NVR INC
Form 10-Q
July 29, 2009

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

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

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

11700 Plaza America Drive, Suite 500
Reston, Virginia 20190
(703) 956-4000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)
(Not Applicable)
(Former name, former address, and former fiscal year if changed since last report)

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

Indicate by check mark whether the registrant 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 o No o

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

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

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

As of July 27, 2009 there were 5,809,566 total shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 582,157	$ 1,146,426
Marketable securities	658,362	
Receivables	9,227	11,594
Inventory:		
Lots and housing units, covered under sales agreements with customers	416,270	335,238
Unsold lots and housing units	38,537	57,639
Manufacturing materials and other	5,763	7,693
	460,570	400,570
Assets not owned, consolidated per FIN 46R	65,990	114,930
Property, plant and equipment, net	21,660	25,658
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Contract land deposits, net	31,664	29,073
Other assets	224,081	242,626
	2,095,291	2,012,457
Mortgage Banking:		
Cash and cash equivalents	1,111	1,217
Mortgage loans held for sale, net	123,177	72,488
Property and equipment, net	586	759
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	9,573	8,968
	141,794	90,779
Total assets	$ 2,237,085	$ 2,103,236

See notes to condensed consolidated financial statements.

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

	June 30, 2009 (unaudited)	December 31, 2008
LIABILITIES AND SHAREHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 142,557	$ 137,285
Accrued expenses and other liabilities	163,250	194,869
Liabilities related to assets not owned, consolidated per FIN 46R	60,687	109,439
Customer deposits	70,163	59,623
Other term debt	2,388	2,530
Senior notes	135,370	163,320
	574,415	667,066
Mortgage Banking:		
Accounts payable and other liabilities	17,047	17,842
Notes payable	97,021	44,539
	114,068	62,381
Total liabilities	688,483	729,447
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,559,671 and 20,561,187 shares issued as of June 30, 2009 and December 31, 2008, respectively	206	206
Additional paid-in-capital	784,080	722,265
Deferred compensation trust 270,335 and 514,470 shares of NVR, Inc. common stock as of June 30, 2009 and December 31, 2008, respectively	(44,307)	(74,978)
Deferred compensation liability	44,307	74,978
Retained earnings	3,690,301	3,630,887
Less treasury stock at cost 14,758,071 and 15,028,335 shares at June 30, 2009 and December 31, 2008, respectively	(2,925,985)	(2,979,569)
Total shareholders equity	1,548,602	1,373,789
Total liabilities and shareholders equity	$ 2,237,085	$ 2,103,236

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 June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Homebuilding:				
Revenues	$ 612,488	$ 941,033	$ 1,160,817	$ 1,810,902
Other income	1,750	3,701	4,289	10,100
Cost of sales	(494,240)	(772,369)	(956,870)	(1,499,300)
Selling, general and administrative	(54,664)	(89,871)	(114,358)	(174,037)
Operating income	65,334	82,494	93,878	147,665
Interest expense	(2,462)	(3,232)	(5,236)	(6,471)
Homebuilding income	62,872	79,262	88,642	141,194
Mortgage Banking:				
Mortgage banking fees	12,943	14,690	23,213	32,752
Interest income	611	869	1,195	1,679
Other income	154	184	243	343
General and administrative	(6,475)	(8,408)	(12,233)	(16,062)
Interest expense	(276)	(180)	(613)	(314)
Mortgage banking income	6,957	7,155	11,805	18,398
Income before taxes	69,829	86,417	100,447	159,592
Income tax expense	(28,403)	(35,085)	(41,033)	(64,794)
Net income	$ 41,426	$ 51,332	$ 59,414	$ 94,798
Basic earnings per share	$ 7.17	$ 9.58	$ 10.41	$ 17.92
Diluted earnings per share	$ 6.79	$ 8.64	$ 9.85	$ 16.10
Basic average shares outstanding	5,777	5,357	5,710	5,290
Diluted average shares outstanding	6,101	5,938	6,032	5,888

