NVR INC
Form 10-Q
August 01, 2008

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

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

(Not Applicable)

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (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 25, 2008 there were 5,427,022 total shares of common stock outstanding.

NVR, Inc.
Form 10-Q
INDEX

		Page
PART I	FINANCIAL INFORMATION	
Item 1.	NVR, Inc. Condensed Consolidated Financial Statements	
	Condensed Consolidated Balance Sheets at June 30, 2008 (unaudited) and December 31, 2007	3
	Condensed Consolidated Statements of Income for the Three Months Ended June 30, 2008 (unaudited) and June 30, 2007 (unaudited) and the Six Months Ended June 30, 2008 (unaudited) and June 30, 2007 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 (unaudited) and June 30, 2007 (unaudited)	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 4.	Submission of Matters to a Vote of Security Holders	39
Item 6.	Exhibits	40
	Signature	41
	Exhibit Index	42

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 867,329	$ 660,709
Receivables	16,189	10,855
Inventory:		
Lots and housing units, covered under sales agreements with customers	549,540	573,895
Unsold lots and housing units	69,127	105,838
Manufacturing materials and other	6,970	9,121
	625,637	688,854
Assets not owned, consolidated per FIN 46R	145,141	180,206
Property, plant and equipment, net	29,077	32,911
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Goodwill and indefinite life intangibles, net	11,686	11,686
Definite life intangibles, net	42	96
Contract land deposits, net	173,123	188,528
Other assets	248,782	252,461
	2,158,586	2,067,886
Mortgage Banking:		
Cash and cash equivalents	810	3,500
Mortgage loans held for sale, net	134,714	107,338
Property and equipment, net	1,020	881
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	11,378	7,464
	155,269	126,530
Total assets	$ 2,313,855	$ 2,194,416

See notes to condensed consolidated financial statements.

(Continued)

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

	June 30, 2008 (unaudited)	December 31, 2007
LIABILITIES AND SHAREHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 191,158	$ 219,048
Accrued expenses and other liabilities	232,625	251,475
Liabilities related to assets not owned, consolidated per FIN 46R	134,686	164,369
Customer deposits	108,379	125,315
Other term debt	2,703	2,820
Senior notes	200,000	200,000
	869,551	963,027
Mortgage Banking:		
Accounts payable and other liabilities	12,152	18,551
Notes payable	116,199	83,463
	128,351	102,014
Total liabilities	997,902	1,065,041
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,561,187 and 20,592,640 shares issued as of June 30, 2008 and December 31, 2007, respectively	206	206
Additional paid-in-capital	692,152	663,631
Deferred compensation trust 515,888 and 516,085 shares of NVR, Inc. common stock as of June 30, 2008 and December 31, 2007, respectively	(75,461)	(75,636)
Deferred compensation liability	75,461	75,636
Retained earnings	3,624,793	3,529,995
Less treasury stock at cost 15,136,930 and 15,455,086 shares at June 30, 2008 and December 31, 2007, respectively	(3,001,198)	(3,064,457)
Total shareholders equity	1,315,953	1,129,375
Total liabilities and shareholders equity	$ 2,313,855	$ 2,194,416

See notes to condensed consolidated financial statements.

4

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Homebuilding:				
Revenues	$ 941,033	$ 1,297,140	$ 1,810,902	$ 2,372,250
Other income	3,701	5,251	10,100	12,216
Cost of sales	(772,369)	(1,061,937)	(1,499,300)	(1,915,347)
Selling, general and administrative	(89,871)	(101,198)	(174,037)	(198,604)
Operating income	82,494	139,256	147,665	270,515
Interest expense	(3,232)	(3,298)	(6,471)	(6,620)
Homebuilding income	79,262	135,958	141,194	263,895
Mortgage Banking:				
Mortgage banking fees	14,690	19,528	32,752	37,607
Interest income	869	1,030	1,679	2,337
Other income	184	276	343	460
General and administrative	(8,408)	(8,954)	(16,062)	(18,277)
Interest expense	(180)	(161)	(314)	(313)
Mortgage banking income	7,155	11,719	18,398	21,814
Income before taxes	86,417	147,677	159,592	285,709
Income tax expense	(35,085)	(56,930)	(64,794)	(110,141)
Net income	$ 51,332	$ 90,747	$ 94,798	$ 175,568
Basic earnings per share	$ 9.58	$ 16.19	$ 17.92	$ 31.16
Diluted earnings per share	$ 8.64	$ 14.14	$ 16.10	$ 27.11
Basic average shares outstanding	5,357	5,606	5,290	5,634
Diluted average shares outstanding	5,938	6,420	5,888	6,477

