TETRA TECH INC
Form 10-K
November 27, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended September 30, 2007.

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to .
Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3475 East Foothill Boulevard, Pasadena, California 91107
(Address of principal executive offices) (Zip Code)

(626) 351-4664
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par value	**The NASDAQ Stock Market LLC**
(Title of class)	(Name of exchange)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" (in Rule 12b-2 of the Exchange Act).

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the registrant's common stock held by non-affiliates on March 30, 2007 was $1.1 billion (based upon the closing price of a share of registrant's common stock as reported by the Nasdaq National Market on that date).

On November 19, 2007, 58,457,428 shares of the registrant's common stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this report where indicated.

TABLE OF CONTENTS

2

This Annual Report on Form 10-K ("Report"), including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "estimates," "seeks," "continues," "may," variations of such words, and similar expressions are intended to identify such forward- looking statements. In addition, any statement that refers to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under "Risk Factors," and elsewhere herein and in our 2007 Annual Report to Stockholders. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. Business

General

We are a leading provider of consulting, engineering, construction and technical services focused on resource management and infrastructure. We serve our clients by defining problems and developing innovative and cost-effective solutions. Our solution usually begins with a scientific evaluation of the problem, one of our differentiating strengths. This solution may span the life cycle of a project, which includes research and development, applied science and technology, engineering design, program management, construction management, construction, and operations and maintenance.

Since our initial public offering in December 1991, we have increased the size and scope of our business, expanded our service offerings, and diversified our client base and the markets we serve through internal growth and strategic acquisitions. We expect to focus on internal growth, and to continue to pursue complementary acquisitions that expand our geographic reach and increase the breadth and depth of our service offerings to address existing and emerging markets. As of fiscal 2007 year-end, we had over 7,200 full-time equivalent employees worldwide, located primarily in North America in approximately 220 office locations.

We were incorporated in Delaware in February 1988 and are headquartered in Pasadena, California. Our predecessor company (the Water Management Group of Tetra Tech, Inc.) was a subsidiary of Honeywell, Inc. and was incorporated in 1966. The mailing address of our headquarters is 3475 East Foothill Boulevard, Pasadena, California 91107, and the telephone number at that location is (626) 351-4664. Our corporate website is located at *www.tetratech.com*. Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act. All such filings are available free of charge.

Industry Overview

Due to changing threats to human health and the environment, water quality and scarcity concerns, demographic shifts toward sunbelt states, aging infrastructure, changing global geopolitics, and new scientific knowledge, many government and commercial organizations face new and complex challenges. These organizations turn to technical service firms for assistance in addressing these challenges. Each organization presents its own unique set of issues and often seeks technical service firms with industry-specific expertise to analyze its problems and develop appropriate solutions. These solutions are then implemented by firms possessing the required engineering and technical service capabilities. Each of our three business segments provides effective solutions to our clients' unique set of challenges:

Resource Management. The world's natural resources (water, air and soil) are inter-dependent and create a delicate balance. Factors such as global warming, agricultural and residential development, commercial construction and industrialization often upset this balance. Public concern over environmental issues, especially water quality and availability, has been a driving force behind numerous laws and regulations that are designed to prevent environmental degradation and mandate restorative measures. Government and commercial organizations are focusing on resource management to comply with environmental laws and regulations, respond to public pressure and attain operating efficiencies. Emergency issues related to climate change are driving increased interest in alternative energy, water supply management and coastal protection. Two areas particularly affected by these trends are water management and waste management.

> *Water Management.* Insufficient water supplies, concern over the cost, quality and availability of water and the aging infrastructure used to capture, safeguard and distribute water are critical social and economic concerns. According to the U.S. Environmental Protection Agency ("EPA"), contamination of groundwater and surface water resulting from agricultural and urban development is one of the most serious environmental problems facing the United States. To address these concerns, government and commercial organizations often seek water management technical services.

> *Waste Management.* In the past, many waste disposal practices caused significant environmental damage. Since the 1970s, more stringent controls on municipal and industrial waste have been adopted by governments around the world to protect the environment. Organizations seek waste management technical services to comply with complex and evolving environmental regulations, minimize the economic and social impact of waste generation and disposal, and realize significant cost savings through increased operating efficiencies.

Infrastructure. The continued population growth, demographic shifts to sunbelt states, the concern over more frequent and more severe storm events, and increased user expectations have placed significant strains on an overburdened infrastructure and local water resources, thereby requiring additional development. This development includes water and wastewater treatment plants, transportation, pipelines, and communication and power networks, as well as educational, recreational and correctional facilities. In addition, as existing facilities age, they require upgrading or replacement. Further, the trend toward outsourcing services is causing public and private organizations that develop and maintain these facilities to evaluate their cost structures and establish more efficient alternatives. After September 11, 2001, the need to protect civil infrastructure and provide additional security infrastructure became more significant. The federal government has increasingly turned to technical service firms for advice and assistance, particularly at seaports and airports. These factors have increased the need for planning, engineering design, program management, construction management, construction, and operations and maintenance services.

Communications. Technological change and government deregulation have spurred sweeping changes in the communications infrastructure industry. Various service providers are consolidating to offer their subscribers a comprehensive set of services and maintain dominance in their markets. As these trends continue, network service providers have turned to technical service firms for advice and assistance in planning, deploying and maintaining their communications infrastructure.

The Tetra Tech Solution

We provide consulting, engineering, construction and technical services that assist clients in identifying industry-specific problems, defining appropriate solutions and implementing those solutions. *Engineering News-Record* ("ENR"), the leading trade journal for our industry, ranked Tetra Tech the nation's number one water services firm in its April 23, 2007 "Top 500 Design Firms" issue. Over the past year, ENR has also ranked Tetra Tech number one in water treatment/desalination and in environmental management. We are also ranked among the top 10 firms in several other service lines, including dam and reservoir projects, site assessment and compliance, environmental science, auto plants, education, sanitary and/or storm sewers, manufacturing, marine and port facilities, and hazardous waste.

Start With Science. Our staff has a strong technical foundation in natural and physical science. This strength allows us to effectively evaluate and compare potential solutions to our clients' problems.

Listen Effectively to Clients. The ability to listen effectively to our clients' needs is essential to our ability to develop and implement successful solutions. Even before the proposal process begins, we assist our clients by helping them define their strategic objectives and identify issues that are critical to their success. We believe that our long history and exposure to a broad client base increases our awareness of the issues being confronted by these organizations, and thereby helps us identify and solve our clients' problems.

Capitalize on our Extensive Technical and Multi-Disciplinary Experience. Since the inception of our predecessor in 1966, we have provided innovative consulting and engineering services, focusing on cost-effective solutions to water resource management and environmental problems. We have been successful in leveraging this foundation of scientific and engineering capabilities into other market areas, including transportation and educational facilities. Our services are provided by a wide range of professionals including: archaeologists, biologists, chemical engineers, chemists, civil engineers, computer scientists, economists, electrical engineers, environmental engineers, environmental scientists, geologists, hydrogeologists, mechanical engineers, oceanographers, project managers and toxicologists. Because of the experience that we have gained from thousands of completed projects, we often are able to apply proven solutions to client problems effectively and efficiently.

Offer a Broad Range of Services. Our depth of consulting, engineering and technical skills allows us to respond to our clients' needs at every phase of a project, including initial planning, research and development, applied science and technology, engineering design, program management and construction management. Once a particular project is completed, we also offer our clients additional value-added services such as operations and maintenance. Our expertise across industries and our broad service offerings enable us to be a single-source provider to many of our clients.

Provide Broad Geographic Coverage and Local Expertise. We believe that proximity to our clients is instrumental to understanding their needs and delivering comprehensive services. We have significantly broadened our geographic presence in recent years through strategic acquisitions and internal growth. We currently have operations in 49 states. We have also increased our international presence, and currently have limited operations in over 30 countries including Afghanistan, Australia, Canada, Columbia, Germany, India, Iraq, Italy, Japan, Jordan, the Netherlands, Panama, the Philippines, Poland, Thailand and the United Kingdom.

The Tetra Tech Strategy

Our objective is to continue our growth as a leading provider of consulting, engineering, construction and technical services in our chosen business areas. To achieve this objective, we have implemented the following strategy that we believe is integral to our success:

Leverage Existing Client Base. For some clients, we have provided services in specialized disciplines. We believe that we can effectively expand our services to existing customers, resulting in more comprehensive services, long-term relationships, and sustained increases in revenue. For example, we have been able to secure construction management contracts after working with a client on the scientific evaluation and engineering design phases of a project. By expanding our role with existing clients, we can address larger problems and provide integrated solutions. For our global customers, we also focus on expanding from localized, geographic services to broader national and international support in multiple locations.

Identify and Expand into New Business Areas. We use our consulting services and specialized technical services as entry points to evaluate new business areas. After our consulting practice is established in a new business area, we can expand our operations by offering additional technical services. For example, based on our work in watershed management consulting services, we identified and expanded into water infrastructure engineering services.

Focus on Large Complex Projects. We intend to build on our existing contracts to continue expansion of our public sector services and bidding for complex projects that are at the leading edge of policy and technology development. This experience helps us identify market drivers, provides challenging and rewarding opportunities, and enhances our ability to serve other public and commercial clients.

Focus on Cash Generation. We take a disciplined approach to monitoring, managing and improving our return on investment in each of our business areas through our attempts to negotiate appropriate contract terms, manage our contract performance to minimize schedule delays and cost overruns, and promptly bill and collect accounts receivable.

Invest in Strategic Acquisitions. We believe that strategic acquisitions will allow us to continue our growth in selected business areas, broaden our service offerings and extend our geographic presence. We intend to make acquisitions that will enable us to strengthen our position in certain key business areas, or further strengthen our position in our more established service offerings. We believe that our reputation makes us an attractive partner.

Project Life Cycle

We provide our clients with consulting, engineering, construction and technical services that focus on our clients' specific needs. These needs normally follow a project life cycle that begins with scientific research and concludes with operations and maintenance. We offer these services individually or as part of our full service approach to problem solving.

Research and development to formulate solutions to complex problems and develop advanced computer simulation techniques for modeling problems, ranging in scale from small to global systems;

Applied science and technology to assess a wide range of problems and develop practical and cost-effective solutions through the application of scientific methods, new technologies and data interpretation;

Engineering design to provide services from concept development and initial planning and design through project completion;

Program management to provide experienced and specialized program managers and project teams to assist clients in managing large and complex projects through completion;

Construction management to assist clients in minimizing the risk of cost overruns, schedule delays and contractual conflicts;

Construction to provide environmental construction compliance, value and design engineering and civil construction services; and

Operations and maintenance to allow clients to outsource routine functions, permitting them to streamline contractor relationships and reduce their operating costs.

Reportable Segments

We managed our business in three reportable segments in fiscal 2007: resource management, infrastructure and communications. Management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients. During the first quarter of fiscal 2006, we developed and started implementing the initial phase of a plan to combine operating units and re-align our management structure. Throughout fiscal 2007, we consolidated several of our operating units under common management structure, information system and back-office functions. These changes have had no impact on our operating segment structure to date.

As a result of our exit from the wireless communications business in fiscal 2006, the remaining portion of the communication business, known as the wired business, represents a small part of our overall business. In addition, the wired business operating units increasingly perform services and serve clients that are similar in nature to those of the infrastructure business. The wired business operating units provide engineering, permitting, site acquisition and construction management to state and local governments, telecommunications and cable operators, utility companies and other commercial clients. We continue to assess our operating and management structure, including the alignment of our wired business operating units. Should further changes be effected, we will evaluate the impact on our segment reporting as appropriate.

The following table presents the approximate percentage of revenue, net of subcontractor costs, by reportable segment:

	Fiscal Year		
Reportable Segment	**2007**	**2006**	**2005**
Resource management	63.1%	62.7%	63.1%
Infrastructure	32.6	32.7	33.1
Communications	4.3	4.6	3.8
	100.0%	100.0%	100.0%

Financial information for these segments can be found in the "Notes to Consolidated Financial Statements" in Item 8.

Resource Management

One of our major concentrations is water resource management, in which we have a leading position in understanding the inter-relationships of the environment, water and human activities. We support high priority government programs for water quality improvement, environmental restoration and productive reuse of defense facilities, strategic environmental resource planning. We provide comprehensive services, including research and development, applied science and technology, engineering design, construction management, program management, construction, and operations and maintenance. Our service offerings in the resource management segment are focused on the following project areas:

Surface Water. Public concern with the quality of rivers, lakes and streams, as well as coastal and marine waters, and the ensuing legislative and regulatory response, is driving demand for our services. More recently, climate change and competition for water resources has raised the visibility of surface water management. Over the past 40 years, we have developed a specialized set of technical skills that positions us to compete effectively for surface water and watershed management projects. We provide water resource services to federal government clients such as the EPA, the U.S. Department of Defense ("DoD") and the U.S. Department of Energy ("DOE"), and to a broad base of commercial sector clients including those in the aerospace, chemical, alternative energy, mining, petroleum, pharmaceutical, retail and utility industries. We also provide surface water services to state and local government agencies, particularly in the areas of watershed management, stormwater management and combined sewer overflows ("CSOs").

Groundwater. Groundwater is the source of drinking water for much of the U.S. population and a substantial portion of the water used for residential, industrial and agricultural purposes. Our activities in the groundwater field are diverse and typically include projects such as investigating and identifying sources of chemical contamination, examining the extent of contamination, analyzing the speed and direction of contamination migration, and designing and evaluating remedial alternatives. In addition, we conduct monitoring studies to assess the effectiveness of groundwater treatment and extraction wells.

Waste Management. We currently provide a wide range of engineering and consulting services for hazardous waste contamination and remediation projects, from initial site assessment through design and implementation phases of remedial solutions. In addition, we perform risk assessments to determine the probability of adverse health effects that may result from exposure to toxic substances. We also provide waste minimization and pollution prevention services and evaluate the effectiveness of innovative technologies and novel solutions to environmental problems.

Project Management. We provide services to our clients relative to environmental remediation and reconstruction activities. The environmental remediation includes unexploded ordnance, both domestically and internationally. Under the Base Realignment and Closure ("BRAC") Act, we perform reconstruction services at U.S. military locations.

Regulatory Compliance. Our regulatory compliance services include advising our clients on the full spectrum of regulatory requirements under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Clean Air Act, the National Environmental Policy Act, and other environmental laws and regulations. Although we provide services to both government and commercial clients, our current emphasis is on providing regulatory compliance services to the U.S. Army, Navy and Air Force.

Infrastructure

In our infrastructure segment, we focus on the development of water infrastructure projects; institutional facilities; commercial, recreational, and leisure facilities; transportation projects; and systems and security projects. These facilities and projects are an essential part of everyday life and also sustain economic activity, the security of our infrastructure and the quality of life. Our engineers, architects and planners work in partnership with our clients to provide adequate infrastructure development within their financial constraints. We assist clients with infrastructure projects by providing management consulting, engineering design, program management, construction management, and operations and maintenance. Our service offerings in the infrastructure segment are focused on the following project areas:

Water Infrastructure. Our technical services are applied to all aspects of water quality and quantity management ranging from stormwater management through drainage and flood control projects, combined sewer separation, to major water and wastewater treatment plants. Our experience includes planning, design and construction services for drinking water projects, the design of water treatment facilities and development of desalination facilities, and the design of distribution systems including pipelines and pump stations.