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 59,414	$ 94,798
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	4,977	7,463
Stock option compensation expense	23,402	18,432
Excess income tax benefit from exercise of stock options	(46,447)	(33,184)
Contract land deposit impairments/(recoveries)	(4,744)	12,410
Mortgage loans closed	(849,864)	(966,798)
Proceeds from sales of mortgage loans	813,476	962,615
Principal payments on mortgage loans held for sale	429	2,105
Gain on sale of loans	(17,340)	(25,175)
Net change in assets and liabilities:		
(Increase) decrease in inventories	(60,000)	63,217
Decrease (increase) in receivables	2,530	(5,137)
Decrease in contract land deposits	1,837	5,060
Increase (decrease) in accounts payable, customer deposits and accrued expenses	31,588	(37,857)
Other, net	18,349	2,999
Net cash (used) provided by operating activities	(22,393)	100,948
Cash flows from investing activities:		
Purchase of marketable securities, net	(658,362)	
Purchase of property, plant and equipment	(625)	(3,750)
Other, net	618	765
Net cash used in investing activities	(658,369)	(2,985)
Cash flows from financing activities:		
Net borrowings under notes payable and other term debt	52,340	32,619
Repurchase of senior notes	(27,950)	
Excess income tax benefit from exercise of stock options	46,447	33,184
Proceeds from exercise of stock options	45,550	40,164
Net cash provided by financing activities	116,387	105,967
Net (decrease) increase in cash and cash equivalents	(564,375)	203,930
Cash and cash equivalents, beginning of the period	1,147,643	664,209

Cash and cash equivalents, end of period	$	583,268	$	868,139
Supplemental disclosures of cash flow information:				
Interest paid during the period	$	5,262	$	6,214
Income taxes paid, net of refunds	$	(34,303)	$	31,784
Supplemental disclosures of non-cash activities:				
Net assets not owned, consolidated per FIN 46R	$	(188)	$	(5,382)

See notes to condensed consolidated financial statements.

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NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

1. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. (NVR or the Company) and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see note 2 to the accompanying financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America, they should be read in conjunction with the financial statements and notes thereto included in the Company s 2008 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 and six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We have evaluated all subsequent events through July 29, 2009, the date the financial statements were issued.

For the three and six-month periods ended June 30, 2009 and 2008, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Consolidation of Variable Interest Entities

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

NVR does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if NVR fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots. As of June 30, 2009, the Company controlled approximately 44,300 lots with deposits in cash and letters of credit totaling approximately $165,000 and $5,400, respectively. See note 3 for further discussion.

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

NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

lots under contract. NVR s sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements. In other words, if NVR does not perform under a purchase agreement, NVR loses only its deposit. NVR does not have any financial or specific performance guarantees, or completion obligations, under these purchase agreements. None of the creditors of any of the development entities with which NVR enters fixed price purchase agreements have recourse to the general credit of NVR. Except as described below, NVR also does not share in an allocation of either the profit earned or loss incurred by any of these entities.

On a very limited basis, NVR also obtains finished lots using joint venture limited liability corporations (LLCs). All LLCs are structured such that NVR is a non-controlling member and is at risk only for the amount invested by the Company. NVR is not a borrower, guarantor or obligor of any of the LLCs debt. NVR enters into a standard fixed price purchase agreement to purchase lots from the LLCs. At June 30, 2009, NVR had an aggregate investment in nine separate LLCs totaling approximately $7,200, which controlled approximately 350 lots. This investment was fully offset by a valuation reserve as of June 30, 2009.

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

The Company has evaluated all of its fixed price purchase agreements and LLC arrangements and has determined that it is the primary beneficiary of twenty-one of those development entities with which the agreements and arrangements are held. As a result, at June 30, 2009, NVR has consolidated such development entities in the accompanying condensed consolidated balance sheet. Where NVR deemed itself to be the primary beneficiary of a development entity created after December 31, 2003 and the development entity refused to provide financial statements, NVR utilized estimation techniques to perform the consolidation. The effect of the consolidation under FIN 46R at June 30, 2009 was the inclusion on the balance sheet of $65,990 as *Assets not owned, consolidated per FIN 46R,* with a corresponding inclusion of $60,687 as *Liabilities related to assets not owned, consolidated per FIN 46R*, after elimination of intercompany items. Inclusive in these totals were assets of approximately $30,000 and liabilities of approximately $30,000 estimated for ten development entities created after December 31, 2003 that did not provide financial statements.

