NVR INC
Form 10-Q
April 25, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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: 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

Virginia	54-1394360
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11700 Plaza America Drive, Suite 500
Reston, Virginia 20190
(703) 956-4000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

(Not Applicable)

(Former name, former address, and former fiscal year if changed since last report)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

As of April 23, 2008 there were 5,288,936 total shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

NVR, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 766,597	$ 660,709
Receivables	8,622	10,855
Inventory:		
Lots and housing units, covered under sales agreements with customers	556,195	573,895
Unsold lots and housing units	69,760	105,838
Manufacturing materials and other	5,122	9,121
	631,077	688,854
Assets not owned, consolidated per FIN 46R	162,371	180,206
Property, plant and equipment, net	31,170	32,911
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Goodwill and indefinite life intangibles, net	11,686	11,686
Definite life intangibles, net	62	96
Contract land deposits, net	175,106	188,528
Other assets	267,590	252,461
	2,095,861	2,067,886
Mortgage Banking:		
Cash and cash equivalents	1,061	3,500
Mortgage loans held for sale, net	92,115	107,338
Property and equipment, net	800	881
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	12,392	7,464
	113,715	126,530
Total assets	$ 2,209,576	$ 2,194,416

See notes to condensed consolidated financial statements.

(Continued)

NVR, Inc.
Condensed Consolidated Balance Sheets (Continued)
(in thousands, except share and per share data)

	March 31, 2008 (unaudited)	December 31, 2007
LIABILITIES AND SHAREHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 175,107	$ 219,048
Accrued expenses and other liabilities	254,140	251,475
Liabilities related to assets not owned, consolidated per FIN 46R	150,325	164,369
Customer deposits	116,993	125,315
Other term debt	2,774	2,820
Senior notes	200,000	200,000
	899,339	963,027
Mortgage Banking:		
Accounts payable and other liabilities	17,631	18,551
Notes payable	68,228	83,463
	85,859	102,014
Total liabilities	985,198	1,065,041
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,592,640 shares issued as of both March 31, 2008 and December 31, 2007	206	206
Additional paid-in-capital	687,913	663,631
Deferred compensation trust 516,106 and 516,085 shares as of March 31, 2008 and December 31, 2007, respectively, of NVR, Inc. common stock	(75,638)	(75,636)
Deferred compensation liability	75,638	75,636
Retained earnings	3,573,461	3,529,995
Less treasury stock at cost 15,318,151 and 15,455,086 shares at March 31, 2008 and December 31, 2007, respectively	(3,037,202)	(3,064,457)
Total shareholders equity	1,224,378	1,129,375
Total liabilities and shareholders equity	$ 2,209,576	$ 2,194,416

See notes to condensed consolidated financial statements.

NVR, Inc.
Condensed Consolidated Statements of Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Homebuilding:		
Revenues	$ 869,869	$ 1,075,110
Other income	6,399	6,965
Cost of sales	(726,931)	(853,410)
Selling, general and administrative	(84,166)	(97,406)
Operating income	65,171	131,259
Interest expense	(3,239)	(3,322)
Homebuilding income	61,932	127,937
Mortgage Banking:		
Mortgage banking fees	18,062	18,079
Interest income	810	1,307
Other income	159	184
General and administrative	(7,654)	(9,323)
Interest expense	(134)	(152)
Mortgage banking income	11,243	10,095
Income before taxes	73,175	138,032
Income tax expense	(29,709)	(53,211)
Net income	$ 43,466	$ 84,821
Basic earnings per share	$ 8.32	$ 14.98
Diluted earnings per share	$ 7.42	$ 12.96
Basic average shares outstanding	5,224	5,663
Diluted average shares outstanding	5,859	6,545

See notes to condensed consolidated financial statements.