Institutional Facilities. We provide planning, architectural, engineering and construction management services, including land development and interior building design, for educational, healthcare and research facilities. We have completed engineering and construction management projects for a wide range of clients with specialized needs such as security systems, training and audiovisual facilities, clean rooms, laboratories, medical facilities and emergency preparedness facilities. We specialize in designing sustainable facilities that minimize environmental impact, usually by minimizing water and power usage.

Commercial, Recreational and Leisure Facilities. We specialize in the planning and design of water-related redevelopment, parks and river corridor restoration, and entertainment and leisure facilities. Our projects also include high-rise office buildings, museums, hotels, parks, visitor centers and marinas. We have designed complex aquatic life support systems and provided structural, civil and mechanical engineering and design of interpretive exhibits for a series of large aquarium projects. We provide engineering services for high-end environmentally sensitive or "green" buildings including integrated interior systems for heat, light, security and communications to improve building energy efficiency and cost effectiveness.

Transportation. We provide architectural, engineering and construction management services for transportation projects to improve public safety and mobility. Our projects include roadway improvements, commuter railway stations, airport expansions, bridges, major highways, and the repair, replacement and upgrading of older transportation facilities.

Systems Support and Security. We provide technology systems integration to improve national security, principally for federal infrastructure. Our projects range from infrastructure vulnerability assessments to security engineering design and project management services. We provide systems analysis and information management to optimize the U.S. commercial aviation system, and outsourced technical services to improve national security.

Communications

In the communications segment, we focus on the delivery of technical solutions necessary to design and build communications infrastructure projects. Due to our exit from the wireless communications business, the remaining portion of the communications business, known as the wired business, represents a relatively small part of our overall business. Our wired business serves clients and performs services that are similar in nature to those of the infrastructure business. These clients include state and local governments, telecommunications companies and cable operators, and the services include engineering, permitting, site acquisition and construction management.

Project Examples

The following table presents brief examples of current projects in our three segments:

Segment	Representative Projects
Resource Management	Providing engineering services for U.S. Bureau of Reclamation projects throughout the southwestern United States, including water quality modeling, watershed management, public consensus building, and engineering solutions for water supplies.
	Assisting the EPA Office of Wastewater Management in conducting the Clean Water Needs Survey to assess financial needs for constructing wastewater treatment plants and other clean water-related infrastructure.
	Supporting environmental activities at U.S. Air Force installations worldwide to assist the U.S. Air Force in its environmental mission in the areas of environmental conservation and planning, environmental quality, environmental restoration, and design and construction.
	Providing engineering, project management and construction management to help reconstruct Iraq facilities for the U.S. Air Force and the U.S. Army Corps of Engineers.
	Supporting environmental activities at U.S. Navy installations primarily throughout the United States to assist the U.S. Navy in protecting the coastal and marine environment.
	Providing environmental operations and maintenance services at Vandenberg Air Force Base in California. Also providing operations and maintenance services for a wastewater treatment plant and a hazardous waste collection plant, air monitoring and other services.
	Providing program management services for environmental restoration of the Rocky Mountain Arsenal, a former chemical weapons manufacturing plant.
	Providing environmental restoration services at BRAC sites for various agencies within the DoD.
	Serving as prime contractor for National Environmental Policy Act studies at DOE facilities to ensure that the DOE's proposed defense and energy related actions comply with applicable environmental regulations.
	Providing watershed planning and modeling services for the Milwaukee Metropolitan Sewer District to address regional water quality and CSO impact on Lake Michigan.
	Providing support to developing countries in establishing effective institutions essential to achieving economic growth and social development for the U.S. Agency for International Development ("USAID").
	Providing environmental construction compliance, value and design engineering, and civil construction services for the Maple Ridge Wind Farm.
Infrastructure	Upgrading information management systems and implementing ISO 14000 compliant environmental management systems for several Fortune 500 industrial clients.

	Providing planning, engineering and systems integration services to support the change from ground-based navigation to satellite navigation for all civil aviation in the United States.
	Providing engineering and technical support services to create a national missile defense system.
	Providing engineering design services for the upgrade of building systems, including air, power and data distribution systems, for several locations of a major luxury hotel chain.
	Providing design and construction services for desalination facilities in Southern California.
	Providing planning and engineering design services for new educational facilities throughout New York.
Communications	Assisting a leading provider of broadband services with deployment and maintenance of a high capacity broadband fiber optic network in the western and midwestern United States.
	Providing engineering design and construction management services for a fiber-to-the-premise network for eleven cities in Utah.

Clients

We provide services to a diverse base of federal, state and local government agencies, as well as commercial and international clients. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by client sector:

	Fiscal Year		
Client Sector	**2007**	**2006**	**2005**
Federal government	43.9%	46.7%	46.7%
State and local government	20.2	17.5	17.9
Commercial	35.0	35.1	35.1
International	0.9	0.7	0.3
	100.0%	100.0%	100.0%

Federal government agencies are our most significant clients. In fiscal 2007, the DoD, EPA, DOE and Federal Aviation Administration ("FAA") accounted for 29.4%, 5.3%, 2.1% and 2.9% of our revenue, net of subcontractor costs, compared to 26.6%, 6.9%, 5.7% and 3.1% in fiscal 2006, respectively. We usually support multiple programs within a single federal agency, both domestically and internationally. We assist state and local government clients in a variety of jurisdictions across the country. Our commercial clients include companies in the chemical, energy, mining, pharmaceutical, retail, aerospace, automotive, petroleum, communications and utility industries. No single commercial client accounted for more than 10% of our revenue, net of subcontractor costs, in fiscal 2007.

The following table presents a list of representative clients in our three segments. We have not included international clients because they represent a significantly smaller percentage of our client base.

	Representative Clients		
Reportable Segment	Federal Government	State and Local Governments	Commercial
Resource Management	U.S. Environmental Protection Agency; U.S. Air Force; U.S. Navy; U.S. Army; U.S. Coast Guard; U.S. Forest Service; U.S. Bureau of Reclamation; U.S. Department of Energy; U.S. Agency for International Development; Federal Energy Regulatory Commission; U.S. Postal Service	California Department of Health Services; Washington Department of Ecology; Prince Georges County, Maryland; Fairfax County, Virginia; City of San Jose, California; Salton Sea Authority	Alcoa Inc.; Lockheed Martin Corporation; Conoco Phillips Company; General Electric Company; Exelon Corporation; Hewlett-Packard Company; Unocal Corporation;
Infrastructure	U.S. Army Corps of Engineers; U.S. Bureau of Reclamation; U.S. Navy; Federal Emergency Management Agency; U.S. Department of the Interior; U.S. Federal Aviation Administration; U.S. Department of Homeland Security	City of Los Angeles, California; City of Lansing, Michigan; Michigan Department of Transportation; Oklahoma Department of Transportation; Colorado; City of Detroit, Michigan; City of Portland, Oregon; King County, Washington; Boston, Massachusetts Water and Sewer Commission	Boeing Corporation; E.I. DuPont de Nemours and Company; Ford Motor Company; General Motors Corporation; Lowe's Company; Encana
Communications		Utah Telecommunications Open Infrastructure Agency ("UTOPIA")	Verizon Communications

Contracts

Our services are performed under three principal types of contracts with our clients: fixed-price, time-and-materials, and cost-plus. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by contract type:

	Fiscal Year		
Contract Type	2007	2006	2005
Fixed-price	33.2%	33.5%	33.8%
Time-and-materials	45.6	43.0	47.7
Cost-plus	21.2	23.5	18.5
	100.0%	100.0%	100.0%

Our clients select the type of contract we enter into for a particular engagement. Under a fixed-price contract, the client agrees to pay a specified price for our performance of the entire contract or a specified portion of the contract. Fixed-price contracts carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, price increases for materials, and economic and other changes that may occur over the contract period.

12

Consequently, the profitability, if any, of fixed-price contracts may vary substantially. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable, we may not be able to obtain full reimbursement. Further, the amount of the fee received for a cost-plus award fee contract partially depends upon the client's discretionary periodic assessment of our performance on that contract.

Some contracts made with the federal government are subject to annual funding approval. Federal government agencies may impose spending restrictions that limit the continued funding of our existing contracts and may limit our ability to obtain additional contracts. These limitations, if significant, could have a material adverse effect on us. All contracts made with the federal government may be terminated by the government at any time, with or without cause.

Federal government agencies have formal policies against continuing or awarding contracts that would create actual or potential conflicts of interest with other activities of a contractor. These policies may prevent us in certain cases from bidding for or performing government contracts resulting from or related to certain work we have performed. In addition, services performed for a commercial or government sector client may create conflicts of interest that preclude or limit our ability to obtain work for a private organization. We attempt to identify actual or potential conflicts of interest and to minimize the possibility that such conflicts could affect our work under current contracts or our ability to compete for future contracts. We have, on occasion, declined to bid on a project because of an existing or potential conflict of interest.

Our contracts with the federal government are subject to audit by the government, primarily by the Defense Contract Audit Agency ("DCAA"). The DCAA generally seeks to: (1) identify and evaluate all activities that either contribute to, or have an impact on, proposed or incurred costs of government contracts; (2) evaluate the contractor's policies, procedures, controls and performance; and (3) prevent or avoid wasteful, careless and inefficient production or service. To accomplish this, the DCAA examines our internal control systems, management policies and financial capability; evaluates the accuracy, reliability and reasonableness of our cost representations and records; and assesses compliance by us with Cost Accounting Standards ("CAS") and defective-pricing clauses found within the Federal Acquisition Regulations ("FAR"). The DCAA also performs the annual review of our overhead rates and assists in the establishment of our final rates. This review focuses on the allowability of cost items and the applicability of CAS. The DCAA also audits cost-based contracts, including the close-out of those contracts.

The DCAA also reviews all types of federal proposals, including those of award, administration, modification and re-pricing. The DCAA considers our cost accounting system, estimating methods and procedures, and specific proposal requirements. Operational audits are also performed by the DCAA. A review of our operations at every major organizational level is also conducted during the proposal review period. During the course of its audit, the DCAA may disallow costs if it determines that we accounted for such costs in a manner inconsistent with CAS. Under a government contract, only those costs that are reasonable, allocable and allowable are recoverable. A disallowance of costs by the DCAA could have a material adverse effect on us.

In accordance with our corporate policies, we maintain controls to minimize any occurrence of fraud or other unlawful activities that could result in severe legal remedies, including the payment of damages and/or penalties, criminal and civil sanctions, and debarment. In addition, we maintain preventative audit programs and mitigation measures to ensure that appropriate control systems are in place.

We provide our services under contracts, purchase orders or retainer letters. Our policy provides that all contracts must be in writing. We bill our clients in accordance with the contract terms and periodically based on costs incurred, on either an hourly-fee basis or on a percentage of completion basis, as the project progresses. Most of our agreements permit our clients to terminate the agreements without cause upon payment of fees and expenses through the date of the termination. Generally, our contracts do not require that we provide performance bonds. If required, a performance bond, issued by a surety company, guarantees the contractor's performance under the contract. If the contractor defaults under the contract, the surety will, in its discretion, complete the job or pay the client the amount of the bond. If the contractor does not have a performance bond and defaults in the performance of a contract, the contractor is responsible for all damages resulting from the breach of contract. These damages include the cost of completion, together with possible consequential damages such as lost profits.

Marketing and Business Development

Our corporate management team establishes the scope and range of services we provide and our overall business strategy. Most business development activities are implemented through strong client relationships maintained by our technical or professional management staff. We believe that these personnel have the best understanding of client's needs and the effect of local or client-specific issues, laws and regulations. The professional staff holds frequent meetings with existing and potential clients, and federal, state or local agencies, gives presentations to civic and professional organizations and gives seminars on current technical topics. Essential to the effective development of business is access to the broader skill base throughout the technical and geographic network we provide. We continuously network to provide professional staff the opportunities to provide new services to existing clients and broaden our client base in core services.

The centralized business development support group develops corporate marketing materials, market research, promotional and professional activities, including appearances at trade shows, direct mailings and public relations. For major focus areas of the company, we establish company wide initiatives that reinforce internal coordination, track development of new programs, and identify and coordinate collective resources for major bids and interdisciplinary services. We market throughout the organizations and service sectors we target, focusing on delivering solutions to their emerging programs and providing full services support. We continuously identify new markets that are consistent with our service offerings and develop and implement strategies to research, anticipate, and position for future procurements.

Acquisitions

We have historically acquired a significant number of companies and we expect to make future acquisitions. Acquisitions are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful or will not have a material adverse effect on our financial position, results of operations or cash flow. All acquisitions require the approval of our Board of Directors, and those in excess of a certain size require the approval of our lenders. In fiscal 2007, we acquired the following companies or their assets to enhance our service offerings and expand our geographic presence.

Acquired Companies/Assets	Type of Purchase	Services
Gore Engineering, Inc.	Stock Purchase	Geotechnical engineering services
Murphy Engineering Group, LLC	Asset Acquisition	Land development and engineering services
Northern Ecological Associates, Inc.	Stock Purchase	Ecological services
Soil Testing Engineers, Inc.	Asset Acquisition	Geotechnical engineering services
The Delaney Group	Stock Purchase	Planning, development and construction services
Vector Colorado, LLC	Asset Acquisition	Mining consulting services
Vector Nevada, LLC	Asset Acquisition	Mining consulting services

On October 1, 2007, we acquired the outstanding shares of ARD, Inc. ("ARD") which provides applied research, planning, design and implementation services focused on a range of water, energy, environmental and institutional challenges. ARD manages large, complex international development projects for its clients, such as USAID, the United Nations and other government agencies. This acquisition represents a significant first step in our international expansion as it increases our professional workforce in new geographic areas and technical specialties around the world.

Competition

The market for our services is generally highly competitive. We often compete with many other firms ranging from small regional firms to large international firms.

We perform a broad spectrum of consulting, engineering and technical services across the resource management, infrastructure and communications segments. Services within these segments are provided to a client base that includes federal agencies, such as DoD, DOE, EPA, National Aeronautics and Space Administration ("NASA"), FAA, the U.S. Department of the Interior, and the U.S. Postal Service, state and local agencies, and the commercial sector. Our competition varies and is a function of the business areas in which, and client sectors for which, we perform our services. The number of competitors for any one procurement can vary widely, depending upon technical qualifications, the relative value of the project, geographic location, the financial terms and risks associated with the work, and any restrictions placed upon competition by the client. Historically, clients have chosen among competing firms by weighing the quality, innovation and timeliness of the firm's service versus its cost to determine which firm offers the best value. When less work becomes available in a given market, price becomes an increasingly important factor.

We believe that our principal competitors include, in alphabetical order: AECOM Technology Corporation; Arcadis NV; Black & Veatch Corporation; Brown & Caldwell; Camp, Dresser & McKee Inc.; CH2M Hill Companies Ltd.; Computer Associates International, Inc.; Earth Tech, Inc., a subsidiary of Tyco International Ltd.; Jacobs Engineering Group, Inc.; MWH Global, Inc.; Science Applications International Corporation; The Shaw Group, Inc.; TRC Companies, Inc.; URS Corporation; and Weston Solutions, Inc.