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

Following is the consolidating schedule at June 30, 2009:

	NVR, Inc. and Subsidiaries	FIN 46R Entities	Eliminations	Consolidated Total
ASSETS				
Homebuilding:				
Cash and cash equivalents	$ 582,157	$	$	$ 582,157
Marketable securities	658,362			658,362
Receivables	9,227			9,227
Homebuilding inventory	460,570			460,570
Property, plant and equipment, net	21,660			21,660
Reorganization value in excess of amount allocable to identifiable assets, net	41,580			41,580
Contract land deposits, net	32,779		(1,115)	31,664
Other assets	228,269		(4,188)	224,081
	2,034,604		(5,303)	2,029,301
Mortgage banking assets:	141,794			141,794
FIN 46R Entities:				
Land under development		65,679		65,679
Other assets		311		311
		65,990		65,990
Total assets	$ 2,176,398	$ 65,990	$ (5,303)	$ 2,237,085
LIABILITIES AND SHAREHOLDERS EQUITY				
Homebuilding:				
Accounts payable, accrued expenses and other liabilities	$ 305,807	$	$	$ 305,807
Customer deposits	70,163			70,163
Other term debt	2,388			2,388
Senior notes	135,370			135,370
	513,728			513,728
Mortgage banking liabilities:	114,068			114,068

FIN 46R Entities:				
Accounts payable, accrued expenses and other		11,287	4,370	15,657
Debt		45,030		45,030
Contract land deposits		5,172	(5,172)	
Advances from NVR, Inc.		4,501	(4,501)	
		65,990	(5,303)	60,687
Equity	1,548,602			1,548,602
Total liabilities and shareholders equity	$ 2,176,398	$ 65,990	$ (5,303)	$ 2,237,085

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3. Contract Land Deposits

The contract land deposit asset is shown net of a $132,500 and $147,900 impairment valuation allowance at June 30, 2009 and December 31, 2008, respectively.

4. Earnings per Share

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic weighted average number of shares outstanding	5,777,000	5,357,000	5,710,000	5,290,000
Shares issuable upon exercise of dilutive options	324,000	581,000	322,000	598,000
Diluted average number of shares outstanding	6,101,000	5,938,000	6,032,000	5,888,000

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. The assumed amount credited to additional paid-in capital equals the tax benefit from assumed exercise 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.

Options to purchase 317,363 and 337,455 shares of common stock during the three and six months ended June 30, 2009, and options to purchase 312,395 and 313,145 shares of common stock during the three and six months ended June 30, 2008, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. In addition, 377,861 performance-based options were outstanding as of June 30, 2008 that, pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share,* were excluded from the computation of diluted earnings per share because the performance target had not been achieved. The performance target was not met at December 31, 2008 and all of the performance-based options outstanding at that time expired unexercisable.

5. Marketable Securities

As of June 30, 2009 the Company held marketable securities totaling $658,362. These securities are classified by the Company as held-to-maturity, are measured at amortized cost and mature within one year. The following security types are included in the marketable securities balance at June 30, 2009:

	June 30, 2009
Marketable Securities:	
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ 309,018
Corporate debt securities issued under the FDIC Temporary Liquidity Guarantee Program	349,344
Total Marketable Securites	$ 658,362

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

6. Excess Reorganization Value, Goodwill and Other Intangibles

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 in conformity with the procedures specified by Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, issued by the American Institute of Certified Public Accountants, 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 pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*. 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 2009, and as of June 30, 2009, management believes that there was no impairment of excess reorganization value.

7. Uncertainty in Income Taxes

As of January 1, 2009, the Company had approximately $53,339 (on a net basis) of unrecognized tax benefits, which would decrease income tax expense if recognized. The Company recognizes interest related to unrecognized tax benefits in the income tax expense line. As of January 1, 2009, the Company had a total of $5,150 of accrued interest for unrecognized tax benefits on its balance sheet. Based on its historical experience in dealing with various taxing authorities, the Company has found that generally it is the administrative practice of these authorities to not seek penalties from the Company for the tax positions it has taken on its returns, related to its unrecognized tax benefits. Therefore, the Company does not accrue penalties for the positions in which it has an unrecognized tax benefit. However, if such penalties were to be accrued, they would be recorded as a component of income tax expense. With few exceptions, the Company is no longer subject to income tax examinations for years prior to 2005.