NVR, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 43,466	$ 84,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,837	4,337
Stock option compensation expense	6,333	14,323
Excess income tax benefit from exercise of stock options	(18,183)	(40,423)
Contract land deposit impairments	6,592	12,251
Mortgage loans closed	(444,459)	(474,003)
Proceeds from sales of mortgage loans	474,197	560,693
Principal payments on mortgage loans held for sale	66	3,555
Gain on sale of loans	(14,371)	(13,360)
Net change in assets and liabilities:		
Decrease (increase) in inventories	57,777	(68,744)
Decrease in receivables	3,143	1,877
Decrease in contract land deposits	8,229	6,635
(Decrease) increase in accounts payable, customer deposits and accrued expenses	(33,301)	17,234
Other, net	(18,285)	(36,632)
Net cash provided by operating activities	75,041	72,564
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,964)	(1,597)
Other, net	449	798
Net cash used in investing activities	(1,515)	(799)
Cash flows from financing activities:		
Net repayments under notes payable and other term debt	(15,281)	(74,552)
Purchase of treasury stock		(86,351)
Excess income tax benefit from exercise of stock options	18,183	40,423
Proceeds from exercise of stock options	27,021	49,838
Net cash provided (used) by financing activities	29,923	(70,642)

Net increase in cash and cash equivalents	103,449	1,123
Cash and cash equivalents, beginning of the period	664,209	556,119
Cash and cash equivalents, end of period	$ 767,658	$ 557,242
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 876	$ 736
Income taxes paid, net of refunds	$ 1,733	$ 6,857
Supplemental disclosures of non-cash activities:		
Change in net assets not owned, consolidated per FIN 46	$ (3,791)	$ (4,387)

See notes to condensed consolidated financial statements.

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

1. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. (NVR or the Company) and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see note 2 to the accompanying financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America, they should be read in conjunction with the financial statements and notes thereto included in the Company s 2007 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

For the three-month periods ended March 31, 2008 and 2007, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Consolidation of Variable Interest Entities

Revised Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46R), *Consolidation of Variable Interest Entities,* requires the primary beneficiary of a variable interest entity to consolidate that entity on its financial statements. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the variable interest entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual, or other financial interests in the entity. Expected losses are the expected negative variability in the fair value of an entity s net assets, exclusive of its variable interests, and expected residual returns are the expected positive variability in the fair value of an entity s net assets, exclusive of its variable interests. As discussed below, NVR evaluates the provisions of FIN 46R as it relates to NVR s finished lot acquisition strategy.

NVR does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if NVR fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots. As of March 31, 2008, the Company controlled approximately 64,000 lots with deposits in cash and letters of credit totaling approximately $314,000 and $8,200, respectively.

NVR believes this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. NVR may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the finished lots under contract. NVR s sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements. In other words, if NVR does not perform under a purchase agreement, NVR loses only its deposit. NVR does not have any financial or specific performance guarantees, or completion obligations, under these purchase agreements. None of the creditors of any of the development entities with which NVR enters fixed price purchase agreements have recourse to the general credit of NVR. Except as described below, NVR also does not share in an allocation of either the profit earned or loss incurred by any of these entities.

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NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

On a very limited basis, NVR also obtains finished lots using joint venture limited liability corporations (LLC s). All LLC s are structured such that NVR is a non-controlling member and is at risk only for the amount invested by the Company. NVR is not a borrower, guarantor or obligor on any of the LLC s debt. NVR enters into a standard fixed price purchase agreement to purchase lots from the LLC s.

At March 31, 2008, NVR had an aggregate investment in twelve separate LLC s totaling approximately $13,300, which controlled approximately 400 lots. NVR recognizes its share of the earnings of the LLC s as a reduction of the cost basis of the lots at the time that the lot and related home is settled with an external customer. During the three months ended March 31, 2008 and 2007, NVR adjusted cost of sales by approximately $11 and $223, respectively, which represented NVR s share of the earnings of the LLC s. As of March 31, 2008, NVR s investment in the LLC s has been partially offset by an approximate $9,000 contract land deposit valuation reserve.

Forward contracts, such as the fixed price purchase agreements utilized by NVR to acquire finished lot inventory, are deemed to be variable interests under FIN 46R. Therefore, the development entities with which NVR enters fixed price purchase agreements, including the LLC s, are examined under FIN 46R for possible consolidation by NVR. NVR has developed a methodology to determine whether it, or conversely, the owner(s) of the applicable development entity is the primary beneficiary of a development entity. The methodology used to evaluate NVR s primary beneficiary status requires substantial management judgment and estimation. These judgments and estimates involve assigning probabilities to various estimated cash flow possibilities relative to the development entity s expected profits and losses and the cash flows associated with changes in the fair value of finished lots under contract. Although management believes that its accounting policy is designed to properly assess NVR s primary beneficiary status relative to its involvement with the development entities from which NVR acquires finished lots, changes to the probabilities and the cash flow possibilities used in NVR s evaluation could produce widely different conclusions regarding whether NVR is or is not a development entity s primary beneficiary.