Backlog

As of fiscal 2007 year-end, our backlog was $1.3 billion, an increase of 19.8% from $1.1 billion as of fiscal 2006 year-end. We experienced backlog growth in our federal government business with the DoD due to increased funding on our Iraq and domestic contracts. We also received several large new orders with commercial and state and local clients. Further, our fiscal 2007 acquisitions contributed to our backlog growth, particularly on work related to alternative energy and, to a lesser extent, geotechnical consulting. We include in our backlog only those contracts for which funding has been provided and work authorization has been received. We estimate that approximately $900 million of the backlog as of fiscal 2007 year-end will be recognized as revenue when we perform the work in fiscal

2008. However, no assurance can be given that all amounts included in the backlog will ultimately be realized, even if evidenced by written contracts. For example, certain of our contracts with the federal government and other clients can be terminated at will. If any of these clients terminate their contracts prior to completion, we may not be able to recognize that revenue.

Regulation

We engage in various service activities that are subject to government oversight, including environmental laws and regulations, general government procurement laws and regulations, and other regulations and requirements imposed by specific government agencies with which we conduct business.

Environmental. A substantial portion of our business involves the planning, design, program management and construction management of pollution control facilities, as well as the assessment and management of remediation activities at hazardous waste or Superfund sites and military bases. In addition, we contract with federal government entities to destroy hazardous materials, including weapons stockpiles. These activities require us to manage, handle, remove, treat, transport and dispose of toxic or hazardous substances.

Some environmental laws, such as the federal Superfund law and similar state statutes, can impose liability upon present and former owners and operators for the entire cost of clean-up for contaminated facilities or sites, as well as generators, transporters and persons arranging for the treatment or disposal of such substances. In addition, while we strive to handle hazardous and toxic substances with care and in accordance with safe methods, the possibility of accidents, leaks, spills and the events of force majeure always exist. Humans exposed to these materials, including workers or subcontractors engaged in the transportation and disposal of hazardous materials and persons in affected areas, may be injured or become ill, resulting in lawsuits that expose us to liability that may result in substantial damage awards. Liabilities for contamination or human exposure to hazardous or toxic materials, or a failure to comply with applicable regulations, could result in substantial costs, including clean-up costs, fines and civil or criminal sanctions, third party claims for property damage or personal injury, or cessation of remediation activities.

Certain of our business operations are covered by Public Law 85-804, which provides for government indemnification against claims and damages arising out of unusually hazardous activities performed at the request of the government. Due to changes in public policies and law, however, government indemnification may not be available in the case of any future claims or liabilities relating to other hazardous activities that we undertake to perform.

Government Procurement. The services we provide to the federal government are subject to FAR and other rules and regulations applicable to government contracts. These rules and regulations, among other things:

- Require certification and disclosure of all cost and pricing data in connection with the contract negotiations under certain contract types;

- Impose accounting rules that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based government contracts; and

- Restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

In addition, services provided to the DoD are monitored by the Defense Contract Management Agency and audited by the DCAA. Our government clients can also terminate any of their contracts, and many of our government contracts are subject to renewal or extension annually.

Seasonality

We experience seasonal trends in our business. Our revenue is typically lower in the first half of our fiscal year, due primarily to the Thanksgiving, Christmas and, in certain years, New Year's holidays that fall within the first quarter. Many of our clients' employees, as well as our own employees, take vacations during these holidays. Further, seasonal inclement weather conditions occasionally cause some of our offices to close temporarily or hamper our project field work. These occurrences result in fewer billable hours worked on projects and, correspondingly, less revenue recognized. Our revenue is typically higher in the second half of the fiscal year, due to favorable weather conditions during spring and summer that result in higher billable hours. In addition, our revenue is typically higher in the fourth quarter of the fiscal year due to the federal government's fiscal year-end spending.

Potential Liability and Insurance

Our business activities could expose us to potential liability under various environmental laws and under workplace health and safety regulations. In addition, we occasionally assume liability by contract under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We maintain a comprehensive general liability policy with an umbrella policy that covers losses beyond the general liability limits. We also maintain professional errors and omissions liability and contractor's pollution liability insurance policies. Both policies provide adequate coverage for our business. When we perform work in higher risk, such as fixed-price remediation with insurance and UXO services, we obtain the necessary types of insurance coverages for such activities, as is usually required by our clients.

We obtain insurance coverage through a broker that is experienced in the professional liability field. The broker and our risk manager regularly review the adequacy of our insurance coverage. However, because there are various exclusions and retentions under our insurance policies, or an insurance carrier may become insolvent, there can be no assurance that all potential liabilities will be covered by our insurance or paid by our carrier.

We evaluate the risk associated with claims. If we determine that a loss is probable and reasonably estimable, we establish an appropriate reserve. A reserve is not established if we determine that the claim has no merit. Our historic levels of insurance coverage and reserves have been adequate. However, partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse effect on our business.

Employees

As of September 30, 2007, we had over 7,800 total employees, including more than 7,200 full-time equivalent employees. Our professional staff includes archaeologists, biologists, chemical engineers, chemists, civil engineers, computer scientists, economists, electrical engineers, environmental engineers, environmental scientists, geologists, hydrogeologists, mechanical engineers, oceanographers, project managers and toxicologists. As of September 30, 2007, we had 202 employees represented by 38 labor organizations. We consider the relationships with our employees to be good. We believe that our ability to retain and expand our staff of qualified professionals will be an important factor in determining our future growth and success. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future. On certain engagements, we supplement our consultants with independent contractors. We believe that the practice of retaining independent contractors on an engagement basis provides us with significant flexibility in adjusting professional personnel levels in response to changes in demand for our services.

Executive Officers of the Registrant

The following table shows the name, age and position as of September 30, 2007 of each of our executive officers:

Name	Age	Position
Albert E. Smith	58	Chairman of the Board
		Mr. Smith has been a member of our Board since May 2005. He was named Chairman in March 2006 after having served as Vice Chairman since September 2005. Mr. Smith is a former member of the Secretary of Defense's Defense Science Board, serving from 2002 to 2005. He was an Executive Vice President of Lockheed Martin and President of its Integrated Systems & Solutions business until 2004. From 1999 to 2003 Mr. Smith was Executive Vice President of Lockheed Martin's Space Systems Company. Prior to that, Mr. Smith was President of Government Systems at Harris Corporation. He has also worked for the Central Intelligence Agency, where he received the Intelligence Medal of Merit. Mr. Smith also serves as a Director of the Curtiss-Wright Corporation, a diversified global provider of highly engineered products and services to the motion control, flow control and metal treatment industries.
Dan L. Batrack	49	Chief Executive Officer and Chief Operating Officer
		Mr. Batrack joined our predecessor in 1980, and was named Chief Executive Officer and a director in November 2005. Mr. Batrack held the positions of Executive Vice President and Chief Operating Officer ("COO") since October 2004, and he has retained the COO title. Mr. Batrack has served in numerous capacities over the last 27 years, including project scientist, project manager, operations manager, senior vice president and president of an operating unit. He has managed complex solutions for many small and Fortune 500 customers, both in the U.S and internationally. Mr. Batrack holds a B.A. degree in Business Administration from the University of Washington.
Sam W. Box	62	President
		Mr. Box joined us in March 2003 through our acquisition of Foster Wheeler Environmental Corporation ("FWEC"), and was named President in October 2004. As President, he is responsible for our project management process. Mr. Box has over 35 years of experience in engineering, construction and environmental services. He served as Chairman, President and Chief Executive Officer of FWEC from October 1994 to March 2003. He joined Foster Wheeler Ltd., the parent of FWEC, in 1993. Previously, Mr. Box was with Morrison Knudsen Corporation (now Washington Group International) for 17 years, where he headed the environmental division and held several other executive management positions. Mr. Box holds a B.S. degree in Civil Engineering from the University of California.
David W. King	51	Executive Vice President, Chief Financial Officer and Treasurer
		Mr. King joined us in November 2002 as Executive Vice President of Finance. He was named Chief Financial Officer and Treasurer in January 2003. Previously, Mr. King served as the Vice President of Finance and

Name	Age	Position
		Operations at Walt Disney Imagineering in Los Angeles. From 1996 to 1999, he was the Vice President and Chief Financial Officer of the Asia Pacific region for Bechtel Group, Inc., based in Hong Kong. Prior to his position at Bechtel, Mr. King had a decade of professional experience with Price Waterhouse in Seattle, Los Angeles and Hong Kong, specializing in international transactions. Mr. King holds a B.A. degree in Business Administration from the University of Washington and is a Certified Public Accountant.

Richard A. Lemmon	48	Senior Vice President, Corporate Administration
		Mr. Lemmon joined our predecessor in 1981 in a technical capacity, and became a member of its corporate staff in a management position in 1985. In 1988, at the time of our predecessor's divestiture from Honeywell, Inc., Mr. Lemmon structured and managed many of our corporate functions. In 1990, he was promoted to Director of Administration. Mr. Lemmon was elected a Vice President in November 1995. He serves as our Risk Manager and is also responsible for Human Resources and facilities.
Mark A. Walsh	47	Senior Vice President, Market Development
		Mr. Walsh joined us in 1995 through the acquisition of our Tetra Tech EM, Inc. ("EMI") operating unit and was named Senior Vice President, Market Development in June 2007. He is responsible for identifying new market and service areas. He joined EMI in 1987 and has served as information systems manager, office manager, and operating unit president. Mr. Walsh was named a Senior Vice President in 2002 and also served as the President of our Technical Environmental Services Group. Previously, Mr. Walsh served as a consultant to government agencies with Booz Allen Hamilton. Mr. Walsh has more than 20 years of broad business development and program management expertise with commercial clients and many government customers, including the U.S. Department of Defense, U.S. Environmental Protection Agency, U.S. Department of Energy, and numerous state and local agencies. Mr. Walsh holds a B.S. degree in Environmental Resource Management and an M.P.A. in Public Administration from The Pennsylvania State University.
Steven M. Burdick	43	Senior Vice President, Corporate Controller
		Mr. Burdick was named Senior Vice President and Corporate Controller in March 2007. He joined us in April 2003 as Vice President, Management Audit, and was named Vice President, Controller in January 2004. Previously, Mr. Burdick served as the Executive Vice President and Chief Financial Officer for Aura Systems, Inc. From 2000 through 2002 he was the Chief Financial Officer for TRW Ventures. Prior to this, Mr. Burdick held the position of Senior Manager with Ernst & Young LLP in Los Angeles. Mr. Burdick holds a B.A. degree in Business Administration from Santa Clara University and is a Certified Public Accountant.
William R. Brownlie	54	Senior Vice President, President of Environmental Engineering and Consulting
		Dr. Brownlie was named Senior Vice President and President of the Environmental Engineering and Consulting Group on December 1, 2005. He joined our predecessor in 1981 and was named a Senior Vice President in December 1993. He has been a Vice President since 1988. For the past year, Dr. Brownlie managed one of our water consulting business units. Previously, Dr. Brownlie managed various business units and programs focusing on water resources and environmental services, including work with the U.S. Army Corps of Engineers, the U.S. Air Force, the U.S. Department of the Interior's Bureau of Reclamation, and the U.S. Department of Energy. Dr. Brownlie is a registered Professional Engineer and has a strong technical background in water resources. He holds B.S. and M.S. degrees in Civil Engineering from the State University of New York at Buffalo and a Ph.D. in Civil Engineering from the California Institute of Technology.

Donald I. Rogers, Jr.	63	Senior Vice President, President of Remediation and Construction
		Mr. Rogers was named Senior Vice President and President of the Remediation and Construction Group on December 1, 2005. He joined us in March 2003 in connection with our acquisition of FWEC, which is currently known as Tetra Tech EC, Inc. ("ECI"). Mr. Rogers joined ECI in December 1992 and currently serves as its President. He has more than 32 years of experience in engineering and construction, including management responsibility for divisions performing environmental restoration and hazardous waste site remediation programs in 40 states and international locations. Mr. Rogers was previously Vice President of Enserch Development Corporation and Vice President of Ebasco Constructors. He earned a B.A. in Economics from the University of Bridgeport, an M.A. in Economics from the New School for Social Research, and an Advanced Executive M.B.A. from the Wharton School of Business at the University of Pennsylvania.
Douglas G. Smith	58	Senior Vice President, President of Infrastructure Services
		Mr. Smith was named Senior Vice President and President of the Infrastructure Group on November 18, 2005. He has nearly 35 years of infrastructure industry experience focused on water infrastructure engineering. Mr. Smith joined us from MWH Global, Inc., where he was Senior Vice President of Strategic Planning. He spent the previous 24 years, from 1980 to 2004, at Black & Veatch, where he was promoted to President of the Europe Water Division. While at Black & Veatch, Mr. Smith focused on large program business development and acquisition integration. From 1976 to 1979, Mr. Smith was an adjunct professor Civil Engineering at the University of Colorado, Boulder, and director of Public Utilities for the City of Boulder. Mr. Smith holds a B.S. in Engineering from Kansas State University, an M.S. in Civil Engineering from the University of Colorado, and a J.D. from the University of Denver.
Patrick D. Haun	47	Senior Vice President, President of Systems Support and Security
		Mr. Haun was named Senior Vice President and President of the Systems Support and Security Group on December 1, 2005. He joined us in August 2003 in connection with the acquisition of our Engineering Management Concepts, Inc. ("EMC") subsidiary, and currently serves as President of EMC. Mr. Haun joined EMC in 1985 and has supported major federal clients including the U.S. Navy and other branches of the U.S. Department of Defense. He has managed groups that provide engineering and program management support in the areas of computer system design, analysis and integration; systems engineering and logistics; modeling and simulation; and weapons test range support. Mr. Haun formerly worked for Gearhart Industries. He earned a B.S. in Electrical Engineering from Iowa State University.
Janis B. Salin	54	Vice President, General Counsel and Secretary
		Ms. Salin joined us in February 2002 and was named Vice President and General Counsel in November 2002. She was elected Secretary in November 2003. For the prior 17 years, Ms. Salin was a Principal with the law firm of Riordan & McKinzie (which was merged into Bingham McCutchen LLP in July 2003), and served as Managing Principal of that firm from 1990 to 1992. She served as our outside counsel from the time of our formation in 1988. Ms. Salin holds B.A. and J.D. degrees from the University of

California at Los Angeles.

Craig L. Christensen	54	Vice President, Chief Information Officer
		Mr. Christensen joined us in 1998 through the acquisition of our Tetra Tech NUS, Inc. subsidiary, and was named Vice President in November 2002. Mr. Christensen is responsible for our information services and technologies, including the implementation of our enterprise resource planning ("ERP") system and management of our shared service organization. Previously, Mr. Christensen held positions at the NUS, Brown and Root Services, and Landmark Graphics subsidiaries of Halliburton Company where his responsibilities included contracts administration, finance and system development. Prior to his service at Halliburton, Mr. Christensen held positions at Burroughs Corporation and Apple Computer. Mr. Christensen holds B.A. and M.B

	2016	2015
	(in thousands)	
Audit Fees	$ 8,812	$ 9,135
Audit Related Fees(1)	$ 13	$ 233
Tax Fees(2)	$ 4,904	$ 6,582
All Other Fees		
Total	$ 13,729	$ 15,950

(1) Consists primarily of fees for audits of employee benefit plans.
(2) Consists primarily of fees for compliance, planning and advice with respect to various domestic and foreign corporate tax matters.

Table of Contents

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

- 18 -

Table of Contents

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 stockholder 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.