8. 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, 2008	$206	$722,265	$3,630,887	$(2,979,569)	$(74,978)	$ 74,978	$1,373,789
Net income			59,414				59,414
Deferred compensation activity					30,671	(30,671)	
Stock-based compensation		23,402					23,402
Stock option activity		45,550					45,550
Tax benefit from stock-based compensation activity		46,447					46,447
Treasury shares issued upon option exercise		(53,584)		53,584			
Balance, June 30, 2009	$206	$784,080	$3,690,301	$(2,925,985)	$(44,307)	$ 44,307	$1,548,602

NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

The Company did not repurchase any shares of its common stock during the six months ended June 30, 2009. 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 270,000 options to purchase shares of the Company s common stock were exercised during the six months ended June 30, 2009.

9. 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 and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Warranty reserve, beginning of period	$ 64,306	$ 72,272	$ 68,084	$ 70,284
Provision	4,613	7,280	7,652	17,016
Payments	(8,061)	(9,802)	(14,878)	(17,550)
Warranty reserve, end of period	$ 60,858	$ 69,750	$ 60,858	$ 69,750

10. Segment Disclosures

Consistent with the principles and objectives of SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, 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, and western Pennsylvania

Homebuilding South East - North Carolina, South Carolina and Tennessee

Homebuilding profit before tax includes all revenues and income generated from the sale of homes, less the cost of homes sold, selling, general and administrative expenses, and a corporate capital allocation charge. The corporate capital allocation charge eliminates in consolidation, is based on the segment s average net assets employed, and is charged using a consistent methodology in the years presented. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker, as defined in SFAS No. 131, 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

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

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), stock option 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, stock option compensation expense is not charged to the operating segments. External corporate interest expense is primarily comprised of interest charges on the Company s outstanding Senior Notes and working capital line borrowings, and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Homebuilding Mid Atlantic	$ 379,361	$ 559,865	$ 721,116	$ 1,086,257
Homebuilding North East	57,143	98,811	110,518	184,779
Homebuilding Mid East	113,982	154,769	206,092	304,929
Homebuilding South East	62,002	127,588	123,091	234,937
Mortgage Banking	12,943	14,690	23,213	32,752
Consolidated revenues	$ 625,431	$ 955,723	$ 1,184,030	$ 1,843,654

NVR, Inc.
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Profit:				
Homebuilding Mid Atlantic	$ 46,978	$ 44,720	$ 78,885	$ 86,727
Homebuilding North East	5,096	5,154	8,323	11,841
Homebuilding Mid East	8,049	9,208	12,744	19,471
Homebuilding South East	3,952	7,941	6,475	16,642
Mortgage Banking	7,659	7,857	13,209	19,517
Segment profit	71,734	74,880	119,636	154,198
Contract land deposit impairments (1)	8,908	16,076	10,461	15,439
Stock option expense (2)	(11,634)	(12,099)	(23,402)	(18,432)
Corporate capital allocation (3)	15,699	28,237	30,395	56,204
Unallocated corporate overhead (4)	(9,262)	(22,469)	(24,331)	(46,154)
Consolidation adjustments and other (5)	(3,244)	4,907	(7,270)	4,567
Corporate interest expense	(2,372)	(3,115)	(5,042)	(6,230)
Reconciling items sub-total	(1,905)	11,537	(19,189)	5,394
Consolidated income before taxes	$ 69,829	$ 86,417	$ 100,447	$ 159,592

	June 30,	
	2009	2008
Assets:		
Homebuilding Mid Atlantic	$ 450,483	$ 630,542
Homebuilding North East	62,422	81,204
Homebuilding Mid East	100,873	132,504
Homebuilding South East	50,238	115,351
Mortgage Banking	134,447	147,922
Segment assets	798,463	1,107,523
Assets not owned, consolidated per Fin 46R	65,990	145,141
Cash	582,157	867,329
Marketable securities (6)	658,362	
Deferred taxes	196,636	204,140
Intangible assets (7)	48,927	60,655
Contract land deposit reserve	(142,152)	(114,271)
Consolidation adjustments and other	28,702	43,338
Reconciling items sub-total	1,438,622	1,206,332

Consolidated assets	$ 2,237,085	$ 2,313,855

(1) This item represents changes to the contract land deposit impairment reserve, which is not allocated to the reportable segments. During each of the second quarters of 2009 and 2008, unallocated reserves decreased as a result of charging previously reserved land impairments to the operating segments, and to certain recoveries of deposits previously determined to be impaired.

