

NVR INC
Form 10-Q
May 03, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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 No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if 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

As of April 27, 2011 there were 5,883,235 total shares of common stock outstanding.

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

	March 31, 2011	December 31, 2010
	(unaudited)	
ASSETS		
<i>Homebuilding:</i>		
Cash and cash equivalents	\$ 1,217,670	\$ 1,190,731
Receivables	7,378	6,948
Inventory:		
Lots and housing units, covered under sales agreements with customers	349,096	275,272
Unsold lots and housing units	60,172	70,542
Land under development	77,075	78,058
Manufacturing materials and other	5,901	7,457
	492,244	431,329
Assets related to consolidated variable interest entity	22,801	22,371
Contract land deposits, net	116,753	100,786
Property, plant and equipment, net	18,963	19,523
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Other assets, net	232,072	243,005
	2,149,461	2,056,273
<i>Mortgage Banking:</i>		
Cash and cash equivalents	2,555	2,661
Mortgage loans held for sale, net	105,611	177,244
Property and equipment, net	887	950
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	9,867	15,586
	126,267	203,788
Total assets	\$ 2,275,728	\$ 2,260,061

See notes to condensed consolidated financial statements.

(Continued)

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

	March 31, 2011	December 31, 2010
	(unaudited)	
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Homebuilding:</i>		
Accounts payable	\$ 115,977	\$ 115,578
Accrued expenses and other liabilities	172,608	237,052
Liabilities related to consolidated variable interest entity	995	500
Non-recourse debt related to consolidated variable interest entity	7,587	7,592
Customer deposits	62,894	53,705
Other term debt	1,714	1,751
	361,775	416,178
<i>Mortgage Banking:</i>		
Accounts payable and other liabilities	20,405	13,171
Note payable	75,347	90,338
	95,752	103,509
Total liabilities	457,527	519,687
<i>Commitments and contingencies</i>		
<i>Shareholders equity:</i>		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 20,556,198 and 20,557,913 shares issued as of March 31, 2011 and December 31, 2010, respectively	206	206
Additional paid-in-capital	1,014,017	951,234
Deferred compensation trust 152,964 and 158,894 shares of NVR, Inc. common stock as of March 31, 2011 and December 31, 2010, respectively	(25,582)	(27,582)
Deferred compensation liability	25,582	27,582
Retained earnings	4,044,246	4,029,072
Less treasury stock at cost 14,688,939 and 14,894,357 shares at March 31, 2011 and December 31, 2010, respectively	(3,240,268)	(3,240,138)
Total shareholders equity	1,818,201	1,740,374
Total liabilities and shareholders equity	\$ 2,275,728	\$ 2,260,061

See notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2011	2010
<i>Homebuilding:</i>		
Revenues	\$ 502,744	\$ 577,381
Other income	1,458	2,369
Cost of sales	(417,920)	(471,069)
Selling, general and administrative	(67,188)	(60,741)
Operating income	19,094	47,940
Interest expense	(222)	(2,171)
Homebuilding income	18,872	45,769
<i>Mortgage Banking:</i>		
Mortgage banking fees	11,760	12,833
Interest income	1,115	756
Other income	39	166
General and administrative	(6,677)	(6,529)
Interest expense	(274)	(264)
Mortgage banking income	5,963	6,962
<i>Income before taxes</i>	24,835	52,731
Income tax expense	(9,661)	(20,644)
<i>Net income</i>	\$ 15,174	\$ 32,087
<i>Basic earnings per share</i>	\$ 2.61	\$ 5.29
<i>Diluted earnings per share</i>	\$ 2.52	\$ 5.01
<i>Basic average shares outstanding</i>	5,823	6,066
<i>Diluted average shares outstanding</i>	6,020	6,399

See notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2011	2010
<i>Cash flows from operating activities:</i>		
Net income	\$ 15,174	\$ 32,087
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,598	1,881
Excess income tax benefit from exercise of stock options	(17,811)	(31,911)
Equity-based compensation expense	15,580	5,678
Contract land deposit impairments (recoveries)	1,348	(1,922)
Gain on sales of loans	(9,130)	(9,929)
Mortgage loans closed	(335,952)	(398,316)
Proceeds from sales of mortgage loans	419,895	363,555
Principal payments on mortgage loans held for sale	1,317	169
Distribution of earnings from unconsolidated joint ventures	1,120	
Net change in assets and liabilities:		
Increase in inventories	(61,423)	(81,191)
Increase in contract land deposits	(17,315)	(10,524)
Decrease in receivables	101	249
(Decrease) increase in accounts payable, accrued expenses and customer deposits	(27,036)	23,402
Other, net	3,501	(11,391)
Net cash used in operating activities	(9,033)	(118,163)
<i>Cash flows from investing activities:</i>		
Purchase of marketable securities		(100,000)
Redemption of marketable securities at maturity		194,535
Investments in unconsolidated joint ventures		(1,000)
Distribution of capital from unconsolidated joint ventures	4,380	
Purchase of property, plant and equipment	(1,012)	(881)
Proceeds from the sale of property, plant and equipment	170	115
Net cash provided by investing activities	3,538	92,769
<i>Cash flows from financing activities:</i>		
Purchase of treasury stock	(63,408)	
Net (repayments) borrowings under notes payable and credit lines	(15,028)	43,839
Net repayments under non-recourse debt related to consolidated variable interest entity	(5)	
Excess income tax benefit from equity based compensation	17,811	31,911
Exercise of stock options	92,670	41,786

Net cash provided by financing activities	32,040	117,536
Net increase in cash and cash equivalents	26,545	92,142
Cash and cash equivalents, beginning of the period	1,193,750	1,250,150
Cash and cash equivalents, end of period	\$ 1,220,295	\$ 1,342,292
<i>Supplemental disclosures of cash flow information:</i>		
Interest paid during the period	\$ 513	\$ 587
Income taxes paid, net of refunds	\$ 10,635	\$ 8,686
<i>Supplemental disclosures of non-cash activities:</i>		
Investment in consolidated joint venture	\$	\$ (23,776)

See notes to condensed consolidated financial statements.

Table of Contents**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 (GAAP) 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 GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company's 2010 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The preparation of financial statements in conformity with GAAP 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, 2011 and 2010, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Variable Interest Entities and Joint Ventures***Fixed Price Purchase Agreements***

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

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

NVR is not involved in the design or creation of any of the development entities from which the Company purchases lots under fixed price purchase agreements. The developer's equity holders have the power to direct 100% of the operating activities of the development entity. NVR has no voting rights in any of the development entities. The sole purpose of the development entity's activities is to generate positive cash

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Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

flow returns to its equity holders. Further, NVR does not share in any of the profit or loss generated by the project's development. The profits and losses are passed directly to the developer's equity holders.