In the past, our stockholders have overwhelmingly approved the compensation of our named executive officers. In May 2016, our stockholders approved, on an advisory basis, the compensation of our named executive officers with approximately 95% of stockholder votes cast in favor of our say-on-pay resolution. We believe this strong result indicates general approval from our stockholders of the Company s existing approach to its compensation programs and policies.

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

Strong Pay-for-Performance Orientation

Annual Incentive Plan awards are aligned with our performance: For 2016, the Company s EBITDA performance was below the target EBITDA objective set under the 2016 annual incentive plan, therefore, none of the named executive officers received an incentive compensation bonus payout for 2016.

Long-term incentives linked to shareholder value: The Company s long-term incentive awards consist of: stock options, restricted stock and performance share awards (as used herein, the terms performance awards and performance share awards shall have the same meaning), which rewards for absolute stock price appreciation and relative shareholder return performance.

Base salaries have been frozen since the downturn: In early 2015, the CEO voluntarily reduced his base salary by $100,000 in light of market conditions in our industry. In 2016, the Company made no adjustments to the base salary levels of its named executive officers.

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 annual vesting requirements for options and time-based restricted stock awards and three-year cliff vesting for performance based equity awards.

Summary of Good Governance and Risk Mitigating Factors

Limited Bonus Payouts: Bonus awards cannot exceed 200% of target, thus capping payouts for short-term performance.

Table of Contents

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

Multiple Year Vesting of Long-Term Incentives: Long-term incentive awards do not vest in their entirety until three years after the grant.

CEO Pay: CEO base salary level has generally been below the competitive peer median.

Adoption of Executive Stock Ownership Guidelines: The Company has stock ownership guidelines for executive officers that help align the interests of the Company s executive officers and the Company s stockholders by requiring executives to accumulate and retain a meaningful level of the Company s stock.

Clawback Policy: Awards of long-term equity compensation and compensation under the Company s annual cash incentive plan can be recouped by the Compensation Committee if it determines that the recipient of such award has engaged in material misconduct.

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 2017 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 2016 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.

Table of Contents

FREQUENCY OF ADVISORY VOTE ON

NAMED EXECUTIVE OFFICER COMPENSATION

PROPOSAL NO. 4 ON THE PROXY CARD

In Proposal No. 3, stockholders are being asked to cast a non-binding advisory vote with respect to the compensation of the Company s named executive officers named in the Summary Compensation Table. This advisory vote is typically referred to as a say-on-pay vote. In this proposal, the Board of Directors is also asking stockholders to cast a non-binding advisory vote on how frequently say-on-pay votes should be held in the future. Stockholders will be able to cast their votes on whether to hold say-on-pay votes every one, two or three years. Alternatively, you may abstain from casting a vote.

The following resolution will be submitted for a stockholder vote at the 2017 annual meeting:

RESOLVED, that the option of once every year, two years or three years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold an advisory vote on the compensation of the Company s named executive officers listed in the annual proxy statement.

This advisory vote is not binding on the Board. The Board acknowledges that there are a number of points of view regarding the relative benefits of annual and less frequent say-on-pay votes. Accordingly, the Board intends to hold say-on-pay votes in the future in accordance with the alternative that receives the most stockholder support.

Your Board of Directors recommends that you vote for the frequency of the advisory vote on named executive officers compensation to be ONE YEAR.

Table of Contents

APPROVAL OF STOCKHOLDER PROPOSAL CONCERNING PROXY ACCESS

PROPOSAL NO. 5 ON THE PROXY CARD

The representative of the proponents of the following stockholder proposal has stated that they intend to present such proposal at the annual meeting. The proponents are represented by the Comptroller of the City of New York, Scott M. Stringer, who is the custodian and/or a trustee of the New York Employees Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers Retirement System, the New York City Police Pension Fund, and the New York City Board of Education Retirement System.

If one or more of the stockholders, or a qualified representative of such stockholders, is present and submits the proposal for a vote, then the proposal will be voted on at the annual meeting. In accordance with federal securities regulations, we have included the stockholder proposal and supporting statement exactly as submitted by the proponent. The Company is not responsible for the content of the stockholder proposal or the supporting statement.

The approval of this stockholder proposal, if properly presented, requires the affirmative vote of the holders of a majority of the Common Stock present or represented by proxy and entitled to vote at the Annual Meeting. Abstentions with respect to this stockholder proposal will have the effect of a vote against this stockholder proposal and broker non-votes (which occur if a broker or other nominee does not have discretionary authority and has not received instructions with respect to this stockholder proposal within 10 days of the Annual Meeting) will not be counted in determining the number of shares necessary for approval. Properly executed proxies will be voted at the Annual Meeting in accordance with the instructions specified on the proxy; if no such instructions are given, the persons named as agents and proxies in the accompanying form of proxy will vote such proxy FOR this proposal.

The Stockholder Proposal

RESOLVED: Shareholders of National Oilwell Varco, Inc. (the Company) ask the board of directors (the Board) to take the steps necessary to adopt a proxy access bylaw. Such a bylaw shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or group (the Nominator) that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company s proxy card.

The number of shareholder-nominated candidates appearing in proxy materials shall not exceed the larger of two or one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

a) have beneficially owned 3% or more of the Company s outstanding common stock continuously for at least three years before submitting the nomination;

b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the Disclosure); and

c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator s communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company s proxy materials; and (iii) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

Table of Contents

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of each nominee (the Statement). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit.

SUPPORTING STATEMENT:

We believe proxy access will make directors more accountable and enhance shareholder value. A 2014 study by the CFA Institute concluded that proxy access could raise overall US market capitalization by up to $140.3 billion if adopted market-wide, with little cost or disruption. (http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n9.1)

The proposed terms are similar to those in vacated SEC Rule 14a-11 (https://www.sec.gov/rules/final/2010/33-9136.pdf). The SEC, following extensive analysis and input from market participants, determined that those terms struck the proper balance of providing shareholders with viable proxy access while containing appropriate safeguards.

The proposed terms enjoy strong investor support and company acceptance. Between January 2015 and October 2016, 95 similar shareholder proposals received majority votes and at least 270 companies of various sizes across industries enacted bylaws with similar terms.

We urge shareholders to vote FOR this proposal.

The Board of Directors Statement In Support of Stockholder Proposal

Our Board recognizes that proxy access may enhance stockholder ability to participate in director elections if properly structured. Based on our discussions with, and the review of the publicly stated positions of, certain of our larger stockholders and the review of the provisions of proxy access bylaws recently adopted by companies in our peer group, we believe the basic structure of the proxy access bylaw set forth in this stockholder proposal is appropriate for the Company and therefore we recommend that you vote FOR the stockholder proposal.

Your Board of Directors recommends that you vote FOR the stockholder proposal concerning proxy access.

Table of Contents

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, 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: Craig L. Weinstock, 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. 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, Marcela E. Donadio, Ben A. Guill, James T. Hackett, David D. Harrison, Roger L. Jarvis, Eric L. Mattson, and William R. Thomas.

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 Mr. Williams 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 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.

Risk Assessment in Compensation Programs

Consistent with SEC disclosure requirements, the Company, its Compensation Committee and the Compensation Committee s independent compensation consultant assess the Company s executive and broad-based compensation programs on an annual basis 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. 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, we noted that the variable forms of compensation, namely the annual cash incentive 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 compensation cost. For example, bonus payments to an executive under the annual cash incentive 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, the Compensation Committee and the Compensation Committee s consultant 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, 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: Craig L. Weinstock, 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, 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 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 2016, all members of the Board were in attendance at the annual meeting.

Table of Contents

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 8, 2016, 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 17, 2017, the Company filed its 2016 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 constitute 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. Information regarding our current executive officers is below:

CLAY C. WILLIAMS, 54

For a detailed description of Mr. Williams background, please refer to page 7.

JOSE A. BAYARDO, 45

Mr. Bayardo has served as the Company s Senior Vice President and Chief Financial Officer since August 2015. Prior to joining the Company in 2015, Mr. Bayardo served as Senior Vice President, Resource and Business Development at Continental Resources, Inc. and spent nine years serving in various roles at Complete Production Services, Inc. including Senior Vice President, Chief Financial Officer and Treasurer. Prior to joining Complete Production Services, Mr. Bayardo was an investment banker with J.P. Morgan. Mr. Bayardo holds a Bachelor of Science in Chemical Engineering from the University of Texas at Austin, a Master of Engineering Management from the McCormick School of Engineering at Northwestern University and a MBA from the Kellogg Graduate School of Management at Northwestern University.

SCOTT K. DUFF, 49

Mr. Duff has served as the Company s Vice President, Corporate Controller and Chief Accounting Officer since July 2014. Mr. Duff holds a Bachelor of Business Administration in Accounting from the University of Texas at San Antonio and is a Certified Public Accountant. He held accounting positions at KPMG, Ernst & Young, and SBC before joining National Oilwell in 2004. Mr. Duff previously served as the Company s Vice President of Internal Audit from 2005 to June 2014.

JOSEPH W. ROVIG, 56

Mr. Rovig has served as the President of Rig Systems & Rig Aftermarket since March 2014. Mr. Rovig has over 36 years of experience in the oilfield, where he started out as a roughneck. Mr. Rovig joined the Company in 2002 and has had several positions over the years, most recently as Senior Vice President, Offshore Drilling Equipment.

CRAIG L. WEINSTOCK, 58

Mr. Weinstock has served as the Company s Senior Vice President, Secretary and General Counsel since October 2014. Mr. Weinstock holds a Bachelor of Arts from the State University of New York and a J.D. from Vanderbilt Law School. Before joining National Oilwell Varco, he practiced law at Locke Lord, LLP in Texas for 29 years counseling corporate boards and independent directors regarding governance, securities and compliance matters. While practicing with Locke Lord, Mr. Weinstock worked on behalf of National Oilwell Varco on a variety of matters. Since joining National Oilwell Varco in October 2013, Mr. Weinstock has served as National Oilwell Varco s Vice President, Chief Compliance Officer and Vice President of Internal Audit.

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, 2016 (except where noted below). The number and percentage of shares of common stock beneficially owned is based on 378,637,403 shares outstanding as of December 31, 2016 (except where noted below).

5% Owners	No. of Shares	Percent of Class
The Vanguard Group (1) 100 Vanguard Blvd. Malvern, PA 19355	38,058,896	10.07%
Dodge & Cox (2) 555 California Street, 40th Floor San Francisco, CA 94104	31,308,384	8.30%
First Eagle Investment Management, LLC (3) 1345 Avenue of the Americas New York, NY 10105	25,331,416	6.71%
BlackRock, Inc. (4) 55 East 52nd Street New York, NY 10055	24,414,051	6.50%
State Street Corporation (5) State Street Financial Center One Lincoln Street Boston, MA 02111	22,240,547	5.89%

(1) Shares owned at January 31, 2017, as reflected in Amendment No. 3 to the Schedule 13G filed with the SEC on February 10, 2017 by The Vanguard Group. Within The Vanguard Group there are the following subsidiaries: Vanguard Fiduciary Trust Company (VFTC) and Vanguard Investments Australia, Ltd. (VIA). The number of shares outstanding as of January 31, 2017 is 378,673,570.

(2) Shares owned at December 31, 2016, as reflected in Amendment No. 1 to the Schedule 13G filed with the SEC on February 14, 2017 by Dodge & Cox.

(3) Shares owned at December 31, 2016, as reflected in Amendment No. 1 to the Schedule 13G filed with the SEC on February 6, 2017 by First Eagle Investment Management, LLC.

(4) Shares owned at December 31, 2016, as reflected in Amendment No. 2 to the Schedule 13G filed with the SEC on January 25, 2017 by BlackRock, Inc. (Blackrock). Within the BlackRock group are the following subsidiaries: BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock (Singapore) Limited, BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Schweiz AG, BlackRock Capital Management, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Fund

Managers Ltd, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, BlackRock Japan Co Ltd and BlackRock Life Limited.

(5) Shares owned at December 31, 2016, as reflected in the Schedule 13G filed with the SEC on February 6, 2017 by State Street Corporation. Within the State Street Corporation group are the following subsidiaries: State Street Bank and Trust Company, SSGA Funds Management, Inc., State Street Global Advisors Ireland Ltd, State Street Global Advisors Ltd, State Street Global Advisors, Australia, Limited, State Street Global Advisors (Asia) Limited, State Street Global Advisors (Japan) Co., Ltd, and State Street Global Advisors France, S.A.

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 24, 2017 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 380,056,948 shares outstanding as of March 24, 2017. Beneficial ownership includes any shares as to which the director or executive officer has the right to acquire within 60 days of March 24, 2017 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.

	Shares Beneficially Owned		
Name of Individual	Number of Common Shares(1)	Outstanding Options Exercisable Within 60 Days	Percent of Class*
Greg L. Armstrong	44,460	25,711	*
Jose A. Bayardo	123,360	74,738	*
Marcela E. Donadio	11,281	0	*
Scott K. Duff	30,851	60,104	*
Ben A. Guill	77,696	0	*
James T. Hackett	5,565	0	*
David D. Harrison	45,652	25,711	*
Roger L. Jarvis	53,051	25,711	*
Eric L. Mattson	62,474	25,711	*
Joseph W. Rovig	42,428	96,566	*
William R. Thomas	5,565	0	*
Craig L. Weinstock	34,020	108,815	*
Clay C. Williams	300,624	906,062	*
All current directors and executive officers as a group (13 persons)	837,027	1,349,129	*

* Less than 1 percent.

(1) Includes shares deemed held by executive officers and directors in trusts, brokerage accounts and in the Company s 401(k) plans, supplemental savings plans and deferred compensation plans.

Table of Contents

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 the peer group of 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 for the following named executive officers:

The following is a list of our named executive officers by name and position, as of December 31, 2016:

Name	Position
Clay C. Williams	Chairman, President and Chief Executive Officer
Jose A. Bayardo	Senior Vice President and Chief Financial Officer
Joseph W. Rovig	President Rig Systems & Rig Aftermarket
Craig L. Weinstock	Senior Vice President, General Counsel and Secretary
Scott K. Duff	Vice President, Corporate Controller and Chief Accounting Officer

2016 Performance Overview

Declining oil and gas prices resulted in reduced drilling activity and demand for oilfield equipment and services. Average 2016 worldwide rig count (as measured by Baker Hughes) decreased 32% in comparison to 2015. The broad-based decline in activity led all four of the Company s reporting segments to post lower year-over-year revenues.

For full year 2016, the Company reported a net loss of $320 million excluding other items. Loss per share excluding other items was $(0.84) in 2016, representing a 130% decrease from earnings of $2.80 per share in 2015.

Financial and operational metrics for 2016 include:

- Total revenue in 2016 was $7.3 billion, representing a 51% decrease from 2015;

- The Company generated $960 million in cash flow from operations;

The Company s capital equipment backlog finished 2016 at $2.5 billion for the Rig Systems reporting segment and $818 million for the Completion & Production Solutions reporting segment; and

The Company s stock price improved by 14% in 2016.

Pay for Performance

Our Compensation Committee believes that the Company s executive compensation program is appropriately designed to align executives interest with those of our shareholders and to reward based on

Table of Contents

performance. The majority of our executive officers total compensation opportunity is provided in at-risk compensation components and tied to the achievement of our annual and long-term performance goals. For 2016 the payouts under our at-risk incentive programs were as follows:

Zero Annual Bonus Payout: Despite achieving many of our business objectives in 2016 (as described earlier), we did not meet our pre-set financial threshold goals and consequently did not award bonuses for 2016 performance.

