the executives' financial benefit is reduced during times when the Company's performance is not as strong, other forms of the Company's compensation program, namely its long-term incentive compensation as well as base salary, help motivate its executives to remain with the Company to help it achieve strong financial and operational results, thereby benefiting the executive, the Company and its stockholders.

### *Long-Term Incentive Compensation*

The primary purpose of the Company's long-term incentive compensation is to focus its executive officers on a longer-term perspective in their managerial responsibilities. This component of an executive officer's compensation directly links the officers' interests with those of the Company's stockholders. In addition, long-term incentives encourage management to focus on the Company's long-term development and prosperity in addition to annual operating profits. This program helps balance long-term versus short-term business objectives, reinforcing that one should not be achieved at the expense of the other. The Company's Corporate Governance Guidelines encourage its directors and executive officers to own shares of the Company's stock.

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and increase their ownership of those shares over time. However, the Company does not have any specific security ownership requirements or guidelines for its executives, but the Board has adopted stock ownership guidelines for the Company's directors (see Stock Ownership Guidelines below for further information).

The Company's long-term incentive compensation granted in 2011 to its named executive officers consisted of stock options and performance-based restricted stock awards.

The goal of the stock option program is to provide a compensation program that is competitive within the industry while directly linking a significant portion of the executive's compensation to the enhancement of stockholder value. The ultimate value of any stock option is based solely on the increase in value of the shares of the Company's common stock over the grant price. Accordingly, stock options have value only if the Company's stock price appreciates from the date of grant. Additionally, the option holder must remain employed during the period required for the option to vest, thus providing an incentive for an option holder to remain employed by the Company. This at-risk component of compensation focuses executives on the creation of stockholder value over the long-term and is therefore inherently performance-based compensation.

The goal of the performance-based restricted stock award program is to provide a compensation program that is also competitive within the industry while directly linking a significant portion of the executive's compensation to the financial performance of the Company relative to a designated peer group. The performance-based restricted stock awards received by the executives have value only if the Company's designated financial performance objective exceeds the median level financial performance objective for a designated peer group. Additionally, the holder must also remain employed during the period required for the award to vest, thus providing an additional incentive for the award holder to remain employed by the Company. This at-risk component of compensation focuses executives on achieving strong financial performance for the Company over the long-term.

The Company grants stock options and performance-based restricted stock awards to the Company's key executives based on competitive grants within the industry and based on the level of long-term incentives appropriate for the competitive long-term compensation component of total compensation. Such executives are eligible to receive stock options and restricted stock awards annually with other key managers being eligible on a discretionary basis. Eligibility for an award does not ensure receipt of an award. Options are granted with an exercise price per share equal to the fair market value of the Company's common stock on the date of grant and generally vest in equal annual installments over a three-year period, and have a ten-year term subject to earlier termination. Option grants and restricted stock award grants must be reviewed and approved by the Compensation Committee.

In January 2007, Company management proposed to the Compensation Committee that the Company's long-term incentive compensation program be modified to provide for 50% stock options and 50% restricted stock awards, based on value. In the past, the Company's long-term incentive compensation program consisted solely of stock option grants. In a survey conducted by Mercer Human Resource Consulting (the Company's compensation consultant at that time), the Company noted that a combination of stock options and restricted stock was the most prevalent mix of long-term incentive compensation provided by its oilfield service peers. Frederic Cook advised the Compensation Committee that there has been a shift towards greater use of restricted stock in the Company's industry as a vehicle for long-term equity compensation. The Compensation Committee approved changing the Company's long-term incentive compensation structure to provide for 50% stock options and 50% restricted stock awards.

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The Compensation Committee determined that the vesting for the restricted stock award grants to employees other than members of senior management could be based solely on the passage of time, but that it was increasingly common practice for the vesting of restricted stock awards for members of management to be based on the achievement of a specified performance condition. The Compensation Committee believed that the performance condition used for vesting of the restricted stock awards should be a measure that would incentivize the Company's executives to achieve strong financial results for the Company relative to its peers. The Compensation Committee also believed that the measure should not be made on an absolute basis, but be based on a comparison to its peers so as to reward financial performance only if it exceeded that of the Company's peers.

After consultation with Company management and Frederic Cook, the Compensation Committee determined that the performance measure to be used for vesting of the restricted stock awards for executives would be the Company's operating profit growth over a period of time needing to exceed a designated peer group's median operating profit growth over the same period. The Compensation Committee believed that such a performance measure would serve to motivate the Company's executives to deliver results aligned with the interests of Company stockholders.

The Compensation Committee set the following peer group for comparison purposes in determining vesting of the performance-based restricted stock awards granted in 2011: Aker Solutions ASA; Baker Hughes, Inc.; Cameron International Corporation; Dresser-Rand Group, Inc.; FMC Technologies, Inc.; Halliburton Co.; Schoeller-Bleckmann Oilfield Equipment AG; Weatherford International Ltd.; and Wellstream Holdings PLC. Two companies - BJ Services Co. and Smith International, Inc. - were removed from the peer group due to their change of control events completed in 2010. This peer group consisted of companies in the oilfield services sector with varying ranges of market capitalization and revenues. This peer group, on a collective basis, represents companies with businesses that compete with the Company's businesses.

The Company's long-term incentive compensation program is focused on employees who will have a greater impact on the direction and long-term results of the Company by virtue of their roles and responsibilities. In February 2011, the Compensation Committee approved changing the Company's long-term incentive compensation structure to provide for 50% stock options and 50% restricted stock awards for members of senior management, based on value. This change brought the long-term incentive compensation structure back to its original structure.

Based on the foregoing, on February 22, 2011, the Compensation Committee approved the grant of stock options to the Company's named executive officers, other than its chief executive officer, as follows:

<u>Name</u>	<b>Securities Underlying Options (#)</b>
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