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

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

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

As discussed above, NVR's sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements and in very limited circumstances, specific performance obligations. NVR's total risk of loss related to contract land deposits as of March 31, 2011 and December 31, 2010, is as follows:

	March 31, 2011	December 31, 2010
Contract land deposits	\$ 191,400	\$ 174,303
Loss reserve on contract land deposits	(74,647)	(73,517)
Contract land deposits, net	116,753	100,786
Contingent obligations in the form of letters of credit	4,461	6,610
Contingent specific performance obligations (1)	2,609	1,944
Total risk of loss	\$ 123,823	\$ 109,340

(1) At March 31, 2011 and December 31, 2010, the Company was committed to purchase 29 and 43 finished lots under specific performance obligations, respectively.

Table of Contents**NVR, Inc.**Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)**Joint Ventures**

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

At March 31, 2011, the Company had an aggregate investment totaling approximately \$33,000 in three JVs that are expected to produce approximately 1,000 finished lots. At March 31, 2011, NVR had additional funding commitments in the aggregate totaling \$5,000 to one of the three JVs. The Company has determined that it is not the primary beneficiary of two of the JVs because NVR and the other JV partner share power. NVR has concluded that it is the primary beneficiary of the remaining JV because the Company has the controlling financial interest in the JV. The condensed balance sheets at March 31, 2011 and December 31, 2010, of the consolidated JV are as follows:

	March 31, 2011	December 31, 2010
Cash	\$ 70	\$ 358
Restricted cash	711	501
Other assets	126	126
Land under development	21,894	21,386
Total assets	\$ 22,801	\$ 22,371
Debt	\$ 7,587	\$ 7,592
Accrued expenses	455	59
Equity	14,759	14,720
Total liabilities and equity	\$ 22,801	\$ 22,371

3. Land Under Development

On a limited basis, NVR directly acquires raw parcels of land already zoned for its intended use to develop into finished lots. Land under development includes the land acquisition costs, direct improvement costs, capitalized interest, where applicable, and real estate taxes. As of March 31, 2011, NVR directly owned three separate raw parcels of land with a carrying value of approximately \$77,100 that it intends to develop into approximately 850 finished lots for use in its homebuilding operations. All of the raw parcels are located in the Washington, D.C. metropolitan area. Based on current market conditions, NVR may, on a very limited basis, directly acquire additional raw parcels to develop into finished lots. See the Overview section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations included herein for additional discussion.

4. Contract Land Deposits

As of March 31, 2011, NVR controlled approximately 51,000 lots with deposits in cash and letters of credit of \$191,400 and \$4,500, respectively. At December 31, 2010, NVR controlled approximately 50,400 lots with deposits in cash and letters of credit totaling approximately \$174,300 and \$6,600, respectively. During the three-month period ended March 31, 2011, the Company recognized a pre-tax charge of approximately \$1,300 related to the impairment of contract land deposits. For the three-month period ended March 31, 2010, the Company recognized a pre-tax recovery of approximately \$1,900 of contract land deposits previously determined to be uncollectible. The contract land deposit asset is shown net of an approximate \$74,600 and \$73,500 impairment valuation allowance at March 31, 2011 and December 31, 2010, respectively.

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(dollars in thousands except per share data)**5. Earnings per Share**

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three months ended March 31, 2011 and 2010:

	Three Months Ended March	
	31,	
	2011	2010
Weighted average number of shares outstanding used to calculate basic EPS	5,823,000	6,066,000
<i>Dilutive Securities:</i>		
Stock options and restricted share units	197,000	333,000
Weighted average number of shares and share equivalents outstanding used to calculate diluted EPS	6,020,000	6,399,000

The assumed proceeds used in the treasury method for calculating NVR's diluted earnings per share includes the amount the employee must pay upon exercise, the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits that would be credited to additional paid-in capital assuming exercise of the option or the vesting of the restricted share unit. The assumed amount credited to additional paid-in capital equals the tax benefit from assumed exercise of stock options or the assumed vesting of restricted share units after consideration of the intrinsic value upon assumed exercise less the actual stock-based compensation expense to be recognized in the income statement from 2006 and future periods.

Stock options issued under equity benefit plans to purchase 442,095 and 27,076 shares of common stock were outstanding during the quarters ended March 31, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

6. Excess Reorganization Value

Reorganization value in excess of identifiable assets (excess reorganization value) is an indefinite life intangible asset that was created upon NVR's emergence from bankruptcy on September 30, 1993. Based on the allocation of the reorganization value, the portion of the reorganization value which was not attributed to specific tangible or intangible assets has been reported as excess reorganization value, which is treated similarly to goodwill. Excess reorganization value is not subject to amortization. Rather, excess reorganization value is subject to an impairment assessment on an annual basis or more frequently if changes in events or circumstances indicate that impairment may have occurred. Because excess reorganization value was based on the reorganization value of NVR's entire enterprise upon bankruptcy emergence, the impairment assessment is conducted on an enterprise basis based on the comparison of NVR's total equity compared to the market value of NVR's outstanding publicly-traded common stock. The Company completed the annual assessment of impairment during the first quarter of 2011 and determined that there was no impairment of excess reorganization value.

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Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

7. Shareholders Equity

A summary of changes in shareholders equity is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Comp. Trust	Deferred Comp. Liability	Total
Balance, December 31, 2010	\$206	\$ 951,234	\$4,029,072	\$(3,240,138)	\$(27,582)	\$27,582	\$1,740,374
Net income			15,174				15,174
Deferred compensation activity					2,000	(2,000)	
Purchase of common stock for treasury				(63,408)			(63,408)
Equity-based compensation		15,580					15,580
Tax benefit from stock options exercised and deferred compensation distributions		17,811					17,811
Proceeds from stock options exercised		92,670					92,670
Treasury stock issued upon option exercise		(63,278)		63,278			
Balance, March 31, 2011	\$206	\$1,014,017	\$4,044,246	\$(3,240,268)	\$(25,582)	\$25,582	\$1,818,201

The Company repurchased 85,460 shares of its common stock during the three months ended March 31, 2011 at an aggregate purchase price of \$63,408. The Company settles option exercises by issuing shares of treasury stock to option holders. Shares are relieved from the treasury account based on the weighted average cost basis of treasury shares acquired. Approximately 291,000 options to purchase shares of the Company's common stock were exercised during the three months ended March 31, 2011.

8. Product Warranties

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

general counsel and outside counsel retained to handle specific product liability cases. The following table reflects the changes in the Company's warranty reserve during the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Warranty reserve, beginning of period	\$ 69,787	\$ 64,417
Provision	3,732	8,221
Payments	(8,189)	(7,556)
Warranty reserve, end of period	\$ 65,330	\$ 65,082

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NVR, Inc.

Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

9. Segment Disclosures

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

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

Homebuilding North East - New Jersey and eastern Pennsylvania

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

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

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, selling, general and administrative expenses, and a corporate capital allocation charge. The corporate capital allocation charge eliminates in consolidation, is based on the segment's average net assets employed, and is charged using a consistent methodology in the periods presented. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment's results are providing the desired rate of return after covering the Company's cost of capital. The Company records charges on contract land deposits when it is determined that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are charged to the operating segment upon the determination to terminate a finished lot purchase agreement with the developer, or to restructure a lot purchase agreement resulting in the forfeiture of the deposit. Mortgage banking profit before tax consists of revenues generated from mortgage financing, title insurance and closing services, less the costs of such services and general and administrative costs. Mortgage banking operations are not charged a capital allocation charge.

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

Following are tables presenting revenues, segment profit and segment assets for each reportable segment, with reconciliations to the amounts reported for the consolidated enterprise, where applicable:

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

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Homebuilding Mid Atlantic	\$ 312,940	\$ 339,469
Homebuilding North East	39,193	64,157
Homebuilding Mid East	98,152	124,989
Homebuilding South East	52,459	48,766
Mortgage Banking	11,760	12,833
Total Consolidated Revenues	\$ 514,504	\$ 590,214
Profit:		
Homebuilding Mid Atlantic	\$ 25,876	\$ 37,860
Homebuilding North East	1,123	5,755
Homebuilding Mid East	1,607	10,933
Homebuilding South East	2,213	1,057
Mortgage Banking	6,741	7,428
Total Segment Profit	37,560	63,033
Contract land deposit impairment reserve (1)	(1,130)	2,008
Equity-based compensation expense (2)	(15,580)	(5,678)
Corporate capital allocation (3)	15,423	14,480
Unallocated corporate overhead (4)	(16,460)	(20,679)
Consolidation adjustments and other (5)	5,125	1,645
Corporate interest expense (6)	(103)	(2,078)
Reconciling items sub-total	(12,725)	(10,302)
Consolidated income before taxes	\$ 24,835	\$ 52,731
	March 31,	December
	2011	31,
		2010
Assets:		
Homebuilding Mid Atlantic	\$ 461,238	\$ 414,090
Homebuilding North East	52,710	35,827
Homebuilding Mid East	94,987	78,246
Homebuilding South East	46,873	43,041
Mortgage Banking	118,920	196,441
Total Segment Assets	774,728	767,645

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Consolidated variable interest entity	22,801	22,371
Cash and cash equivalents	1,217,670	1,190,731
Land under development	77,075	78,058
Deferred taxes	173,801	184,930
Intangible assets	48,927	48,927
Contract land deposit reserve	(74,647)	(73,517)
Consolidation adjustments and other	35,373	40,916
Reconciling items sub-total	1,501,000	1,492,416
Consolidated Assets	\$ 2,275,728	\$ 2,260,061

(1) This item represents changes to the contract land deposit impairment reserve, which are not allocated to the reportable segments.

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(dollars in thousands except per share data)

- (2) The increase in equity-based compensation expense is due primarily to the issuance of non-qualified stock options and restricted share units from the 2010 Equity Incentive Plan in the second quarter of 2010.
- (3) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment's monthly average asset balance, and is as follows for the periods presented:

	Three Months Ended March	
	31,	
	2011	2010
Homebuilding Mid Atlantic	\$ 10,831	\$ 9,795
Homebuilding North East	1,163	1,550
Homebuilding Mid East	2,204	2,076
Homebuilding South East	1,225	1,059
Total	\$ 15,423	\$ 14,480

- (4) The decrease in unallocated corporate overhead in the first quarter of 2011 is primarily attributable to a decrease in management incentive costs period over period.
- (5) The favorable variance in consolidation adjustments and other in 2011 from 2010 is primarily attributable to changes in the corporate consolidation entries based on production volumes in the respective quarters.
- (6) The decrease in corporate interest expense is attributable to the redemption upon maturity of the outstanding senior notes in the second quarter of 2010 and the termination of the working capital credit facility in the fourth quarter of 2010.

10. Fair Value***Financial Instruments***

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

Derivative Instruments and Mortgage Loans Held for Sale

In the normal course of business, NVR's mortgage banking segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers lock-in a specified interest rate within time frames established by NVR. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the lock-in of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. NVR does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives and, accordingly, are marked to fair value through earnings. At March 31, 2011, there were contractual commitments to extend credit to borrowers aggregating \$148,385 and open forward delivery contracts aggregating \$236,727.

GAAP assigns a fair value hierarchy to the inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are

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

unobservable inputs. The fair value of the Company's rate lock commitments to borrowers and the related input levels includes, as applicable:

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

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons and the excess servicing to be received or buydown fees to be paid upon securitization of the loan. The excess servicing and buydown fees are calculated pursuant to contractual terms with investors. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells all of its loans on a servicing released basis, and receives a servicing released premium upon sale. Thus, the value of the servicing rights, which averaged 123 basis points of the loan amount as of March 31, 2011, is included in the fair value measurement and is based upon contractual terms with investors and varies depending on the loan type. The Company assumes an approximate 9% fallout rate when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on historical experience.

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

Mortgage loans held for sale are recorded at fair value when closed, and thereafter are carried at the lower of cost or fair value, net of deferred origination costs, until sold. The fair value of loans held-for-sale of \$105,611 included in the accompanying condensed consolidated balance sheet has been increased by \$954 from the aggregate principal balance of \$104,657.

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

	Balance Sheet	Fair Value March 31, 2011
Derivative Assets:	Location	
Forward Sales Contracts and Rate Lock Commitments	NVRM - Other assets	\$ 964

The unrealized gain or loss from the change in the fair value measurements is included in earnings as a component of mortgage banking fees in the accompanying condensed consolidated statements of income as follows:

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Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

	Notional or Principal Amount	Assumed Gain (Loss) From Loan Sale	Interest Rate Movement Effect	Servicing Rights Value	Security Price Change	Total Fair Value Adjustment Gain/(Loss)
Rate lock commitments	\$ 148,385	\$ (621)	\$ (455)	\$ 1,646	\$	\$ 570
Forward sales contracts	\$ 236,727				394	394
Mortgages held for sale	\$ 104,657	(475)	117	1,312		954
Total Fair Value Measurement, March 31, 2011		(1,096)	(338)	2,958	394	1,918
Less: Fair Value Measurement, December 31, 2010		(1,366)	(6,534)	4,004	4,904	1,008
Total Fair Value Adjustment for the period ended March 31, 2011		\$ 270	\$ 6,196	\$ (1,046)	\$ (4,510)	\$ 910

The fair value measurement will be impacted in the future by the change in the value of the servicing rights and the volume and product mix of the Company's closed loans and locked loan commitments.

11. Debt

NVR's mortgage banking operations, NVR Mortgage Finance, Inc. (NVRM), provides for its mortgage origination activities through a revolving mortgage repurchase facility (the Repurchase Facility). The Repurchase Facility provides for loan purchases up to \$100,000, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which NVRM may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to \$125,000. The Repurchase Agreement expires on August 2, 2011.