Below Target Long-Term Incentive Performance Award Payout: Half of the 2014 performance shares earned were 100% of target based on our TSR 50th percentile rank relative to the OSX index, and the threshold level of Return on Capital was not met so the other half of those performance shares were forfeited. When combined with the stock price reduction from grant date, the company s performance from 2014-2016 resulted in our performance shares vesting at a level that was 27% of the original grant date target value.

CEO Realizable Pay

The majority of the compensation value our CEO will ultimately receive is directly tied to the Company s actual operational and financial performance and absolute and relative stock price performance.

The following table demonstrates the strong link between pay and performance by comparing the CEO s intended target compensation value relative to his realizable value as of December 31, 2016.

	2014		**2015**		**2016**	
	Target	**Realizable**	**Target**	**Realizable**	**Target**	**Realizable**
Base Salary	$ 900	$ 900	$ 800	$ 800	$ 800	$ 800
Bonus	$ 990	$ 1,904	$ 1,120	$ 0	$ 1,120	$ 0
Stock Options	$ 4,428	$ 0	$ 4,778	$ 0	$ 4,493	$ 6,419
Performance Awards	$ 3,760	$ 1,020	$ 4,534	$ 3,101	$ 2,110	$ 2,797
Restricted Stock	$ 0	$ 0	$ 0	$ 0	$ 2,250	$ 2,983
Total	**$ 10,078**	**$ 3,824**	**$ 11,232**	**$ 3,901**	**$ 10,773**	**$ 12,998**

Target columns reflect the grant date intended values for 2014, 2015, and 2016. The amounts indicated in the Realizable columns reflect the actual base salary and bonus earned each year as well as the intrinsic value of long-term incentive awards as of December 31, 2016. The 2014 performance award reflects the Company s actual performance ranking of 100% of target for TSR and 0% for ROC; 2015 and 2016 awards reflect 100% of target since the performance period for those awards will not be completed until December 2017 and 2018 respectively. The realizable value of the 2016 stock options is higher than the target due to an appreciation in the Company s stock price.

Table of Contents

Good Pay Practices

Our compensation program and policies include key features that are designed to align the interests of our executives and stockholders and to mitigate compensation-related risks. The table below highlights our practices:

What We Do . . .	**What We Do Not Do . . .**
Pay for Performance	No gross-up payments to cover excise taxes or perquisites
Tie significant levels of compensation to key corporate and individual goals	No Guaranteed Annual or Multi-Year Bonuses
Annual Bonuses and Long-Term Incentives are subject to the Company s clawback policy	No Repricing of Underwater Stock Options
Bonus payments to executives under the annual cash incentive program are capped at a certain percentage of the executive s base salary	No Dividend Equivalents Paid Prior to Vesting of Performance Awards (and never on unearned portion of awards)
Stock Ownership Guidelines for executives and directors	No significant compensation in the form of perquisites for executives
Varied performance metrics under short-term and long-term incentive plans	

Double Trigger Provisions for Change in Control
Independent Consultant Reports Directly to the Compensation Committee
Review Tally Sheets When Making Executive Compensation Decisions
Mitigate Undue Risk in Compensation Programs

Table of Contents

Approach to Executive Compensation Program

Compensation Philosophy

The Company believes, in order to attract, motivate, and retain talented executives, its compensation program should be properly designed to:

- Provide a strong emphasis on performance; tied to short and long-term objectives
- Provide a market competitive pay level,
- Provide alignment with shareholder interests, and
- Provide a certain level of financial security

Components of NOV s Compensation Program:

Total Compensation	Components of Compensation	Purpose
Fixed Pay	Base Salary	Fixed level of compensation to attract and retain executive talent Salary level based on tenure, expertise, scope of responsibility and individual performance
At Risk Pay	Annual Incentives (Cash)	Incentivize and reward executives for achieving the Company s corporate growth and profitability goals Encourage smart investments and prudent deployment of capital Attract, motivate, and retain high quality management talent Provide competitive cash compensation opportunity
	Stock Options	Link significant portion of executive compensation to the enhancement of stockholder value Focus executives on share price appreciation and reward for creating long-term stockholder value Requires three-year ratable vesting, thus serves as a retention tool
	Performance Shares	Recognizes the Company s total shareholder performance relative to industry peers

	Links the Company s performance to long-term stockholder value creation Provides a long-term incentive vehicle tied to a three-year performance goal
Restricted Stock	Aligns interests of executives with shareholders by providing long-term stock ownership Provides forfeitable ownership stake (three-year ratable vesting) to encourage retention

Given the inherent nature of these forms of compensation and the cyclical nature of the industry in which we operate, the Company has tried to provide a balance between aligning pay with absolute performance and relative performance to peers through both up and down cycles.

There are no compensation policy differences among the individual executives, except that the more senior officers, such as our Chief Executive Officer, receive a higher compensation level with a greater percentage of that compensation at-risk, consistent with their increased responsibilities. These differences are reviewed and considered in connection with the compensation analysis performed by the Compensation Committee.

Table of Contents

How Executive Compensation Decisions are Determined

Market Considerations

As part of its process to establish compensation levels for the Company s named executive officers, the Compensation Committee compares each of the major elements of compensation (base salary, annual bonus and long-term incentives) for each of its named executive officers against the compensation provided to comparable executive officers at companies in a designated peer group.

In November 2015, the Compensation Committee engaged Frederic W. Cook & Co., Inc. (F.W. Cook), its former compensation consultant, to conduct its annual competitive review of executive compensation for the Company s named executive officers relative to its peer companies, as well as to analyze internal pay equity and share usage and dilution. F.W. Cook analyzed and compared each position s responsibilities and job title to develop competitive market data based on data from proxy statements. F.W. Cook generated data on the components of the Company s compensation program compared to the market 25th percentile, market 50th percentile, and market 75th percentile of the designated peer group.

The Company s peer group, as approved by the Compensation Committee in 2015, is as follows:

Anadarko Petroleum Corporation	Apache Corporation	Baker Hughes, Inc.
Cameron International Corporation	Cummins Inc.	Danaher Corporation
Devon Energy Corporation	Dresser-Rand Group, Inc.	FMC Technologies Inc.
Halliburton Co.	Illinois Tool Works Inc.	Schlumberger Ltd.
Transocean Ltd.	The Williams Companies, Inc.	Weatherford International Ltd.

Based on the compiled data and the comparisons prepared by F.W. Cook, the Compensation Committee, in consultation with the Company and F.W. Cook, determined that target total direct compensation levels for the Company s named executive officers are competitive within range of the market median but vary by executive.

Internal Considerations

While the Compensation Committee considers market-competitive levels in setting pay, it also considers numerous other factors such as tenure, individual performance, and level and scope of responsibility.

Specific to the CEO, the Compensation Committee also takes into account Mr. Williams successful achievement of his goals and objectives when setting his compensation opportunity. For 2016, Mr. Williams performance was measured in four key areas of the Company:

- Financial performance,
- Formulation and implementation of Company strategy,
- Operational performance, and

Management and employee development.

For officers other than the CEO, the Committee considered the CEO s assessment of their individual performance.

Say-on-Pay Considerations

At our 2016 annual stockholder meeting, approximately 95% of votes cast were in support of NOV s executive compensation program. The annual Say-on-Pay vote serves as an important guide to the Committee in ensuring that the executive compensation programs align with stockholder interests. We believe our stockholders strong support is affirmation of the design of our executive compensation programs.

Table of Contents

2016 Compensation Actions

The following describes the elements of the Company s compensation program for 2016, why the elements were selected, and how the amounts of each element were determined.

Base Salary

Salary adjustments are typically 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.

Our salaries have been frozen since 2014 due to the poor economic environment and the Company s subsequent financial and operating performance.

Name	End of Year 2014	2015 Salary	2016 Salary	Percent Change
Clay C. Williams	$ 900,000	$ 800,000	$ 800,000	-11%
Jose A. Bayardo	n/a	$ 650,000	$ 650,000	0%
Joseph W. Rovig	$ 550,000	$ 550,000	$ 550,000	0%
Craig L. Weinstock	$ 510,000	$ 510,000	$ 510,000	0%
Scott K. Duff*	$ 360,000	$ 428,077	$ 360,000	0%

* *Commencing on April 21, 2015, Mr. Duff received an additional payment of $12,500 per month as a retainer while he served as Interim Chief Financial Officer for the Company. The monthly retainer ceased in August 2015 when it was announced that Mr. Bayardo was named the Company s new Chief Financial Officer.*

Annual Incentive Plan

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

Substantially all exempt employees, including executive officers, participated in the Company s annual incentive plan in 2016, aligning a portion of each employee s cash compensation with Company performance against predetermined financial objectives. The award opportunities, performance metrics, payout calibration, and performance and payout results of the plan were as outlined below.

Annual Incentive Award Opportunities

Annual incentive opportunities are provided to the Company s named executive officers under the Company s 2016 Incentive Compensation Plan. Each year, the Compensation Committee establishes the target annual incentive opportunity for each named executive officer as a specified percentage of his or her base salary. These target percentages are based on each executive s level of responsibility for the Company s financial performance. Incentive payouts will vary based on actual performance against performance objectives.

- 37 -

Table of Contents

In 2015, the Company operated two annual plans: our traditional annual incentive plan that focused on operating income and an overlay plan to focus on NOV Value Added. The 2016 target percentages for each named executive officer reflect the combination of the two plans into a consolidated plan with NOV Value Added included as a performance metric in the combined plan.

	Target Bonus Opportunity (As Percent of Salary)		
Name	***2015 Traditional Annual Plan Target %***	***2015 NVA Overlay Plan Target %***	**2016 Traditional Annual Plan Target %**
Clay C. Williams	*125%*	*15%*	**140%**
Jose A. Bayardo	*80%*	*15%*	**95%**
Joseph W. Rovig	*80%*	*15%*	**95%**
Craig L. Weinstock	*80%*	*15%*	**95%**
Scott K. Duff	*75%*	*15%*	**90%**

Performance Metrics

As in prior years, the incentive plan provided for cash awards if the Company achieved certain pre-established financial objectives based on the Company s financial plan. The Company s annual financial plan 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 bonuses for our named executive officers are based on performance on the financial objectives that are weighted as follows:

Name	**Position**	**NOV EBITDA**	**NOV Value Added**	**RS&A EBITDA**	**RS&A Value Added**
Clay C. Williams	Chairman, President and CEO	*75%*	*25%*		
Jose A. Bayardo	SVP, CFO	*75%*	*25%*		
Joseph W. Rovig	President Rig Systems & Rig Aftermarket	*50%*		*25%*	*25%*
Craig L. Weinstock	SVP, General Counsel	*75%*	*25%*		
Scott K. Duff	VP, Corporate Controller & CAO	*75%*	*25%*		

Adjusted EBITDA was selected as a new measure for the 2016 annual incentive plan given our established and continued focus on the operating profitability of our business. The Company shifted to adjusted EBITDA from operating income to hone in on the operational levers of our financial success and reduce the potential for distortions from depreciation and amortization. The enhanced emphasis on operational levers was deemed to be appropriate given the challenging macroeconomic environment in the oil and gas industry.

National Oilwell Varco Value Added (NVA) was introduced in 2015 in a separate overlay incentive plan to enhance awareness of and participation in the Company s Value Creation Initiative by providing additional incentive compensation awards based on the participant s contribution to improving the Company s NVA. NVA is an amount equal to (a) net earnings before interest, taxes, depreciation and amortization less (b) taxes and an amount equal to a required return on assets, as established by the Compensation Committee. Its introduction was to raise awareness of capital efficiency across the organization, which was a critical objective given the business landscape. In 2016, the overlay plan was discontinued and NVA was added as a metric in the Company s annual incentive plan to simplify the Company s approach.

Table of Contents

Payout Calibration

Payouts under the annual incentive plan are formulaically determined and vary based on performance against pre-established objectives. Each metric has a Threshold, Target, and Maximum level of achievement, which corresponds to a Threshold, Target, and Maximum level of payout. Below a threshold level of performance for each metric, there is no payout on that portion of the annual incentive plan. Each metric is independently evaluated and the payout for each metric is independently calculated. The payout for each metric is capped once the Maximum performance level is achieved. The EBITDA calibration represents a range of 60% (Threshold) to 140% (Maximum) around Target performance and is reflective of the less predictable and volatile operating environment in our industry. In prior years, the range was narrower (i.e., 80% to 110%).

Payout Results

Payouts are determined by metric under the annual incentive plan using the following formula:

The actual bonus paid is the sum of the results for each metric. For 2016, actual bonuses paid to executives were calculated as follows:

Performance Measure	**Target**	**Actual**	**Payout %**
NOV EBITDA	$ 836M	$ 322M	0%
RS&A EBITDA	$ 768M	$ 425M	0%

With respect to the NVA performance metric, payout for 2016 was zero as the Company did not meet the threshold for payment to be made. NVA bonus payouts require improvement year over year.

	Metric Weighting				**Metric Payout %**		
Name	NOV EBITDA	NOV Value Added	RS&A EBITDA	RS&A Value Added	NOV EBITDA	RS&A EBITDA	**Overall Payout %**
Clay C. Williams	75%	25%			0%	0%	**0%**
Jose A. Bayardo	75%	25%			0%	0%	**0%**
Joseph W. Rovig	50%	25%	25%	25%	0%	0%	**0%**
Craig L. Weinstock	75%	25%			0%	0%	**0%**
Scott K. Duff	75%	25%			0%	0%	**0%**

Name	**Base Salary**	**Target Bonus %**	**Target Bonus $**	**Overall Payout %**	**Actual Bonus $**

Clay C. Williams	$ 800,000	140%	$ 1,120,000	0%	**$ 0**
Jose A. Bayardo	$ 650,000	95%	$ 617,500	0%	**$ 0**
Joseph W. Rovig	$ 550,000	95%	$ 522,500	0%	**$ 0**
Craig L. Weinstock	$ 510,000	95%	$ 484,500	0%	**$ 0**
Scott K. Duff	$ 360,000	90%	$ 324,000	0%	**$ 0**

Table of Contents

Long-Term Incentive Compensation

The primary purpose of the Company s long-term incentive compensation program is to:

Focus its executives on the Company s long-term development and prosperity in addition to annual financial goals;

Help balance long-term versus short-term business objectives, reinforcing that one should not be achieved at the expense of the other; and

Directly link the officers interests with those of the Company s stockholders.

We believe our 2016 mix of stock options, restricted stock and performance shares (illustrated below) appropriately rewards executives for gains in share price, promotes retention, and motivates long-term performance. The executives long-term incentive awards are benchmarked to ensure the type, value and number of each award are consistent with market practices and aligned with the Company s philosophy.

Based on the foregoing, on February 24, 2016, the Compensation Committee approved the grant of stock options, restricted stock awards and performance share awards to the Company s executive officers pursuant to the National Oilwell Varco, Inc. Long-Term Incentive Plan:

Name	**Stock Options (#)**	**Restricted Stock Awards (#)**	**Performance Awards (Target # of Shares)**
Clay C. Williams	697,674	79,674	74,703
Jose A. Bayardo	224,215	25,863	24,249
Joseph W. Rovig	149,477	17,242	16,166
Craig L. Weinstock	134,529	15,518	14,549
Scott K. Duff	112,108	12,932	12,125

- 40 -

Table of Contents

The intended value of the foregoing long-term incentive awards is the same value as the Named Executive Officers 2015 long-term incentive awards and was determined after considering market data and historical pay levels.