(2) During the first quarter of 2008, the Company adjusted the estimated forfeiture rate used in the calculation of stock option expense. This resulted in the one-time reversal of approximately $4,800 of stock option expense in the first

quarter of 2008.

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(3) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The decreases in the corporate capital allocation charge are due to the lower segment asset balances during the respective periods due to the decreases in operating activity period over period. 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 June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Homebuilding Mid Atlantic	$ 10,436	$ 18,956	$ 20,010	$ 37,710
Homebuilding North East	1,710	2,666	3,261	5,449
Homebuilding Mid East	2,179	3,257	4,242	6,558
Homebuilding South East	1,374	3,358	2,882	6,487
Total	$ 15,699	$ 28,237	$ 30,395	$ 56,204

(4) The decrease in unallocated corporate overhead is primarily driven by a reduction in management incentive costs and reduced personnel and other overhead costs as part of our focus to size our organization to meet current activity levels.

(5) The decrease in consolidation adjustments and other is primarily due to a decrease in interest income earned related to lower interest rates in 2009 as compared to 2008.

(6) The Company purchased marketable securities during the first quarter of 2009. See Note 5 for further discussion of the investment in marketable securities.

(7) The decrease is attributable to the fourth quarter 2008 write-off of goodwill and indefinite life intangible assets

related to the Company s acquisitions of Rymarc Homes and Fox Ridge Homes.

11. 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. The estimated fair value of NVR s 5% Senior Notes due 2010 as of June 30, 2009 and December 31, 2008 was $136,388 and $161,937, respectively. The estimated fair value is based on a quoted market price. The carrying value was $135,370 and $163,320 at June 30, 2009 and December 31, 2008, respectively.

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

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forward sale contracts to broker/dealers are undesignated derivatives pursuant to the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and, accordingly, are marked to fair value through earnings. At June 30, 2009, there were contractual commitments to extend credit to borrowers aggregating approximately $166,000 and open forward delivery contracts aggregating approximately $249,000.

Fair value is determined pursuant to SFAS No. 157, *Fair Value Measurements*, and Staff Accounting Bulletin 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*, both of which the Company adopted on a prospective basis as of January 1, 2008. SFAS No. 157 assigns a fair value hierarchy to the inputs used to measure fair value under the rule. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value of the Company s rate lock commitments to borrowers and the related input levels includes, as applicable:

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

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons and the excess servicing to be received or buydown fees to be paid upon securitization of the loan. The excess servicing and buydown fees are calculated pursuant to contractual terms with investors. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells all of its loans on a servicing released basis, and receives a servicing released premium upon sale. Thus, the value of the servicing rights, which averaged 168 basis points of the loan amount as of June 30, 2009, 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 17% 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 in accordance with SFAS No. 133 when closed, and thereafter are carried at the lower of cost or fair value until sale. The fair value of loans held-for-sale of $123,177 included in the accompanying condensed consolidated balance sheet exceeds its aggregate principal balance of $122,980 by $197.

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

		Balance Sheet Location	Fair Value June 30, 2009
Derivative Assets:			
Rate Lock Commitments/Forward Sales Contracts	NVRM	Other assets	$ 2,146

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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:

	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	$ 166,176	$ (625)	$ 347	$ 2,343	$	$ 2,065
Forward sales contracts	$ 248,557				81	81
Mortgages held for sale	$ 122,980	(534)	(1,316)	2,047		197
Total Fair Value Measurement, June 30, 2009		(1,159)	(969)	4,390	81	2,343
Less: Fair Value Measurement, December 31, 2008		(1,197)	2,021	1,825	(1,743)	906
Total Fair Value Adjustment for the period ended June 30, 2009		**$ 38**	**$ (2,990)**	**$ 2,565**	**$ 1,824**	**$ 1,437**

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 locked loan commitments.