At March 31, 2011, there was approximately \$75,300 outstanding under the Repurchase Facility, which is included in Mortgage Banking Note payable in the accompanying condensed consolidated financial statements. Amounts outstanding under the Repurchase Facility are collateralized by the Company's mortgage loans held for sale, which are included in assets in the March 31, 2011 balance sheet in the accompanying condensed consolidated financial statements. As of March 31, 2011, borrowing base limitations reduced the amount available for borrowing to approximately \$99,000. The average Pricing Rate on outstanding balances at March 31, 2011 was 4.1%.

12. Commitments and Contingencies

On July 18, 2007, former and current employees filed lawsuits against the Company in the Court of Common Pleas in Allegheny County, Pennsylvania and Hamilton County, Ohio, in Superior Court in Durham County, North Carolina, and in the Circuit Court in Montgomery County, Maryland, and on July 19, 2007 in the Superior Court in

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

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NVR, Inc.

Notes to Condensed Consolidated Financial Statements
(dollars in thousands except per share data)

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

In June 2010, the Company received a Request for Information from the United States Environmental Protection Agency (the EPA) pursuant to Section 308 of the Clean Water Act. The request seeks information about storm water discharge practices in connection with homebuilding projects completed or underway by the Company. The Company has been cooperating with this request, has provided information to the EPA and intends to continue cooperating with the EPA s inquiries. At this time, the Company cannot predict the outcome of this inquiry, nor can it reasonably estimate the potential costs that may be associated with its eventual resolution.

In April 2010, NVRM received a Report of Examination (ROE) from the Office of the Commissioner of Banks of the State of North Carolina (the NCCOB) reporting certain findings that resulted from the NCCOB s examination of selected files relating to loans originated by NVRM in North Carolina between August 1, 2006 and August 31, 2009. The ROE alleged that certain of the loan files reflected violations of North Carolina and/or U.S. lending or consumer protection laws. The ROE requested that NVRM correct or otherwise address the alleged violations and in some instances requested that NVRM undertake an examination of all of its other loans in North Carolina to determine whether similar alleged violations may have occurred, and if so, to take corrective action. NVRM responded to the ROE by letter dated June 10, 2010, contesting the findings and allegations, providing factual information to correct certain of the findings, and refuting the NCCOB s interpretation of applicable law. On November 15, 2010, the NCCOB provided a written response to NVRM s June 10, 2010 letter closing certain alleged violations while reasserting certain other violations. On January 12, 2011, NVRM responded to the NCCOB s November 15, 2010 letter providing additional factual information to address the remaining findings, and refuting the NCCOB s interpretation of applicable law. Accordingly, while the outcome of the matter is currently not determinable, the Company does not expect resolution of the matter to have a material adverse effect on the Company s financial position, results of operations or cashflows.

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

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(dollars in thousands)

Forward-Looking Statements

Some of the statements in this Form 10-Q, as well as statements made by us in periodic press releases or other public communications, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as believes, expects, may, will, should, or anticipates or the negative or other comparable terminology. All statements other than of historical facts are forward looking statements. Forward looking statements contained in this document include those regarding market trends, NVR's financial position, business strategy, the outcome of pending litigation, projected plans and objectives of management for future operations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of NVR to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to the following: general economic and business conditions (on both a national and regional level); interest rate changes; access to suitable financing by NVR and NVR's customers; increased regulation of the mortgage banking industry; competition; the availability and cost of land and other raw materials used by NVR in its homebuilding operations; shortages of labor; weather related slow-downs; building moratoriums; governmental regulation; fluctuation and volatility of stock and other financial markets; mortgage financing availability; and other factors over which NVR has little or no control. NVR undertakes no obligation to update such forward-looking statements, except as required by law. For additional information regarding risk factors, see Part II, Item 1(a) of this Report.

Unless the context otherwise requires, references to NVR, we, us or our include NVR and its subsidiaries.

Results of Operations for the Three Months Ended March 31, 2011 and 2010**Overview****Business**

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

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

Our lot acquisition strategy is predicated upon avoiding the financial requirements and risks associated with direct land ownership and development. Historically, we have not engaged in land development to obtain finished lots for use in our homebuilding operations. Instead, we have acquired finished lots at market prices from various third party land developers pursuant to fixed price purchase agreements. These purchase agreements require deposits, typically ranging up to 10% of the aggregate purchase price of the finished lots, in the form of cash or letters of credit that may be forfeited if we fail to perform under the purchase agreement.

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This strategy allows us to maximize inventory turnover, which enables us to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital.

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

As of March 31, 2011, we controlled approximately 51,000 lots with deposits in cash and letters of credit totaling approximately \$191,400 and \$4,500, respectively, and approximately 1,000 additional lots through joint venture limited liability corporations. Included in the number of controlled lots are approximately 10,400 lots for which we have recorded a contract land deposit impairment reserve of approximately \$74,600 as of March 31, 2011. See Notes 2 and 4 to the condensed consolidated financial statements included herein for additional information regarding contract land deposits. Further, as of March 31, 2011, we had approximately \$77,000 in land under development, that once fully developed will result in approximately 850 lots. See Note 3 to the condensed consolidated financial statements included herein for additional information regarding land under development.

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

Overview of Current Business Environment

The home sales environment in the first quarter of 2011 was characterized by reduced demand for new homes, as nationwide new home sales in the first quarter of 2011 declined to near a 50 year low. The homebuilding market continued to be negatively impacted by a sluggish economy, high unemployment and a tight mortgage lending environment. These factors continue to weigh on homebuyer confidence and in turn, suppress housing demand. In addition to the foregoing pressures on demand, new home sales have been negatively impacted by further declines in existing home prices. As a result, we continue to face sales and pricing pressures in many of our markets. Our new orders, net of cancellations (new orders), for the first quarter of 2011 decreased 18% when compared to the first quarter of 2010, and our cancellation rate in the first quarter of 2011 increased to 12% from 9% in the first quarter of 2010. We believe that these quarter over quarter unfavorable variances were in part attributable to the 2010 first quarter new orders being favorably impacted by the federal homebuyer tax credit which expired in April of 2010.

Consolidated revenues for the first quarter of 2011 totaled \$514,504, a 13% decrease from the first quarter of 2010. Additionally, net income and diluted earnings per share in the current quarter decreased approximately 53% and 50%, respectively, compared to the first quarter of 2010. Gross profit margins within our homebuilding business decreased to 16.9% in the first quarter of 2011 compared to 18.4% in the first quarter of 2010.

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We expect to continue to experience pressure on sales and selling prices over at least the next several quarters in all of our markets, as significant economic uncertainties remain. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010, contains numerous provisions affecting residential mortgages and mortgage lending practices. Because these provisions are to be implemented through future rulemaking, the ultimate impact of such provisions on lending institutions, including our mortgage banking subsidiary, will depend on how the implementing rules are written. Despite these uncertainties, we believe that we are well positioned to take advantage of opportunities that may arise due to the strength of our balance sheet and liquidity.