Stock Options

The options were granted at a price equal to the closing trading price of the Company s common stock on the New York Stock Exchange on the date of approval of the grants by the Compensation Committee ($28.24 per share). Each of such options has a term of 10 years and vests in three equal annual installments commencing on the first anniversary of the grant.

Restricted Stock

The restricted stock awards granted by the Company to the Named Executive Officers shall vest in three equal annual installments commencing on the first anniversary of the date of grant.

Performance Share Awards

The performance share awards can be earned based on performance against pre-established goals and vest three years from the grant date. The performance awards can be earned only if the percentile ranking of the Company s TSR (total shareholder return) as measured against the TSR of the constituent members of the OSX Index over a three-year performance period, exceeds certain levels. The Compensation Committee believes that the members of the OSX index are an appropriate benchmark against which to compare the Company s TSR performance.

The following table summarizes the relationship between the Company s TSR performance when compared with the TSR performance of the members of the OSX index and the associated payout levels for the performance achieved for the TSR portion of the award:

Level	Payout %	Percentile Rank vs. OSX Comparator Group
Maximum	200%	75th percentile or greater
Target	100%	50th percentile
Minimum	50%	25th percentile
No Payout	0%	Below the 25th percentile

Results falling between minimum and target and target and maximum will result in a linearly interpolated payout.

2014 Performance Share Awards Results

The 2014 performance share award earned was subject to two separate performance metrics: 50% TSR (total shareholder return) goal and 50% internal ROC (return on capital) goal. The performance share cycle commenced on January 1, 2014, and ended on December 31, 2016.

Performance against the TSR goal was determined by comparing the performance of the Company s TSR with the TSR performance of the members of the OSX index for the three-year performance period. The following table summarizes the results and payout levels for the TSR portion of the award:

	Below Threshold	**Threshold**	**Target**	**Maximum**	**Actual Results**
Percentile Rank	<25th percentile	25th percentile	50th percentile	75th percentile or greater	50th percentile
Payout % of Target	0%	50%	100%	200%	100%

- 41 -

Table of Contents

Performance against the ROC goal was determined by comparing the performance of the Company s actual ROC performance average for each of the three years of the performance period against the ROC goal set by the Compensation Committee. The following table summarizes the results and payout levels for ROC portion of the award:

	Below Threshold	Threshold	Target	Maximum	Actual Results
ROC	<13.2%	13.2%	16.5%	18.15% or higher	8.15%
Payout % of Target	0%	50%	100%	200%	0%

Retirement, Health and Welfare Benefits

The Company offers retirement, health and welfare programs to all eligible employees. The Company s executive officers generally are eligible for the same benefit programs on the same basis as the rest of the Company s employees. The health and welfare programs cover medical, pharmacy, dental, vision, life, accidental death and dismemberment and disability insurance. A selection of supplemental benefits is also available for employees to elect at their own expense.

The Company offers retirement programs that are intended to supplement the employee s personal savings. The programs include the National Oilwell Varco, Inc. 401(k) and Retirement Savings Plan (401k Plan) and National Oilwell Varco, Inc. Supplemental Savings Plan (Supplemental Plan). The Company s U.S. employees, including its executives, are generally eligible to participate in the 401k Plan. Employees of the Company whose base salary meets or exceeds a certain dollar threshold established by the Company s benefits plan administrative committee are generally eligible to participate in the Supplemental Plan. Participation in the 401k Plan and Supplemental Plan are voluntary. The Supplemental Plan is a non-qualified plan that allows participants to continue saving and receiving Company contributions towards retirement when, due to compensation and contribution ceilings established under the Internal Revenue Code, they or the Company can no longer contribute to the 401k Plan. The Supplemental Plan does not provide any additional benefits or company contributions beyond those capped by the Internal Revenue Code ceilings.

U.S. Income Tax Limits on Deductibility

Section 162(m) of the Internal Revenue Code imposes a $1 million limitation on the deductibility of certain compensation paid to our chief executive officer and the next four highest paid executives excluding the chief financial officer (covered employees). Excluded from the limitation is compensation that is qualified as performance based. For compensation to be performance based, it must meet certain criteria, including being based on predetermined objective standards approved by stockholders. Although the Compensation Committee takes the requirements of Section 162(m) into account in designing executive compensation, there may be circumstances when it is appropriate to pay

compensation to our covered employees that does not qualify as performance based compensation and thus is not deductible by us for federal income tax purposes.

Table of Contents

Option Grant Practices

Historically, the Company has granted stock options to its key employees, including executives, in the first quarter of the year. The Company does not have any program, plan or practice to time its option grants to its executives in coordination with the release of material non-public information, and has not timed its release of material non-public information for the purposes of affecting the value of executive compensation. The Company does not set the grant date of its stock option grants to new executives in coordination with the release of material non-public information.

The Compensation Committee has the responsibility of approving any Company stock option grants and does not delegate material aspects of long-term incentive plan administration to any other person. The Company s senior executives in coordination with the Compensation Committee set a time for the Committee to meet during the first quarter of the year to review and approve stock option grants proposed by the senior executives. The specific timing of the meeting during the quarter is dependent on committee member schedules and availability and the Company finalizing its stock option grant proposal. If approved by the Compensation Committee, the grant date for stock option awards is the date the Committee meets and approves the grant, with the exercise price for the option equal to the Company s closing stock price on the date of grant.

The Company recognizes that its stock price fluctuates over time and in certain cases quite significantly. As stock option grants have historically been granted on an annual basis during the first quarter of the calendar year, executives who have been employed with the Company for some time have received grants with varying exercise prices. The ten-year term of the options also helps reward its executives who remain with the Company, as it provides the executives time, so long as they continue employment with the Company, to realize financial benefits from their option grants after vesting.

Recoupment Policy

On February 15, 2013, the Compensation Committee approved an amendment to the Company s Long-Term Incentive Plan to allow the Compensation Committee, at its sole discretion, to terminate any award of stock options and/or restricted stock if it determines that the recipient of such award has engaged in material misconduct. For purposes of this provision, material misconduct includes conduct adversely affecting the Company s financial condition or results of operations, or conduct which constitutes fraud or theft of Company assets, any of which require the Company to make a restatement of its reported financial statements. If any material misconduct results in any error in financial information used in the determination of compensation paid to the recipient of any equity award and the effect of such error is to increase the payment amount pursuant to such award, the Compensation Committee may also require the recipient to reimburse the Company for all or a portion of such increase in compensation provided in connection with any such award. In addition, if there is a material restatement of the Company s financial statements that affects the financial information used to determine the compensation paid to the recipient of an award, then the Compensation Committee may take whatever action it deems appropriate to adjust such compensation.

On such date, the Compensation Committee also approved a similar clawback type provision be added to the Company s Annual Incentive Plan.

Stock Ownership Guidelines for Executives

The Company adopted stock ownership guidelines for its executive officers in February 2013. The Company s stock ownership guidelines for its executive officers are intended to align the interests of the

Table of Contents

Company s executive officers and the Company s stockholders by requiring executives to accumulate and retain a meaningful amount of the Company s stock. Under the Company s guidelines, the executive officers must comply with the following ownership requirements:

Title	Multiple of Base Salary
Chairman & CEO	6X
CFO	3X
Other executive officers	2X

The Company s executive officers must attain the applicable stock ownership level within five years after first becoming subject to the guidelines. The following shares of Company stock count towards compliance with the guidelines: shares owned by the executive; shares owned jointly by the executive and his or her spouse; shares held in a trust established by the executive for the benefit of the executive and his or her family members; shares equal to the number of vested deferred stock units credited to the executive; shares equal to the in-the-money portion of any vested, unexercised options; unvested shares of time-based restricted stock or restricted stock units; and shares credited to the executive s 401(k) plan account. Unvested and unearned performance shares or units and unvested stock options do not count towards compliance guidelines. All of the Company s named executive officers are currently in compliance with the Company s stock ownership guidelines.

Compensation Consultant Independence

In furtherance of maintaining the independence of the Compensation Committee s compensation consultant, the Compensation Committee has the sole authority to retain or terminate its compensation consultant. The Compensation Committee annually reviews and approves total expenditures paid to the independent compensation consultant. Meridian and its affiliates did not provide any services to the company or any of the company s affiliates other than advising the Compensation Committee on director and executive officer compensation during 2016.

In connection with its engagement of Meridian in September 2016, the Compensation Committee considered various factors bearing upon Meridian s independence including, but not limited to, the amount of anticipated fees received by Meridian from the Company as a percentage of Meridian s total revenue, Meridian s policies and procedures designed to prevent conflicts of interest, and the existence of any business or personal relationship that could impact Meridian s independence. After reviewing these and other factors, the Compensation Committee determined that Meridian and its lead consultant for the Company satisfy the independence factors described in the NYSE listing rules. Meridian also determined that Meridian and its lead consultant were independent from management and confirmed this in a written statement delivered to the Chair of the Compensation Committee.

The Committee took into consideration that Meridian also acts as a compensation consultant for EOG Resources, Inc., where Mr. Thomas (a member of the Compensation Committee) serves as Chairman and CEO. As a result of such relationship, Mr. Thomas recused himself from any decisions relating to the selection and remuneration of Meridian for the Company. After consideration of the facts and circumstances, the Compensation determined that the work performed by Meridian in 2016 for EOG Resources, Inc. did not raise any conflict of interest issues.

The Compensation Committee determined that F.W. Cook also satisfied the independence factors described in the NYSE listing rules during the period F.W. Cook served as the Compensation Committee s independent compensation consultant. F.W. Cook also determined that that F.W. Cook and its affiliates were independent from management and confirmed this in a written statement delivered to the Chair of the Compensation Committee.

Table of Contents

Recent Developments

Base Salary and Annual Incentive Program

On February 22, 2017, the Compensation Committee, with the consultation of Meridian, reviewed the base salaries and annual incentive targets of the Company s executive officers. The Company proposed that the base salaries and annual incentive targets of the Company s executive officers remain at current levels with no adjustments, which the Compensation Committee approved.

Stock Options, Restricted Stock and Performance Share Awards

On February 22, 2017, the Compensation Committee approved the grant of stock options and performance share awards to its executive officers pursuant to the National Oilwell Varco, Inc. Long-Term Incentive Plan, as follows:

Name	Securities Underlying Stock Options (#)	Restricted Stock Awards (#)	Performance Awards (Target # of Shares)
Clay C. Williams	289,920	73,350	66,680
Jose A. Bayardo	118,260	30,000	27,280
Joseph W. Rovig	79,830	20,250	18,410
Craig L. Weinstock	65,050	16,500	15,000
Scott K. Duff	65,050	16,500	15,000

The Compensation Committee modified the structure of the long-term incentive awards in 2017 as follows:

40% weighting on stock options

30% weighting on performance shares tied to relative TSR

30% weighting on restricted stock awards

The Compensation Committee also approved a one-time increase to the value awarded to the Named Executive Officers other than the CEO for purposes of retention and motivation of the executive management team.

Compensation Committee Report

The responsibilities of the Compensation Committee, which are set forth in the Compensation Committee Charter adopted by the Board of Directors, include approving and evaluating all compensation of directors and executive officers, including salaries, bonuses, and compensation plans, policies and programs of the Company.

We have reviewed and discussed with senior management the Compensation Discussion & Analysis section included in this proxy statement. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in the Company s 2017 Proxy Statement.

Members of the Compensation Committee

Ben A. Guill, Committee Chair

Eric L. Mattson

William R. Thomas

Table of Contents

EXECUTIVE COMPENSATION

The following table sets forth for the year ended December 31, 2016 the compensation paid by the Company to its Chief Executive Officer and Chief Financial Officer and three other most highly compensated executive officers (the Named Executive Officers) serving in such capacity at December 31, 2016. The following table also includes compensation paid by the Company to a former Named Executive Officer, as described in the accompanying footnotes.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($)(1) (d)	Stock Awards ($)(2) (e)	Option Awards ($)(3) (f)	Non-Equity Incentive Plan Compensation ($)(4) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($)(5) (i)	Total ($) (j)
Clay C. Williams	2016	$ 800,000		$ 5,241,849	$ 4,493,021			$ 46,600	$ 10,581,470
Chairman, President & Chief Executive Officer	2015	$ 850,000		$ 4,382,424	$ 4,777,917			$ 44,600	$ 10,054,941
	2014	$ 871,154		$ 3,959,930	$ 4,082,739	$ 1,903,988		$ 45,246	$ 10,863,057
Jose A. Bayardo	2016	$ 650,000		$ 1,701,543	1,443,945			$ 31,000	$ 3,826,488
Senior VP & Chief Financial Officer	2015	$ 225,000		$ 3,123,750	$			$ 9,000	$ 3,357,750
	2014								
Joseph W. Rovig	2016	$ 550,000		$ 1,134,362	$ 962,632			$ 41,250	$ 2,688,244

President Rig Systems & Rig	2015	$ 550,000		$ 1,006,810	$ 1,143,422	$ 151,120		$ 42,836	$ 2,894,188
Aftermarket	2014	$ 482,692		$ 711,925	$ 657,382	$ 802,812		$ 36,202	$ 2,691,013
Craig L. Weinstock									
Senior VP, General	2016	$ 510,000		$ 1,020,915	$ 866,367			$ 33,150	$ 2,430,432
Counsel & Secretary	2015	$ 510,000		$ 741,860	$ 842,927			$ 23,117	$ 2,117,904
	2014	$ 413,768		$ 164,626	$ 324,634	$ 647,356			$ 1,550,384
Scott K. Duff									
Vice President, Corporate	2016	$ 360,000		$ 850,806	$ 721,976			$ 27,000	$ 1,959,782
Controller and Chief Accounting	2015	$ 428,077		$ 503,405	$ 571,711			$ 25,583	$ 1,528,776
Officer	2014	$ 286,616		$ 164,626	$ 324,634	$ 403,950		$ 20,432	$ 1,200,258

(1) Reflects a discretionary bonus payout. For further information, see Compensation Discussion and Analysis Components of Compensation Annual Incentive Award .

Table of Contents

(2) The amounts reported in this column represent the aggregate grant date fair value of stock awards granted in the relevant year compiled in accordance with FASB Topic 718, excluding forfeiture estimates. Refer to the Company s 2016 Annual Report, Financial Report to Stockholders for all relevant valuation assumptions used to determine the grant date fair value of the stock awards included in this column.

(3) The amounts reported in this column represent the aggregate grant date fair value of option awards granted in the relevant year compiled in accordance with FASB Topic 718, excluding forfeiture estimates. Refer to the Company s 2016 Annual Report, Financial Report to Stockholders for all relevant valuation assumptions used to determine the grant date fair value of option awards included in this column.

(4) The amounts shown in this column represent the value of the annual cash bonus awards under the Company s 2016 annual incentive plan. The Company s 2016 EBITDA performance was below the target EBITDA objective set under the 2016 annual incentive plan. As a result, none of the named executive officers received an incentive compensation bonus payout for 2016.

(5) The amounts include:
  (a) The Company s cash contributions for 2016 under the National Oilwell Varco 401(k) and Retirement Savings Plan, a defined contribution plan, on behalf of Mr. Williams $22,525; Mr. Bayardo $0; Mr. Rovig $17,601; Mr. Weinstock $16,417 and Mr. Duff $19,777.
  (b) The Company s cash contributions for 2016 under the National Oilwell Varco Supplemental Savings Plan, a defined contribution plan, on of behalf Mr. Williams $24,075; Mr. Bayardo $31,000; Mr. Rovig $23,649; Mr. Weinstock $16,733 and Mr. Duff $7,223.