12. Debt

On August 5, 2008, NVR Mortgage Finance, Inc. (NVRM) entered into a Master Repurchase Agreement with U.S. Bank National Association, as Agent and representative of itself as a Buyer, and the other Buyers (the Repurchase Agreement). The Repurchase Agreement replaced NVRM s warehouse credit facility which was set to expire on August 21, 2008. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by NVRM and is accounted for as a secured borrowing under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The Repurchase Agreement provides for loan purchases up to $110,000, 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 $150,000. The Repurchase Agreement expires on August 4, 2009, and we expect to be able to renew the Repurchase Agreement at current market terms prior to its expiration.

At June 30, 2009, there was $97,021 outstanding under the Repurchase Agreement, which is included in liabilities in the accompanying condensed consolidated balance sheets. Amounts outstanding under the Repurchase Agreement are collateralized by the Company s mortgage loans held for sale, which are included in assets in the June 30, 2009 balance sheet in the accompanying condensed consolidated financial statements. As of June 30, 2009, there were no aggregate outstanding purchase price limitations reducing the amount available to NVRM. 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.

On April 3, 2009 NVR repurchased $27,950 of its 5% Senior Notes due June 15, 2010 (the Notes) on the open market at par, reducing the Notes balance at June 30, 2009 to $135,370.

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13. 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, 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 and New Jersey have been stayed pending further developments in the New York action. Following a status conference on July 14, 2009, the parties have also agreed to stay the North Carolina action pending final disposition of the New York action.

The Company believes that its compensation practices in regard to sales and marketing representatives are entirely lawful and in compliance with two letter rulings from the United States Department of Labor (DOL) issued in January 2007. The 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 condensed consolidated balance sheets.

NVR 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 or results of operations of NVR.

14. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement, but deducted to arrive at income available to common shareholders. SFAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non controlling interests. SFAS No. 160 was effective for the Company beginning January 1, 2009. The adoption of SFAS No. 160 did not have a material impact on the Company s financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP No. 157-2), *Effective Date of FASB Statement No. 157* which delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. FSP No. 157-2 became

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effective for the Company beginning January 1, 2009. The adoption of FSP No. 157-2 did not have a material impact on the Company s financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 enhances the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , regarding an entity s derivative instruments and hedging activities. SFAS No. 161 was effective for the Company beginning January 1, 2009. The Company conformed its disclosures to the requirements of SFAS No. 161.

In April 2009, the FASB issued FASB Staff Positions No. FAS 107-1 and No. APB 28-1 (FSP No. 107-1 and APB No. 28-1), *Interim Disclosures about Fair Value of Financial Instruments*, which enhances the interim disclosures required for the fair value of financial instruments and requires companies to disclose the methods and assumptions used to estimate the fair value of financial instruments. FSP No. 107-1 and APB 28-1 were effective for the Company beginning April 1, 2009. The Company conformed its disclosures to the requirements of FSP No. 107-1 and APB No. 28-1.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4 (FSP No. 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP No. 157-4 clarifies the methodology to be used to determine fair value when there is no active market or where the price inputs being used represent distressed sales. FSP No. 157-4 also reaffirms the objective of fair value measurement as stated in SFAS No. 157, which is to reflect how much an asset would be sold for in an orderly transaction. FSP No. 157-4 was effective for the Company beginning April 1, 2009. The adoption of FSP No. 157-4 did not have a material impact on the Company s financial statements.

In April 2009, the FASB issued FASB Staff Positions No. FAS 115-2 and No. FAS 124-2, (FSP No. 115-2 and FSP No. 124-2), *Recognition and Presentation of Other-Than-Temporary Impairment of Certain Investments in Debt and Equity Securities*. FSP No. 115-2 and FSP No. 124-2 changes the existing other-than-temporary impairment model for debt securities and expands and increases the frequency of disclosures for other-than-temporary impairments for debt and equity securities. It was effective for the Company beginning April 1, 2009. The adoption of FSP No. 115-2 and FSP No. 124-2 did not have a material impact on the Company s financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 was effective for the Company beginning April 1, 2009. The Company conformed its disclosures to the requirements of SFAS No. 165.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* (SFAS No. 166), which changes the conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional year-end and interim disclosures. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. The implementation of SFAS No. 166 is not expected to have a material impact on the Company s financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). This statement amends FASB Interpretation 46R related to the consolidation of variable interest entities (VIEs) and revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently

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evaluating the potential impact of SFAS No. 167 on its consolidated financial statements and results of operations.