Homebuilding Operations

The following table summarizes the results of operations and other data for the consolidated homebuilding operations:

	Three Months Ended	
	March 31,	
	2011	2010
Revenues	\$502,744	\$577,381
Cost of sales	\$417,920	\$471,069
Gross profit margin percentage	16.9%	18.4%
Selling, general and administrative	\$ 67,188	\$ 60,741
Settlements (units)	1,634	1,919
Average settlement price	\$ 307.6	\$ 300.8
New orders (units)	2,403	2,940
Average new order price	\$ 295.8	\$ 286.7
Backlog (units)	3,685	4,552
Average backlog price	\$ 316.6	\$ 294.8
New order cancellation rate	12%	9%

Consolidated Homebuilding Three Months Ended March 31, 2011 and 2010

Homebuilding revenues decreased 13% for the first quarter of 2011 from the same period in 2010 as a result of a 15% decrease in the number of units settled, offset partially by a 2% increase in the average settlement price quarter over quarter. The decrease in the number of units settled is primarily attributable to our beginning backlog units being approximately 17% lower entering the first quarter of 2011 as compared to the same period in 2010, offset partially by a higher backlog turnover rate quarter over quarter. Average settlement prices were impacted primarily by an 8% higher average price of homes in our beginning backlog entering the first quarter of 2011 compared to the same period in 2010.

Gross profit margins in the quarter ended March 31, 2011 decreased 154 basis points compared to the first quarter of 2010 due primarily to the reduction in settlement volume quarter over quarter, and its impact on our ability to leverage certain operating costs. In addition, gross profit margins were negatively impacted by a contract land deposit charge of \$1,348, or 27 basis points, in the first quarter of 2011, compared to the recovery of approximately \$1,922, or 33 basis points, in the first quarter of 2010, of contract land deposits previously determined to be uncollectible. We expect to continue to experience gross profit margin pressure over at least the next several quarters due to significant market uncertainties as discussed in the *Overview* section above.

As discussed in the *Overview* section above, the number of new orders for the first quarter of 2011 decreased 18% when compared to the first quarter of 2010. The average selling price for new orders during the first quarter of 2011 increased 3% compared to the same period in 2010. New orders were lower quarter over quarter in each of our market segments, as mortgage lending requirements remain tight and homebuyer confidence continues to be negatively impacted by current economic conditions. In addition, new orders in the

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current quarter were also negatively impacted by increased competition from existing homes, the prices of which continue to decline. We believe that the decrease in new orders quarter over quarter was also partially attributable to the federal homebuyer tax credit, which expired on April 30, 2010 and drove new orders in the prior year first quarter. In addition, new orders in the current quarter were negatively impacted by an increase in the cancellation rate to 12% from 9% in the prior year quarter. We expect to see continued pressure on new orders over the next several quarters until the economy begins to exhibit consistent stability and job growth.

Selling, general and administrative (SG&A) expenses in the first quarter of 2011 increased approximately \$6,500 compared to the first quarter of 2010 and increased as a percentage of revenue to 13.4% from 10.5% quarter over quarter. The increase in SG&A was attributable to an approximate \$9,300 increase in stock-based compensation expense in the first quarter of 2011 as compared to the same period in 2010, due to the grant of non-qualified stock options and restricted share units under the 2010 Equity Incentive Plan in the second quarter of 2010. This increase was partially offset by a decrease of approximately \$3,000 in management incentive costs recorded quarter over quarter.

Backlog units and dollars were 3,685 and \$1,166,721, respectively, as of March 31, 2011 compared to 4,552 and \$1,342,000, respectively, as of March 31, 2010. The decrease in backlog units is primarily attributable to our beginning backlog units being approximately 17% lower entering 2011 compared to the same period in 2010, coupled with the new order shortfall and settlement activity during the first quarter of 2011. Backlog dollars were negatively impacted by the decrease in backlog units.

Backlog, which represents homes sold but not yet settled with the customer, may be impacted by customer cancellations for various reasons that are beyond our control, such as failure to obtain mortgage financing, inability to sell an existing home, job loss, or a variety of other reasons. In any period, a portion of the cancellations that we experience are related to new sales that occurred during the same period, and a portion are related to sales that occurred in prior periods and therefore appeared in the opening backlog for the current period. Expressed as the total of all cancellations during the period as a percentage of gross sales during the period, our cancellation rate was approximately 12% and 9% in the first quarters of 2011 and 2010, respectively. During the most recent four quarters, approximately 6% of a reporting quarter's opening backlog cancelled during the fiscal quarter. We can provide no assurance that our historical cancellation rates are indicative of the actual cancellation rate that may occur in 2011.

Reportable Segments

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, SG&A expenses, and a corporate capital allocation charge determined at the corporate headquarters. The corporate capital allocation charge eliminates in consolidation, is based on the segment's average net assets employed, and is charged using a consistent methodology in the periods presented. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment's results are providing the desired rate of return after covering our cost of capital. We record charges on contract land deposits when we determine that it is probable that recovery of the deposit is impaired. For segment reporting purposes, impairments on contract land deposits are generally charged to the operating segment upon the determination to terminate a finished lot purchase agreement with the developer or to restructure a lot purchase agreement resulting in the forfeiture of the deposit. We evaluate our entire net contract land deposit portfolio for impairment each quarter. For additional information regarding our contract land deposit impairment analysis, see the *Critical Accounting Policies* section within this Management Discussion and Analysis. For presentation purposes below, the contract land deposit reserve at March 31, 2011 and 2010 has been allocated to the respective year's reportable segments to show contract land deposits on a net basis. The net contract land deposit balances below also include \$4,500 and \$6,200 at March 31, 2011 and 2010, respectively, of letters of credit issued as deposits in lieu of cash. The following table summarizes certain homebuilding operating activity by segment for the three months ended March 31, 2011 and 2010:

Table of Contents**Selected Segment Financial Data:**

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Mid Atlantic	\$ 312,940	\$ 339,469
North East	39,193	64,157
Mid East	98,152	124,989
South East	52,459	48,766
Total	\$ 502,744	\$ 577,381
Gross profit margin:		
Mid Atlantic	\$ 57,635	\$ 67,141
North East	6,349	11,460
Mid East	14,447	22,278
South East	8,432	7,687
Total	\$ 86,863	\$ 108,566
Segment profit:		
Mid Atlantic	\$ 25,876	\$ 37,860
North East	1,123	5,755
Mid East	1,607	10,933
South East	2,213	1,057
Total	\$ 30,819	\$ 55,605
Gross profit margin percentage:		
Mid Atlantic	18.4%	19.8%
North East	16.2%	17.9%
Mid East	14.7%	17.8%
South East	16.1%	15.8%