Table of Contents

The following table provides information concerning stock options and restricted stock awards granted to Named Executive Officers during the fiscal year ended December 31, 2016. The Company has granted no stock appreciation rights to the Named Executive Officers.

Grants of Plan-Based Awards

Name (a)	Grant Date (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold ($)(1) (c)	Target ($)(1) (d)	Maximum ($)(1) (e)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)(2) (f)	Target (#)(2) (g)	Maximum (#)(2) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#)(3) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards (l)
Clay C. Williams	2016	$ 112,000	$ 1,120,000	$ 2,240,000							
	2016				37,352	74,703	149,406				$ 2,991,855
	2016							79,674			$ 2,249,994
	2016								697,674	$ 28.24	$ 4,493,021
Jose A. Bayardo	2016	$ 61,750	$ 617,500	$ 1,235,000							
	2016				12,125	24,249	48,498				$ 971,172
	2016							25,863			$ 730,371
	2016								224,215	$ 28.24	$ 1,443,945
Joseph W. Rovig	2016	$ 52,250	$ 522,500	$ 1,045,000							
	2016				8,083	16,166	32,332				$ 647,448
	2016							17,242			$ 486,914
	2016								149,477	$ 28.24	$ 962,632
Craig L. Weinstock	2016	$ 48,450	$ 484,500	$ 969,000							
	2016				7,274	14,549	29,098				$ 582,687
	2016							15,518			$ 438,228
	2016								134,529	$ 28.24	$ 866,367
Scott K. Duff	2016	$ 32,400	$ 324,000	$ 648,000							
	2016				6,063	12,125	24,250				$ 485,606
	2016							12,932			$ 365,200
	2016								112,108	$ 28.24	$ 721,976

(1) Represents the range of possible payouts under our annual incentive compensation plan.
(2)

On February 24, 2016, the Compensation Committee approved the 2016 Performance Share Award Grant. The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance awards can be earned by the executives only if the percentile ranking of the Company s TSR (total shareholder return) as measured against the TSR of the constituent members of the OSX Index over a three-year performance period, exceeds certain levels.

(3) On February 24, 2016, the Compensation Committee approved a grant of restricted stock awards to these executive officers pursuant to the National Oilwell Varco, Inc. Long-Term Incentive Plan. The restricted stock awards granted by the Company to its executive officers vest in three equal annual installments commencing on the first anniversary of the date of grant, provided that such executive officer remains continuously employed with the Company during such time period.

- 48 -

Table of Contents

Exercises and Holdings of Previously-Awarded Equity Disclosure

The following table provides information regarding outstanding awards that have been granted to Named Executive Officers where the ultimate outcomes of such awards have not been realized, as of December 31, 2016.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
ame)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards Market or Payout Valu of Unearned Shares, Unit or Other Rights That Have Not Vested ($)(1) (j)
ay C. Williams		697,674(2)		$ 28.24	2/25/26				
	103,351	206,702(3)		$ 54.74	2/26/25				
	115,310	57,565(4)		$ 68.997	2/26/24				
	73,749			$ 63.926	2/16/23				
				$ 77.987	2/22/22				

	58,565					
	51,245		$ 73.579	2/23/21		
	66,895		$ 40.635	2/17/20		
	43,382		$ 59.159	2/20/18		
					25,840(5)	$ 967,450
					39,446(6)	$ 1,476,858
					74,703(7)	$ 2,796,880
					79,674(8)	$ 2,982,995
se A. Bayardo		224,215(2)	$ 28.24	2/25/26		
					56,250(9)	$ 2,106,000
					24,249(7)	$ 907,883

					25,863(8)	$ 968,31
seph W. Rovig		149,477(2)	$ 28.24	2/25/26		
	24,733	49,467(3)	$ 54.74	2/26/25		
	18,566	9,284(4)	$ 68.997	2/26/24		
	6,876		$ 63.926	2/16/23		
	6,225		$ 77.987	2/22/22		
	6,149		$ 73.579	2/23/21		
					4,885(5)	$ 182,89
					9,500(6)	$ 355,68
					16,166(7)	$ 605,25

17,242(8)	$	645,54(

- 49 -

Table of Contents

Craig L. Weinstock		134,529(2)	$	28.24	2/25/26		
	18,233	36,467(3)	$	54.74	2/26/25		
	9,168	4,585(4)	$	68.997	2/26/24		
	13,753		$	72.657	10/2/23		
						2,386(10)	$ 89,332
						7,000(6)	$ 262,080
						14,549(7)	$ 544,715
						15,518(8)	$ 580,994
Scott K. Duff		112,108(2)	$	28.24	2/25/26		
		24,734(3)	$	54.74	2/26/25		

12,366					
9,168	4,585(4)	$ 68.997	2/26/24		
9,168		$ 63.926	2/16/23		
12,450		$ 77.987	2/22/22		
				2,386(10)	$ 89,332
				4,750(6)	$ 177,840
				12,125(7)	$ 453,960
				12,932(8)	$ 484,174

(1) Calculations based upon the closing price ($37.44) of the Company s common stock on December 31, 2016, the last trading day of the year.

(2) 2016 Stock Option Grant Stock options vest at the rate of 33 1/3% per year, with vesting dates of 2/24/2017, 2/24/2018 and 2/24/2019.

(3) 2015 Stock Option Grant Stock options vest at the rate of 33 1/3% per year, with vesting dates of 2/25/2016, 2/25/2017 and 2/25/2018.

(4) 2014 Stock Option Grant Stock options vest at the rate of 33 1/3% per year, with vesting dates of 2/25/2015, 2/25/2016 and 2/25/2017.

(5) 2014 Performance Share Award Grant The performance share awards will be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into two approximately equal, independent parts that are subject to two separate performance metrics: 50% in value based on the Company s TSR (total

Table of Contents

shareholder return) goal and 50% in value based on the Company s internal ROC goal (return on capital). The number of shares reflected in the table for the 2014 Performance Share Award Grant has been reduced by 50% as the portion of the award based on the Company s internal ROC goal is no longer achievable.

(6) 2015 Performance Share Award Grant The performance share awards will be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into two approximately equal, independent parts that are subject to two separate performance metrics: 50% in value based on the Company s TSR (total shareholder return) goal and 50% in value based on the Company s internal ROC goal (return on capital). The number of shares reflected in the table for the 2015 Performance Share Award Grant has been reduced by 50% as the portion of the award based on the Company s internal ROC goal is no longer achievable.

(7) 2016 Performance Share Award Grant The performance share awards will be earned by the executives only by performance against established goals and vest three years from the grant date. The performance awards can be earned by the executives only if the percentile ranking of the Company s TSR (total shareholder return) as measured against the TSR of the constituent members of the OSX Index over a three-year performance period, exceeds certain levels.

(8) 2016 Grant of Restricted Stock Awards The restricted stock awards granted by the Company to its executive officers shall vest in three equal annual installments commencing on the first anniversary of the date of grant, provided that such executive officer remains continuously employed with the Company during such time period.

(9) 2015 Special Grant of Restricted Stock Awards to Mr. Bayardo upon his employment with the Company The restricted stock awards granted by the Company to Mr. Bayardo will vest 25% beginning on the first anniversary of the grant date, 25% on the second anniversary of the grant date and 50% on the third anniversary of the grant date, provided that Mr. Bayardo remains continuously employed with the Company during such time period.

(10) 2014 Grant of Restricted Stock Awards The restricted stock awards granted by the Company to its executive officers vest 100% on the third anniversary of the date of grant, provided that such executive officer remains continuously employed with the Company during such time period.

Table of Contents

The following table provides information on the amounts received by the Named Executive Officers during 2016 upon exercise of stock options or vesting of stock awards.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($) (e)
Clay C. Williams	0	$ 0	28,784	$ 1,130,377
Jose A. Bayardo	0	$ 0	13,622	$ 647,625
Joseph W. Rovig	0	$ 0	866	$ 32,867
Craig L. Weinstock	0	$ 0	1,733	$ 87,662
Scott K. Duff	0	$ 0	1,606	$ 65,734

Post-Employment Compensation

The following table provides information on nonqualified deferred compensation provided under the Supplemental Plan to the Named Executive Officers during the fiscal year ended December 31, 2016. For a more detailed discussion, see the section titled Compensation Discussion and Analysis Retirement, Health and Welfare Benefits .

Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY	Registrant Contributions	Aggregate Earnings in Last FY	Aggregate Withdrawals/	Aggregate Balance

	($)(1)	in Last FY ($)(2)	($)(3)	Distributions ($)	at Last FYE ($)
(a)	(b)	(c)	(d)	(e)	(f)
Clay C. Williams	$ 0.00	$ 24,075.09	$ 141,928.07	$ 0.00	$ 1,356,303.68
Jose A. Bayardo	$ 26,000.00	$ 31,000.00	$ 4,447.73	$ 0.00	$ 79,398.59
Joseph W. Rovig	$ 98,999.94	$ 23,648.67	$ 116,513.64	$ 0.00	$ 1,491,672.24
Craig L. Weinstock	$ 20,400.12	$ 16,733.14	$ 3,420.87	$ 0.00	$ 47,146.42
Scott K. Duff	$ 18,000.06	$ 7,222.89	$ 12,697.22	$ 0.00	$ 361,502.56

(1) Executive contributions were from the executive s salary and are included in the Summary Compensation Table under the Salary column.

(2) Registrant contributions are included in the Summary Compensation Table under the All Other Compensation column.
(3) Aggregate earnings reflect the returns of the investment funds selected by the executives and are not included in the Summary Compensation Table.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Employment Agreements

The Company entered into executive employment agreements with Mr. Williams, Mr. Rovig, Mr. Weinstock and Mr. Duff on November 20, 2014. On August 28, 2015, the Company entered in an executive employment agreement with Mr. Bayardo. Under the employment agreement, Messrs. Williams, Bayardo, Rovig, Weinstock and Duff are provided an annual base salary. The employment agreements also entitle each executive to receive an annual bonus and to participate in the Company s incentive, savings and retirement plans. The employment agreements have a fixed term of three years after which time employment will be at-will. The employment agreements do not have change-in-control or excise tax gross-up provisions.

In addition, the employment agreements contain certain termination provisions. If the employment relationship is terminated by the Company for any reason other than:

voluntary termination;

termination for cause (as defined);

death; or

disability;

or if the employment relationship is terminated by the executive for Good Reason, as defined below, the executive is entitled to receive:

(A) the executive s accrued base salary through the date of termination, the executive s annual bonus for the year prior to termination, assuming the applicable performance goals have been met and such bonus remains unpaid, and accrued and unpaid vacation pay; (B) an amount equal to two times the sum of (i) the executive s base salary and (ii) a percentage of the executive s base salary (which percentages for each executive are as follows: Mr. Williams 125%, Messrs. Bayardo and Rovig 80% and Messrs. Duff and Weinstock 75%); and (C) an amount equal to the annual bonus payable in the year of termination, such bonus to be prorated and based on actual Company performance. Furthermore, in such event, the executive shall also be entitled to continuation of health benefits for two years. Additionally, the executive s stock options will continue to vest under the terms of the award for a period of up to three years plus ninety days, the executive s unvested time-based restricted stock awards shall be 100% vested, and the executive s unvested performance based equity awards will continue until the original vesting date on a pro-rated basis.

Under the employment agreements, termination by the executive for Good Reason means:

a material diminution in the executive s authority, duties, or responsibilities as contemplated by Section 2(a) of the employment agreement (generally, a diminution in position, other than a diminution resulting from the executive s incapacity due to physical or mental illness) excluding for this purpose an isolated, insubstantial or inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the executive;

any action or inaction that constitutes a material breach by the Company of any of the provisions of Section 2(b) of the employment agreement (generally, a material reduction in the executive s compensation or benefits, other than a reduction in the executive s compensation as a result of the executive s failure to comply with the Company s stock ownership guidelines, if applicable); or

the Company s requiring the executive to be based at any office or location other than as provided in Section 2(a)(i)(B) of the employment agreement (generally, a relocation in excess of seventy five miles from the executive s current work location, other than a change in the Company s corporate headquarters) or the Company s requiring the executive to travel on Company business to a substantially greater extent than required to properly discharge his or her duties.

any purported termination by the Company of the executive s employment otherwise than as expressly permitted by the employment agreement.

any failure by the Company to comply with and satisfy Section 8(c) of the employment agreement (generally, failure by the Company to obtain agreement from any successor to the Company to assume and perform the employment agreement).

The employment agreements also contain customary non-competition, non-solicitation and non-disparagement provisions.

Severance Agreements

The Company also entered into severance agreements with Mr. Williams, Mr. Rovig, Mr. Weinstock and Mr. Duff on November 20, 2014. On August 28, 2015, the Company entered in a severance agreement with Mr. Bayardo. The severance agreement shall only become effective in the event the executive s employment agreement expires and is not replaced by a new employment agreement. The severance agreement shall remain in effective until it is terminated by the Company or by the executive. The severance agreements do not have change-in-control or excise tax gross-up provisions.

In addition, the severance agreements contain certain termination provisions. If the employment relationship is terminated by the Company for any reason other than:

voluntary termination;

termination for cause (as defined);

death; or

disability;

or if the employment relationship is terminated by the employee for Good Reason, as defined below, the executive is entitled to receive:

(A) the executive s accrued base salary through the date of termination, the executive s annual bonus for the year prior to termination, assuming the applicable performance goals have been met and such bonus remains unpaid, and accrued and unpaid vacation pay; (B) an amount equal to one times the sum of (i) the executive s base salary and (ii) a percentage of the executive s base salary (which percentages for each executive are as follows: Mr. Williams 125%, Messrs. Bayardo and Rovig 80% and Messrs. Duff and Weinstock 75%); and (C) any time-based restricted stock held by the executive and not already vested shall be 100% vested.

Under the severance agreement, termination by the executive for Good Reason means:

- a material diminution in the executive s authority, duties, or responsibilities (other than any such diminution resulting from the executive s incapacity due to physical or mental illness) excluding for this purpose an isolated, insubstantial or inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the executive;

Table of Contents

a material reduction in the executive s annual base salary (other than a reduction in the executive s annual base salary as a result of the executive s failure to comply with the Company s stock ownership guidelines, if applicable);

the Company s requiring the executive to be based at any office or location more than seventy five miles from the location where the executive was employed immediately preceding the date of the severance agreement (other than as a result of a change in the Company s corporate headquarters) or the Company s requiring the executive to travel on Company business to a substantially greater extent than required to properly discharge his or her duties; or

any failure by the Company to comply with and satisfy Section 7(c) of the severance agreement (generally, failure by the Company to obtain agreement from any successor to the Company to assume and perform the severance agreement).

The severance agreements also contain customary non-competition, non-solicitation and non-disparagement provisions.

Additionally, the Company s stock option agreements, restricted stock agreements and performance award agreements provide for full vesting of unvested outstanding options and restricted stock, respectively, in the event of a change of control of the Company and a change in the holder s responsibilities following a change of control.