In July 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, (SFAS No. 168), which supersedes SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS No. 168 establishes the FASB Accounting Standards Codification, which will become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. SFAS No. 168 is effective for the period ending after September 15, 2009. The implementation of SFAS No. 168 is not expected to have a material impact on the Company s financial statements.

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 negativ 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; 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. For additional information regarding risk factors, see Part II, Item 1A 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 and Six Months Ended June 30, 2009 and 2008

Overview

Our primary business is the construction and sale of single-family detached homes, townhomes and condominium buildings. To more fully serve our homebuilding customers, we also operate a mortgage banking and title services business. Our homebuilding reportable segments consist of the following markets:

Mid Atlantic:	Maryland, Virginia, West Virginia and Delaware
North East:	New Jersey and eastern Pennsylvania
Mid East:	Kentucky, New York, Ohio and western Pennsylvania
South East:	North Carolina, South Carolina, and Tennessee

We believe that we operate our business with a conservative operating strategy. We do not engage in land development and primarily construct homes on a pre-sold basis. This strategy allows us to maximize inventory turnover, which we believe enables us to minimize market risk and to operate with less capital, thereby enhancing rates of return on equity and total capital. In addition, 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 management believes contributes to minimizing the adverse effects of regional economic cycles and provides growth opportunities within these markets.

Because we are not active in the land development business, our continued success is contingent upon, among other things, our ability to control an adequate supply of finished lots at current market prices on which to build, and on our developers ability to timely deliver finished lots to meet the sales demands of

our customers. We acquire finished lots from various development entities under fixed price lot purchase agreements (purchase agreements). These purchase agreements require deposits in the form of cash or letters of credit that may be forfeited if we fail to perform under the purchase agreement. However, we believe this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and development. As of June 30, 2009, we controlled approximately 44,300 lots with deposits in cash and letters of credit totaling approximately $165,000 and $5,400, respectively. Included in the number of controlled lots are approximately 17,300 lots for which we have recorded a contract land deposit impairment reserve of $132,500 as of June 30, 2009. See note 3 to the condensed consolidated financial statements included herein for additional information regarding contract land deposits.

Overview of the Current Business Environment

The current home sales environment remains challenging, still characterized by high levels of existing and new homes available for sale driven by slowed demand and high foreclosure rates. Additionally, homebuyer confidence continues to be negatively impacted by the continuing economic recession and concerns regarding unemployment as well as concerns regarding the stability of home values. The current home sales environment also continues to be adversely impacted by a restrictive mortgage lending environment that has made it more difficult for our customers to obtain mortgage financing, as well as making it difficult for them to sell their current homes. The challenging market conditions continue to negatively impact new orders and selling prices in each of our market segments, and in response, we continue to offer incentives to homebuyers and to reduce prices in many of our markets. Overall, new orders, net of cancellations (new orders), increased 2% in the second quarter of 2009 as compared to the same period in 2008, but for the six months ended June 30, 2009 were approximately 5% lower than new orders for the same period in 2008. We continue to see improvement in the cancellation rate, decreasing to 14% in the second quarter of 2009 as compared to 19% in the same period of 2008 and 15% in the first quarter of 2009. Average selling prices were down 7% in the second quarter of 2009 as compared to the second quarter of 2008 and down 9% for the six months ended June 30, 2009 compared to the same period in 2008. In our new orders for 2009, we noted an increase in the percentage of first-time homebuyers, driven we believe in part by the federal tax credit for first-time homebuyers. New orders to first-time homebuyers in future periods may be negatively impacted as we reach the November 30, 2009 settlement deadline to qualify for the federal tax credit.

Reflecting the challenging market conditions discussed above, consolidated revenues totaled $625,431 for the quarter ended June 3