Segment Operating Activity:

	Three Months Ended March 31,			
	2011	2010	2011	2010
	Units		Average Price	
Settlements:				
Mid Atlantic	836	935	\$374.3	\$363.0
North East	128	220	\$306.2	\$291.6
Mid East	431	565	\$227.7	\$221.1
South East	239	199	\$219.1	\$244.9
Total	1,634	1,919	\$307.6	\$300.8

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	Three Months Ended March 31,			
	2011	2010	2011	2010
	Units		Average Price	
<i>New orders, net of cancellations:</i>				
Mid Atlantic	1,145	1,391	\$357.2	\$350.8
North East	252	260	\$295.0	\$305.8
Mid East	691	879	\$231.5	\$207.8
South East	315	410	\$214.8	\$226.4
Total	2,403	2,940	\$295.8	\$286.7
<i>Backlog:</i>				
Mid Atlantic	1,904	2,319	\$382.3	\$352.4
North East	356	365	\$304.7	\$311.8
Mid East	990	1,274	\$235.6	\$214.6
South East	435	594	\$223.0	\$231.6
Total	3,685	4,552	\$316.6	\$294.8
Three Months Ended				
March 31,				
2011 2010				
<i>New order cancellation rate:</i>				
Mid Atlantic			13.1%	8.0%
North East			8.4%	13.9%
Mid East			12.3%	9.6%
South East			12.5%	8.7%
<i>Average active communities:</i>				
Mid Atlantic			182	160
North East			33	35
Mid East			108	108
South East			56	55
Total			379	358
Segment Homebuilding Inventory:				
As of March 31,				
2011 2010				
<i>Sold inventory:</i>				
Mid Atlantic			\$ 225,772	\$ 286,693
North East			33,933	37,812
Mid East			55,974	71,714
South East			28,332	35,157

Total

\$ 344,011

\$ 431,376

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	As of March 31,	
	2011	2010
<i>Unsold lots and housing units inventory:</i>		
Mid Atlantic	\$ 37,578	\$ 36,755
North East	3,616	4,989
Mid East	10,604	13,576
South East	6,282	5,471
Total	\$ 58,080	\$ 60,791
	Three Months Ended	
	March 31,	
	2011	2010
<i>Unsold inventory impairments:</i>		
Mid Atlantic	\$ 381	\$ 38
North East	67	270
Mid East	150	66
South East	129	14
Total	\$ 727	\$ 388
Segment Lots Controlled and Contract Land Deposits:		
	As of March 31,	
	2011	2010
<i>Total lots controlled:</i>		
Mid Atlantic	30,409	27,571
North East	4,098	3,870
Mid East	11,196	10,236
South East	7,177	6,424
Total	52,880	48,101
<i>Lots included in impairment reserve:</i>		
Mid Atlantic	6,251	6,631
North East	593	743
Mid East	1,806	1,997
South East	1,767	1,478
Total	10,417	10,849

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	As of March 31,	
	2011	2010
<i>Contract land deposits, net:</i>		
Mid Atlantic	\$ 92,310	\$ 49,181
North East	11,138	2,369
Mid East	12,564	5,063
South East	5,202	3,718
 Total	 \$ 121,214	 \$ 60,331

	Three Months Ended March	
	31,	
	2011	2010
<i>Contract land deposit impairments:</i>		
Mid Atlantic	\$ 227	\$
North East	7	
Mid East	(17)	86
South East		
 Total	 \$ 217	 \$ 86

Mid Atlantic***Three Months Ended March 31, 2011 and 2010***

The Mid Atlantic segment had an approximate \$12,000 decrease in segment profit from the first quarter of 2010. The decrease in segment profit was driven by the decrease of approximately \$26,500, or 8%, in revenues quarter over quarter due primarily to an 11% decrease in the number of units settled, offset partially by a 3% increase in the average settlement price. The decrease in units settled was attributable to the 14% lower backlog unit balance entering the first quarter of 2011 as compared to backlog unit balance entering the first quarter of 2010. The Mid Atlantic segment's gross profit margin percentage decreased to 18.4% in 2011 from 19.8% in 2010, due primarily to the reduced settlement volume quarter over quarter, and its impact on our ability to leverage certain operating costs.

Segment new orders decreased by 18% and the average selling price increased by 2% during the first quarter of 2011 from the same period in 2010. New orders were lower quarter over quarter for the reasons previously discussed in the *Consolidated Homebuilding* section. In addition, new orders in the current quarter were negatively impacted by an increase in the cancellation rate to 13% from 8% in the prior year quarter.

North East***Three Months Ended March 31, 2011 and 2010***

The North East segment had an approximate \$4,600 decrease in segment profit from the first quarter of 2010. The decrease in segment profit was primarily driven by a decrease of approximately \$25,000, or 39%, in revenues quarter over quarter primarily due to a 42% decrease in the number of units settled. The decrease in units settled was attributable to the 29% lower backlog unit balance entering the first quarter of 2011 as compared to the backlog unit balance entering the first quarter of 2010, coupled with a lower backlog turnover rate quarter over quarter. The North East segment's gross profit margin percentage decreased to 16.2% in 2011 from 17.9% in 2010, due primarily to the reduced settlement volume quarter over quarter, and its impact on our ability to leverage certain operating costs.

Segment new orders and the average selling price decreased approximately 3% and 4%, respectively, during the first quarter of 2011 from the same period in 2010. New orders were lower quarter over quarter for the reasons previously discussed in the *Consolidated Homebuilding* section. In addition, the decrease in the

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number of units sold was attributable to the 6% decrease in the average number of active communities quarter over quarter.

Mid East***Three Months Ended March 31, 2011 and 2010***

The Mid East segment had an approximate \$9,300 decrease in segment profit from the first quarter of 2010. The decrease in segment profit was primarily driven by a decrease in revenue of approximately \$26,800, or 21%, due to a 24% decrease in the number of units settled in the first quarter of 2011 as compared to the same period in 2010. The decrease in settlements was primarily attributable to a 24%, or 230 unit, lower beginning backlog entering the first quarter of 2011 compared to the same period in 2010. Gross profit margins decreased to 14.7% in the first quarter of 2011 from 17.8% in the same period of 2010, due primarily to the reduced settlement volume quarter over quarter, and its impact on our ability to leverage certain operating costs.

Segment new orders decreased 21% during the first quarter of 2011 as compared to the same period in 2010, while the average selling price for new orders increased 11% quarter over quarter. New orders were lower quarter over quarter for the reasons previously discussed in the *Consolidated Homebuilding* section. In addition, new orders in the current quarter were negatively impacted by an increase in the cancellation rate to 12% from 10% in the prior year quarter. The increase in the average selling price is attributable to a product shift to larger, higher priced homes in certain markets within the Mid East segment.