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 94,798	$ 175,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,463	8,632
Stock option compensation expense	18,432	28,509
Excess income tax benefit from exercise of stock options	(33,184)	(66,659)
Contract land deposit impairments	12,410	67,239
Deferred tax expense (benefit)	10,524	(23,372)
Mortgage loans closed	(966,798)	(1,076,375)
Proceeds from sales of mortgage loans	962,615	1,118,579
Principal payments on mortgage loans held for sale	2,105	4,745
Gain on sale of loans	(25,175)	(27,402)
Net change in assets and liabilities:		
Decrease (increase) in inventories	63,217	(152,946)
Increase in receivables	(5,137)	(63)
Decrease in contract land deposits	5,060	12,383
(Increase) decrease in accounts payable, customer deposits and accrued expenses	(37,857)	56,131
Other, net	(7,525)	(10,102)
Net cash provided by operating activities	100,948	114,867
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,750)	(4,078)
Other, net	765	1,259
Net cash used in investing activities	(2,985)	(2,819)
Cash flows from financing activities:		
Net borrowings (repayments) under notes payable and other term debt	32,619	(17,554)
Purchase of treasury stock		(209,613)
Excess income tax benefit from exercise of stock options	33,184	66,659
Proceeds from exercise of stock options	40,164	66,423
Net cash provided (used) by financing activities	105,967	(94,085)
Net increase in cash and cash equivalents	203,930	17,963
Cash and cash equivalents, beginning of the period	664,209	556,119

Cash and cash equivalents, end of period	$ 868,139	$ 574,082
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 6,214	$ 6,356
Income taxes paid, net of refunds	$ 31,784	$ 66,497
Supplemental disclosures of non-cash activities:		
Net assets not owned, consolidated per FIN 46R	$ (5,382)	$ (4,422)

See notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. (NVR or the Company) and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see note 2 to the accompanying financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America, they should be read in conjunction with the financial statements and notes thereto included in the Company s 2007 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation have been included. Operating results for the three and six-month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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

For the three and six-month periods ended June 30, 2008 and 2007, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Consolidation of Variable Interest Entities

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

NVR does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if NVR fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots. As of June 30, 2008, the Company controlled approximately 60,500 lots with deposits in cash and letters of credit totaling approximately $292,000 and $7,700, respectively.

NVR believes this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. NVR may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the finished

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 (LLC s). All LLC s are structured such that NVR is a non-controlling member and is at risk only for the amount invested by the Company. NVR is not a borrower, guarantor or obligor of any of the LLCs debt. NVR enters into a standard fixed price purchase agreement to purchase lots from the LLC s.

At June 30, 2008, NVR had an aggregate investment in nine separate LLC s totaling approximately $9,900, which controlled approximately 370 lots. NVR recognizes its share of the earnings of the LLC s as an adjustment of the cost basis of the lots at the time that the lot and related home is settled with an external customer. During the six months ended June 30, 2008 and 2007, NVR adjusted cost of sales by approximately $240 and $270, respectively, which represented NVR s share of the earnings of the LLC s. As of June 30, 2008, NVR s investment in the LLC s had been partially offset by an approximate $5,800 contract land deposit valuation reserve.

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

The Company has evaluated all of its fixed price purchase agreements and LLC arrangements and has determined that it is the primary beneficiary of twenty-eight of those development entities with which the agreements and arrangements are held. As a result, at June 30, 2008, 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, 2008 was the inclusion on the balance sheet of $145,141 as *Assets not owned, consolidated per FIN 46R,* with a corresponding inclusion of $134,686 as *Liabilities related to assets not owned, consolidated per FIN 46R*, after elimination of intercompany items. Inclusive in these totals were assets of approximately $55,000 and liabilities of approximately $51,000 estimated for thirteen development entities created after December 31, 2003 that did not provide financial statements.