Other Agreements with Clay C. Williams

In addition to the rights and benefits provided to Mr. Williams under his executive employment agreement and severance agreement, Mr. Williams is also entitled to certain benefits pursuant to the following plans:

Varco Supplemental Executive Retirement Plan. Mr. Williams was a participant in the Amendment and Restatement of the Supplemental Executive Retirement Plan of Varco which was assumed by the Company as a result of the merger (the Merger) with Varco International, Inc. (the Amended SERP). The Amended SERP provides for retirement, death and disability benefits, payable over 10 years. The annual benefit amount is generally equal to 50% of the average of a participant s highest five calendar years of base salary, or if greater, in the case of a change of control that occurs prior to January 1, 2006 (which occurred as a result of the Merger), 50% of the average salary in effect since January 2001. This annual benefit is subject to a service reduction in the event the participant retires or his employment is terminated prior to reaching age 65 (excluded from this reduction are terminations following a change in control).

Mr. Williams is currently fully vested in the benefits provided by the Amended SERP. Based on historical earnings and presuming normal retirement at age 65, Mr. Williams would be entitled to an annual benefit of approximately $162,000.

Amendment and Restatement of the Varco Executive Retiree Medical Plan. Mr. Williams was a participant in the Amendment and Restatement of the Varco International, Inc. Executive Retiree Medical Plan which was assumed by the Company as a result of the Merger (the Medical Plan). Upon and following (i) certain retirements of a participant at or after age 55, or (ii) the death or disability of a participant, or (iii) terminations of a participant prior to age 55 (but benefits are not payable until age 55), the participant, his spouse and dependent children shall be provided the medical, dental, vision and prescription drug benefits that are then provided to the Company s executive officers. These Medical Plan benefits are, however, conditioned upon the Company s receipt of a monthly cash contribution in an amount not greater than that paid by the executive officers for similar benefits, and, in certain circumstances, the participant having achieved 10 years of service with the Company or any of its predecessor companies prior to retirement or termination of employment.

Mr. Williams is currently fully vested in the benefits provided by the Medical Plan.

Table of Contents

Potential Payments Upon Termination Under the Employment Agreements and Severance Agreements

The Company has entered into certain agreements and maintains certain plans that will require the Company to provide compensation to the named executive officers if: (1) the Company terminates the executive s employment with the Company other than for cause, death or disability; or (2) the executive terminates his employment with the Company for Good Reason (as defined in the employment agreement or severance agreement), both events hereinafter referred to as Termination .

The Company s Compensation Committee believes the payment and benefit levels provided to its named executive officers under their employment agreements and/or severance agreements upon Termination should correspond to the level of responsibility and risk assumed by the named executive officer. Thus, the payment and benefit levels for Mr. Williams, Mr. Bayardo, Mr. Rovig, Mr. Weinstock and Mr. Duff are based on their levels of responsibility and market considerations at the time the Company entered into the relevant agreements.

The amount of compensation payable to each named executive officer in each situation is listed in the tables below.

The following table describes the potential executive benefits and payments upon termination under the Employment Agreements to each named executive officer as of December 31, 2016.

Executive Benefits/Payments under the Employment Agreement (1)	Clay C. Williams	Jose A. Bayardo	Joseph W. Rovig	Craig L. Weinstock	Scott K. Duff
Cash Severance (2)	$ 3,600,000	$ 2,340,000	$ 1,980,000	$ 1,785,000	$ 1,260,000
Continuing medical benefits (3)	$ 39,432	$ 31,155	$ 52,394	$ 43,411	$ 29,435
Value of Unvested Stock Options (4)	$ 6,418,601	$ 2,062,778	$ 1,375,188	$ 1,237,667	$ 1,031,394
Value of Unvested Time-Based Restricted Stock (5)	$ 2,982,995	$ 3,074,311	$ 645,540	$ 670,326	$ 573,506
Value of Unvested Performance Awards (6)	$ 7,938,703	$ 907,883	$ 1,682,404	$ 1,068,875	$ 809,640
Total	$ 20,979,731	$ 8,416,127	$ 5,735,526	$ 4,805,279	$ 3,703,975

(1) The table describes the potential executive benefits and payments upon termination under the Employment Agreements to each named executive officer as of December 31, 2016. Assumes the employment relationship is terminated by the Company for reasons other than for cause, death, disability, or by the executive for Good Reason (as defined in the employment agreement). For purposes of this analysis, we used the executive s base salary as of December 31, 2016. Value of unvested stock options, restricted stock awards and performance awards is based on a share price of $37.44, the Company s closing stock price on December 31, 2016.

(2) Cash severance is an amount equal to 2 times the sum of (i) the executive s base salary and (ii) a percentage of the executive s base salary (Williams - 125%, Bayardo - 80%, Rovig - 80%, Weinstock -75%, Duff - 75%).

Table of Contents

(3) Value of post-employment continuation of benefits for 24 months following Termination.
(4) Unvested stock options will continue to vest for a period of up to three years following the date of Termination, while unexercised options will expire at either expiration date or 90 days after the three year anniversary of the date of Termination.
(5) Unvested time-based restricted stock will be 100% vested upon Termination.
(6) Awards will continue according to their terms through the end of the original performance period but be prorated for employment during the three-year performance period. For purposes hereof, we have assumed that the awards vest at target (100%) at the end of the performance period.

The following table describes the potential executive benefits and payments upon termination under the Severance Agreements to each named executive officer as of December 31, 2016.

Executive Benefits/Payments under the Severance Agreement (1)	Clay C. Williams	Jose A. Bayardo	Joseph W. Rovig	Craig L. Weinstock	Scott K. Duff
Cash Severance (2)	$ 1,800,000	$ 1,170,000	$ 990,000	$ 892,500	$ 630,000
Value of Unvested Time-Based Restricted Stock (3)	$ 2,982,995	$ 3,074,311	$ 645,540	$ 670,326	$ 573,506
Total	$ 4,782,995	$ 4,244,311	$ 1,635,540	$ 1,562,826	$ 1,203,506

(1) The table describes the potential executive benefits and payments upon termination under the Severance Agreements to each named executive officer as of December 31, 2016. Assumes the employment relationship is terminated by the Company for reasons other than for cause, death, disability, or by the executive for Good Reason (as defined in the employment agreement). For purposes of this analysis, we used the executive s base salary as of December 31, 2016. Value of restricted stock is based on a share price of $37.44, the Company s closing stock price on December 31, 2016.
(2) Cash severance is an amount equal to 1 times the sum of (i) the executive s base salary and (ii) a percentage of the executive s base salary (Williams - 125%, Bayardo - 80%, Rovig - 80%, Weinstock - 75%, Duff - 75%).
(3) Unvested time-based restricted stock will be 100% vested upon Termination.

Except as otherwise provided herein, in the event of a Company termination of an executive s employment for cause, death or disability or the executive s voluntary termination of his employment with the Company (not for good reason), no extra benefits are payable by the Company to the executive as a result of any such events.

Certain Relationships and Related Transactions

We transact business with companies with which certain of our Directors are affiliated. All transactions with these companies are on terms competitive with other third party vendors, and none of these is material either to us or any of these companies.

A conflict of interest occurs when a director or executive officer s private interest interferes in any way, or appears to interfere, with the interests of the Company. Conflicts of interest can arise when a director or executive officer, or a member of his or her immediate family, have a direct or indirect material interest in a transaction with us. Conflicts of interest also arise when a director or executive officer, or a member of his or her immediate family, receives improper personal benefits as a result of his or her position as a director or executive officer of the Company. The Company s Code of Business Conduct and Ethics for Members of the Board of Directors and Executive Officers provides that directors and executive officers must avoid conflicts of interests with the Company.

Table of Contents

Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Company must be disclosed immediately to the Chair of the Company s Audit Committee for his review and approval or ratification. This code also provides that the Company shall not make any personal loans or extensions of credit to nor become contingently liable for any indebtedness of directors or executive officers or a member of his or her family.

Table of Contents

DIRECTOR COMPENSATION

Directors who are employees of the Company do not receive compensation for serving on the Board of Directors. The following table sets forth the compensation paid by the Company to its non-employee members of the Board of Directors for the year ended December 31, 2016.

Director Compensation

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)(1)	Option Awards ($) (d)(2)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Greg L. Armstrong	$ 124,500	$ 175,019					$ 299,519
Marcela E. Donadio	$ 114,250	$ 175,019					$ 289,269
Ben A. Guill	$ 102,000	$ 175,019					$ 277,019
James T. Hackett	$ 53,000	$ 175,019					$ 228,019
David D. Harrison	$ 127,500	$ 175,019					$ 302,519
Roger L. Jarvis	$ 95,500	$ 175,019					$ 270,519
Eric L. Mattson	$ 102,375	$ 175,019					$ 277,394
William R. Thomas	$ 116,500	$ 175,019					$ 291,519

(1) The aggregate number of outstanding shares of restricted stock as of December 31, 2016 for each director are as follows: Mr. Armstrong 5,565; Ms. Donadio 5,565; Mr. Guill 5,565; Mr. Hackett 5,565; Mr. Harrison 5,565; Mr. Jarvis 5,565; Mr. Mattson 5,565 and Mr. Thomas 5,565.

(2) The aggregate number of outstanding stock options as of December 31, 2016 for each director are as follows: Mr. Armstrong 25,711; Ms. Donadio 0; Mr. Guill 0; Mr. Hackett 0; Mr. Harrison 25,711; Mr. Jarvis 25,711; Mr. Mattson 25,711 and Mr. Thomas 0.

Table of Contents

Board Compensation

Members of the Company s Board of Directors who are not full-time employees of the Company receive the following cash compensation, paid quarterly:

Annual Board Retainer	$ 75,000
Lead Director Retainer	$ 25,000
Annual Committee Chair Retainer	
Audit Committee	$ 30,000
Compensation Committee	$ 15,000
Nominating and Governance Committee	$ 10,000
Annual Committee Member Retainer	
Audit Committee	$ 10,000
Compensation Committee	$ 7,500
Nominating and Governance Committee	$ 5,000
Attendance Fee for each Board/Committee Meeting	$ 1,500

Directors of the Board who are also employees of the Company do not receive any compensation for their service as directors.

Members of the Board are also eligible to receive stock options and awards, including restricted stock, performance awards, phantom shares, stock payments, or SARs under the National Oilwell Varco Long-Term Incentive Plan.

The Board approved the grant of 5,565 shares of restricted stock awards on May 18, 2016 to each non-employee director under the National Oilwell Varco Long-Term Incentive Plan. The restricted stock award shares vest 100% on the first anniversary of the date of the grant.

Non-Employee Director Stock Ownership Guidelines

Under the Company s stock ownership guidelines, each non-employee director must own Company stock equal to six times the directors annual cash retainer. For a discussion of the types of shares that count towards the ownership guidelines, please read Compensation Discussion and Analysis Stock Ownership Guidelines for Executives . All of the Company s non-employee directors are currently in compliance with the Company s stock ownership guidelines.

Table of Contents

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the SEC require that the Company disclose late filings of reports of stock ownership (and changes in stock ownership) by its directors, executive officers, and beneficial owners of more than ten percent of the Company s stock. The Company has undertaken responsibility for preparing and filing the stock ownership forms required under Section 16(a) of the Securities and Exchange Act of 1934, as amended, on behalf of its officers and directors. Based upon a review of forms filed and information provided by the Company s officers and directors, we believe that all Section 16(a) reporting requirements were met during 2016.

STOCKHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING

If you wish to submit proposals to be included in our 2018 Proxy Statement, we must receive them on or before December 8, 2017. Please address your proposals to: **Craig L. Weinstock, Senior Vice President, General Counsel and Secretary, National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, Texas 77036**.

If you wish to submit proposals at the meeting that are not eligible for inclusion in the Proxy Statement, you must give written notice no later than January 17, 2018 to: **Craig L. Weinstock, Senior Vice President, General Counsel and Secretary, National Oilwell Varco, Inc., 7909 Parkwood Circle Drive, Houston, Texas 77036**. If you do not comply with this notice provision, the proxy holders will be allowed to use their discretionary voting authority on the proposal when it is raised at the meeting. In addition, proposals must also comply with National Oilwell Varco s bylaws and the rules and regulations of the SEC.

ANNUAL REPORT AND OTHER MATTERS

At the date this Proxy Statement went to press, we did not know of any other matters to be acted upon at the meeting other than the election of directors, ratification of the appointment of independent auditors, and approval on an advisory basis of the compensation of our named executive officers, as discussed in this Proxy Statement. If any other matter is presented, proxy holders will vote on the matter in accordance with their best judgment.

National Oilwell Varco s 2016 Annual Report on Form 10-K filed on February 17, 2017 is included in this mailing, but is not considered part of the proxy solicitation materials.

By order of the Board of Directors,

/s/ Craig L. Weinstock

Craig L. Weinstock

Senior Vice President, General Counsel and

Secretary

Houston, Texas

April 7, 2017

Table of Contents

NATIONAL OILWELL VARCO, INC.

7909 PARKWOOD CIRCLE

ATTN: LEGAL DEPT - 7TH FLOOR

HOUSTON, TX 77036

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR the following:

1. Election of Directors

Nominees	**For**	**Against**	**Abstain**
1A Clay C. Williams			
1B Greg L. Armstrong			
1C Marcela E. Donadio			
1D Ben A. Guill			

	For	**Against**	**Abstain**
3. Approve, by non-binding vote, the compensation of our named executive officers:			

The Board of Directors recommends you vote 1 YEAR on the following proposal:	**1 year**	**2 years**	**3 years**	**Abstain**
4.				

1E James T. Hackett

1F David D. Harrison

1G Eric L. Mattson

1H William R. Thomas

The Board of Directors recommends you vote FOR proposals 2. and 3.:	**For**	**Against**	**Abstain**

2. Ratification of Independent Auditors:

Recommend, by non-binding vote, the frequency of the advisory vote on named executive officer compensation:

The Board of Directors recommends you vote FOR the following proposal:	**For**	**Against**	**Abstain**

5. Approve stockholder proposal regarding proxy access:

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The NPS & 10k is available

at www.proxyvote.com

NATIONAL OILWELL VARCO, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

FOR THE ANNUAL MEETING OF STOCKHOLDERS

ON MAY 17, 2017

The undersigned hereby appoints Jose A. Bayardo and Craig L. Weinstock or either of them with full power of substitution, the proxy or proxies of the undersigned to attend the Annual Meeting of Stockholders of National Oilwell Varco, Inc. to be held on Wednesday, May 17, 2017, and any adjournments thereof, and to vote the shares of stock that the signer would be entitled to vote if personally present as indicated on the reverse side and, at their discretion, on any other matters properly brought before the meeting, and any adjournments thereof, all as set forth in the April 7, 2017 proxy statement.

This proxy is solicited on behalf of the board of directors of National Oilwell Varco, Inc. The shares represented by this proxy will be voted as directed by the Stockholder. If no direction is given when the duly executed proxy is returned, such shares will be voted in accordance with the recommendations of the board of directors FOR all director nominees (Proposal 1), FOR the ratification of the independent auditors (Proposal 2), FOR the approval of the compensation of our named executive officers (Proposal 3), for ONE YEAR on the frequency of the advisory vote on named executive officer compensation (Proposal 4) and FOR the stockholder proposal regarding proxy access (Proposal 5).

The undersigned acknowledges receipt of the April 7, 2017 Notice of Annual Meeting and the Proxy Statement, which more particularly describes the matters referred to herein.

Continued and to be signed on reverse side