South East***Three Months Ended March 31, 2011 and 2010***

The South East segment had an approximate \$1,200 increase in segment profit from the first quarter of 2010. Revenues increased approximately \$3,700, or 8%, due to a 20% increase in the number of homes settled, offset partially by an 11% decrease in the average settlement price. The increase in settlements was attributable to an increased backlog turnover rate quarter over quarter. The decrease in the average settlement price was primarily attributable to the average price of homes in backlog entering 2011 being 7% lower than the average price of homes in backlog entering 2010. The South East segment's gross profit margin percentage increased slightly quarter over quarter, due to the increased settlement volume.

Segment new orders decreased approximately 23% during the first quarter of 2011 from the same period in 2010. New orders were lower quarter over quarter for the reasons previously discussed in the *Consolidated Homebuilding* section. In addition, new orders in the current quarter were negatively impacted by an increase in the cancellation rate to 13% from 9% in the prior year quarter.

Homebuilding Segment Reconciliations to Consolidated Homebuilding Operations

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

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	Three Months Ended March 31,	
	2011	2010
Homebuilding Consolidated Gross Profit:		
Homebuilding Mid Atlantic	\$ 57,635	\$ 67,141
Homebuilding North East	6,349	11,460
Homebuilding Mid East	14,447	22,278
Homebuilding South East	8,432	7,687
Consolidation adjustments and other	(2,039)	(2,254)
Consolidated homebuilding gross profit	\$ 84,824	\$ 106,312

	Three Months Ended March 31,	
	2011	2010
Homebuilding Consolidated Profit Before Tax:		
Homebuilding Mid Atlantic	\$ 25,876	\$ 37,860
Homebuilding North East	1,123	5,755
Homebuilding Mid East	1,607	10,933
Homebuilding South East	2,213	1,057
Reconciling items:		
Contract land deposit impairment reserve (1)	(1,130)	2,008
Equity-based compensation expense (2)	(14,802)	(5,212)
Corporate capital allocation (3)	15,423	14,480
Unallocated corporate overhead (4)	(16,460)	(20,679)
Consolidation adjustments and other (5)	5,125	1,645
Corporate interest expense (6)	(103)	(2,078)
Reconciling items sub-total	(11,947)	(9,836)
Homebuilding consolidated profit before taxes	\$ 18,872	\$ 45,769

- (1) This item represents changes to the contract land deposit impairment reserve which are not allocated to the reportable segments.
- (2) The increase in equity-based compensation expense is due primarily to the issuance of non-qualified stock options and restricted share units from the 2010 Equity Incentive Plan in the second quarter of 2010.
- (3) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment's monthly average asset balance, and is as follows for the periods presented:

	Three Months Ended March 31,	
	2011	2010
Homebuilding Mid Atlantic	\$ 10,831	\$ 9,795

Homebuilding North East	1,163	1,550
Homebuilding Mid East	2,204	2,076
Homebuilding South East	1,225	1,059
Total	\$ 15,423	\$ 14,480

- (4) The decrease in unallocated corporate overhead in the first quarter of 2011 is primarily attributable to a decrease in management incentive costs period over period.
- (5) The favorable variance in consolidation adjustments and other in 2011 from 2010 is primarily attributable to changes in the corporate consolidation entries based on production volumes in the respective quarters.

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(6) The decrease in corporate interest expense is attributable to the redemption upon maturity of the outstanding senior notes in the second quarter of 2010 and the termination of the working capital credit facility in the fourth quarter of 2010.

Mortgage Banking Segment**Three Months Ended March 31, 2011 and 2010**

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

	Three Months Ended March 31,	
	2011	2010
Loan closing volume:		
Total principal	\$ 353,571	\$ 418,042
Operating Profit:		
Segment Profit	\$ 6,741	\$ 7,428
Stock option expense	(778)	(466)
Mortgage banking income before tax	\$ 5,963	\$ 6,962
Capture rate:	87%	90%
Mortgage Banking Fees:		
Net gain on sale of loans	\$ 9,130	\$ 9,929
Title services	2,458	2,681
Servicing fees	172	223
	\$ 11,760	\$ 12,833

Loan closing volume for the three months ended March 31, 2011, decreased 15% over the same period for 2010. The 2011 decrease was primarily attributable to the aforementioned decrease in the number of builder settlements compared to the same period in 2010. Segment profit for the three months ended March 31, 2011, decreased by approximately \$700 from the same period for 2010. The decrease was primarily due to an approximate \$1,100 decrease in mortgage banking fees, which was primarily the result of the aforementioned decrease in loan closing volume.

Mortgage Banking Other

We sell all of the loans we originate into the secondary mortgage market. All of the loans that we originate are underwritten to the standards and specifications of the ultimate investor. Insofar as we underwrite our originated loans to those standards, we have no further financial obligations from the issuance of loans, except in certain limited instances where early payment default occurs. Those underwriting standards are typically equal to or more stringent than the underwriting standards required by FNMA, VA and FHA. We have always maintained an allowance for losses on mortgage loans originated that reflects our judgment of the present loss exposure in the loans that we have originated and sold. The allowance is calculated based on an analysis of historical experience and anticipated losses on mortgages held for investment, real estate owned, and specific expected loan repurchases or indemnifications. For the period January 1, 2005 to March 31, 2011, we have originated approximately \$17,500,000 of mortgage loans and

have cumulative actual charges incurred related to mortgage indemnifications and repurchases of approximately \$5,700 during that period. Because we sell all of our loans and do not service them, there is often a substantial delay between the time that a loan goes into default and the time that the servicer requests us to reimburse them for losses incurred because of the default. We believe that all of the loans that we originate are underwritten to the standards and specifications

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of the ultimate investor to whom we sell our originated loans. We employ a quality control department to ensure that our underwriting controls are effective, and further assess the underwriting function as part of our assessment of internal controls over financial reporting. At March 31, 2011 we had an allowance for loan losses of approximately \$8,500. Although we consider the allowance for loan losses reflected on the March 31, 2011 balance sheet to be adequate, there can be no assurance that this allowance will prove to be adequate to cover losses on loans previously originated.

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

Liquidity and Capital Resources***Lines of Credit and Notes Payable***

Our homebuilding business segment funds its operations from cash flows provided by operating activities. Our mortgage banking segment provides for its mortgage origination and other operating activities using cash generated from operations as well as a revolving mortgage repurchase facility (the Repurchase Agreement). The Repurchase Agreement is used to fund NVRM's mortgage origination activities, and provides for loan purchases up to \$100,000, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which NVRM may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to \$125,000. The Repurchase Agreement expires on August 2, 2011. If we choose to do so, we expect to be able to renew the Repurchase Agreement at current market terms prior to its expiration.