The Company has evaluated all of its fixed price purchase agreements and LLC arrangements and has determined that it is the primary beneficiary of twenty-eight of those development entities with which the agreements and arrangements are held. As a result, at March 31, 2008, NVR has consolidated such development entities in the accompanying consolidated balance sheet. Where NVR deemed itself to be the primary beneficiary of a development entity created after December 31, 2003 and the development entity refused to provide financial statements, NVR utilized estimation techniques to perform the consolidation. The effect of the consolidation under FIN 46R at March 31, 2008 was the inclusion on the balance sheet of $162,371 as *Assets not owned, consolidated per FIN 46R,* with a corresponding inclusion of $150,325 as *Liabilities related to assets not owned, consolidated per FIN 46R*, after elimination of intercompany items. Inclusive in these totals were assets of approximately $51,000 and liabilities of approximately $46,000 estimated for eleven development entities created after December 31, 2003 that did not provide financial statements.

NVR, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

Following is the consolidating schedule at March 31, 2008:

	NVR, Inc. and Subsidiaries	FIN 46R Entities	Eliminations	Consolidated Total
ASSETS				
Homebuilding:				
Cash and cash equivalents	$ 766,597	$	$	$ 766,597
Receivables	8,622			8,622
Homebuilding inventory	631,077			631,077
Property, plant and equipment, net	31,170			31,170
Reorganization value in excess of amount allocable to identifiable assets, net	41,580			41,580
Goodwill and intangibles, net	11,748			11,748
Contract land deposits, net	180,104		(4,998)	175,106
Other assets	274,638		(7,048)	267,590
	1,945,536		(12,046)	1,933,490
Mortgage banking assets:	113,715			113,715
FIN 46R Entities:				
Land under development		161,355		161,355
Other assets		1,016		1,016
		162,371		162,371
Total assets	$ 2,059,251	$ 162,371	$ (12,046)	$ 2,209,576
LIABILITIES AND SHAREHOLDERS EQUITY				
Homebuilding:				
Accounts payable, accrued expenses and other liabilities	$ 429,247	$	$	$ 429,247
Customer deposits	116,993			116,993
Other term debt	2,774			2,774
Senior notes	200,000			200,000
	749,014			749,014
Mortgage banking liabilities:	85,859			85,859

FIN 46R Entities:				
Accounts payable, accrued expenses and other liabilities		28,195		28,195
Debt		55,828		55,828
Contract land deposits		20,350	(20,350)	
Advances from NVR, Inc.		5,501	(5,501)	
Minority interest			66,302	66,302
		109,874	40,451	150,325
Equity	1,224,378	52,497	(52,497)	1,224,378
Total liabilities and shareholders equity	$ 2,059,251	$ 162,371	$ (12,046)	$ 2,209,576

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NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

Under FIN 46R, an enterprise with an interest in a variable interest entity or potential variable interest entity created before December 31, 2003, is not required to apply FIN 46R to that entity if the enterprise, after making an exhaustive effort , is unable to obtain the information necessary to perform the accounting required to consolidate the variable interest entity for which it is determined to be the primary beneficiary. At March 31, 2008, NVR has been unable to obtain the information necessary to perform the accounting required to consolidate five separate development entities created before December 31, 2003 for which NVR determined it was the primary beneficiary. NVR has made, or has committed to make, aggregate deposits, totaling approximately $7,800 to these five separate development entities, with a total aggregate purchase price for the finished lots of approximately $67,900. The aggregate deposit made or committed to being made is NVR s maximum exposure to loss. As noted above, because NVR does not have any contractual or ownership interests in the development entities with which it contracts to buy finished lots (other than the limited use of the LLC s as discussed above), NVR does not have the ability to compel these development entities to provide financial or other data. Because NVR has no ownership rights in any of these five development entities, the consolidation of such entities has no impact on NVR s net income or earnings per share for the three months ended March 31, 2008. Aggregate activity with respect to the five development entities is included in the following table:

	Three Months Ended March 31,	
	2008	**2007**
Finished lots purchased dollars	$ 368	$ 3,686
Finished lots purchased units		