Advances under the Repurchase Agreement carry a Pricing Rate based on the Libor Rate plus the Libor Margin, or the Default Pricing Rate, as determined under the Repurchase Agreement, provided that the Pricing Rate shall not be less than 4.5%. Under the Repurchase Agreement, we may enter into separate agreements with the Buyers party to the Repurchase Agreement, adjusting the Pricing Rate in effect. These separate agreements do not effect the maximum aggregate commitment available under the Repurchase Agreement. There are several restrictions on purchased loans, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement. The Repurchase Agreement contains various affirmative and negative covenants. The negative covenants include among others, certain limitations on transactions involving acquisitions, mergers, the incurrence of debt, sale of assets and creation of liens upon any of its Mortgage Notes. Additional covenants include (i) a tangible net worth requirement, (ii) a minimum liquidity requirement, (iii) a minimum tangible net worth ratio, (iv) a minimum net income requirement, and (v) a maximum leverage ratio requirement, all of which we were compliant with at March 31, 2011. As of March 31, 2011, there was approximately \$75,300 outstanding under the Repurchase Agreement and borrowing base limitations reduced the amount available to us for borrowing to approximately \$99,000. The average Pricing Rate on outstanding balances at March 31, 2011 was 4.1%.

Cash Flows

Cash used by our operating activities was \$9,033. Cash was used to fund the increase in homebuilding inventory of \$61,423, as a result of an increase in units under construction at March 31, 2011 compared to December 31, 2010. Cash was also used to fund the \$17,315 increase in contract land deposits during the period. Cash was provided by operations and by the sale of mortgage loans.

Net cash provided by investing activities was \$3,538 for the first quarter of 2011, which primarily resulted from the distribution of capital from our unconsolidated joint ventures of \$4,380, offset partially by \$1,012 in purchases of property, plant and equipment.

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Net cash provided by financing activities was \$32,040 for the quarter ended March 31, 2011. Stock option exercise activity provided \$92,670 in exercise proceeds, and we realized \$17,811 in excess income tax benefits from stock option exercises. During the three months ended March 31, 2011, we repurchased approximately 85,500 shares of our common stock at an aggregate purchase price of \$63,408 under our ongoing common stock repurchase program, discussed below. We also decreased borrowings under the mortgage Repurchase Agreement by approximately \$15,028 based on current borrowing needs.

Equity Repurchases

In addition to funding growth in our homebuilding and mortgage operations, we historically have used a substantial portion of our excess liquidity to repurchase outstanding shares of our common stock in the open market and in privately negotiated transactions. This ongoing repurchase activity is conducted pursuant to publicly announced Board authorizations, and is typically executed in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. In addition, the Board resolutions authorizing us to repurchase shares of our common stock specifically prohibit us from purchasing shares from our officers, directors, Profit Sharing/401K Plan Trust or Employee Stock Ownership Plan Trust. We believe the repurchase program assists us in accomplishing our primary objective, increasing shareholder value. We expect to continue to repurchase shares of our common stock from time to time subject to market conditions and available excess liquidity. See Part II, Item 2 for further discussion of repurchase activity during first quarter of 2011.

Critical Accounting Policies***General***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We continually evaluate the estimates we use to prepare the consolidated financial statements and update those estimates as necessary. In general, our estimates are based on historical experience, on information from third party professionals, and other various assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ materially from those estimates made by management.

Homebuilding Inventory

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

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

Table of Contents***Land Under Development and Contract Land Deposits*****Land Under Development**

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

Land under development, including the land under development held by our unconsolidated joint ventures and the related joint venture investments, is reviewed for potential write-downs when impairment indicators are present. In addition to considering market and economic conditions, we assess land under development impairments on a community-by-community basis, analyzing, as applicable, current sales absorption levels, recent sales gross profit, and the dollar differential between the projected fully-developed cost of the lots and the current market price for lots. If indicators of impairment are present for a community, we perform an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, and if they are, impairment charges are required to be recorded in an amount by which the carrying amount of the asset exceeds the fair value of the assets. Our determination of fair value is primarily based on discounting the estimated future cash flows at a rate commensurate with the inherent risks associated with the asset and related estimated cash flow streams. We do not believe that any of the land under development, all of which was acquired during 2010, is impaired at this time. However, there can be no assurance that we will not incur impairment charges in the future due to unanticipated adverse changes in the economy or other events adversely affecting specific markets or the homebuilding industry.

Contract Land Deposits

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

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

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

Although we consider the allowance for losses on contract land deposits reflected on the March 31, 2011 balance sheet to be adequate (see Note 4 to the accompanying condensed consolidated financial statements included herein), there can be no assurance that this allowance will prove to be adequate over time to cover losses due to unanticipated adverse changes in the economy or other events adversely affecting specific markets or the homebuilding industry.

Table of Contents***Intangible Assets***

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

Warranty/Product Liability Accruals

Warranty and product liability accruals are established to provide for estimated future costs as a result of construction and product defects, product recalls and litigation incidental to our business. Liability estimates are determined based on our judgment considering such factors as historical experience, the likely current cost of corrective action, manufacturers and subcontractors participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and evaluations by our General Counsel and outside counsel retained to handle specific product liability cases. Although we consider the warranty and product liability accrual reflected on the March 31, 2011 balance sheet to be adequate (see Note 8 to the accompanying condensed consolidated financial statements included herein), there can be no assurance that this accrual will prove to be adequate over time to cover losses due to increased costs for material and labor, the inability or refusal of manufacturers or subcontractors to financially participate in corrective action, unanticipated adverse legal settlements, or other unanticipated changes to the assumptions used to estimate the warranty and product liability accrual.

Equity-Based Compensation Expense

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

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

Table of Contents***Mortgage Loan Loss Allowance***

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in our market risks during the three months ended March 31, 2011. For additional information regarding market risk, see our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. There have been no changes in our internal control over financial reporting in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1A. Risk Factors**

There has been no material change to the risk factors as previously disclosed in our Form 10-K for the fiscal year ended December 31, 2010 in response to Item 1A. Part 1 of such Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(Dollars in thousands, except per share data)

We had one repurchase authorization outstanding during the quarter ended March 31, 2011. On July 29, 2010 (2010 Authorization), we publicly announced the board of directors approval for us to repurchase up to an aggregate of \$300,000 of our common stock in one or more open market and/or privately negotiated transactions. The 2010 Authorization does not have an expiration date. We repurchased the following shares of our common stock during the first quarter of 2011:

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2011				\$ 109,200
February 1 - 28, 2011				\$ 109,200
March 1 - 31, 2011	85,460	\$ 741.96	85,460	\$ 45,792
Total	85,460	\$ 741.96	85,460	

Item 6. Exhibits

(a)
Exhibits:

- 31.1 Certification of NVR's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification of NVR's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32 Certification of NVR's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 3, 2011

NVR, Inc.

By: /s/ Dennis M. Seremet

Dennis M. Seremet
Senior Vice President, Chief Financial Officer and Treasurer

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Exhibit Index

Exhibit Number	Description
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document