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

Following is the consolidating schedule at June 30, 2008:

	NVR, Inc. and Subsidiaries	FIN 46R Entities	Eliminations	Consolidated Total
ASSETS				
Homebuilding:				
Cash and cash equivalents	$ 867,329	$	$	$ 867,329
Receivables	16,189			16,189
Homebuilding inventory	625,637			625,637
Property, plant and equipment, net	29,077			29,077
Reorganization value in excess of amount allocable to identifiable assets, net	41,580			41,580
Goodwill and intangibles, net	11,728			11,728
Contract land deposits, net	177,455		(4,332)	173,123
Other assets	254,905		(6,123)	248,782
	2,023,900		(10,455)	2,013,445
Mortgage banking assets:	155,269			155,269
FIN 46R Entities:				
Land under development		144,286		144,286
Other assets		855		855
		145,141		145,141
Total assets	$ 2,179,169	$ 145,141	$ (10,455)	$ 2,313,855
LIABILITIES AND SHAREHOLDERS EQUITY				
Homebuilding:				
Accounts payable, accrued expenses and other liabilities	$ 423,783	$	$	$ 423,783
Customer deposits	108,379			108,379
Other term debt	2,703			2,703
Senior notes	200,000			200,000
	734,865			734,865
Mortgage banking liabilities:	128,351			128,351

FIN 46R Entities:				
Accounts payable, accrued expenses and other liabilities		15,337		15,337
Debt		50,828		50,828
Contract land deposits		16,791	(16,791)	
Advances from NVR, Inc.		4,501	(4,501)	
Minority interest			68,521	68,521
		87,457	47,229	134,686
Equity	1,315,953	57,684	(57,684)	1,315,953
Total liabilities and shareholders equity	$ 2,179,169	$ 145,141	$ (10,455)	$ 2,313,855

9

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

Under FIN 46R, an enterprise with an interest in a variable interest entity or potential variable interest entity created before December 31, 2003, is not required to apply FIN 46R to that entity if the enterprise, after making an exhaustive effort , is unable to obtain the information necessary to perform the accounting required to consolidate the variable interest entity for which it is determined to be the primary beneficiary. At June 30, 2008, NVR has been unable to obtain the information necessary to perform the accounting required to consolidate five separate development entities created before December 31, 2003 for which NVR determined it is the primary beneficiary. NVR has made, or has committed to make, aggregate deposits, totaling approximately $7,800 to these five separate development entities, with a total aggregate purchase price for the finished lots of approximately $64,700. The aggregate deposit made or committed to being made is NVR s maximum exposure to loss. As noted above, because NVR does not have any contractual or ownership interests in the development entities with which it contracts to buy finished lots (other than the limited use of the LLC s as discussed above), NVR does not have the ability to compel these development entities to provide financial or other data. Because NVR has no ownership rights in any of these five development entities, the consolidation of such entities has no impact on NVR s net income or earnings per share for the three and six months ended June 30, 2008. Aggregate activity with respect to the five development entities is included in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Finished lots purchased dollars	$4,188	$2,310	$4,556	$5,996
Finished lots purchased units	10	13	11	32

3. Contract Land Deposits

During the three and six-month periods ended June 30, 2008, the Company incurred pre-tax impairment charges of approximately $5,800 and $12,400, respectively. During the three and six-month periods ended June 30, 2007, the Company incurred pre-tax impairment charges of approximately $55,000 and $67,200, respectively. These charges are related to the impairment of contract land deposits due to continued deterioration of market conditions in the homebuilding industry. These impairment charges were recorded in cost of sales in the accompanying condensed consolidated statements of income. The contract land deposit asset is shown net of a $114,271 and $133,664 impairment valuation allowance at June 30, 2008 and December 31, 2007, 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, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Basic weighted average number of shares outstanding	5,357,000	5,606,000	5,290,000	5,634,000
Shares issuable upon exercise of dilutive options	581,000	814,000	598,000	843,000
Diluted average number of shares outstanding	5,938,000	6,420,000	5,888,000	6,477,000

The assumed proceeds used in the treasury method for calculating the dilutive impact of employee stock options includes the amount the employee must pay upon exercise, the amount of compensation cost

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

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 312,395 and 313,145 shares of common stock during the three and six months ended June 30, 2008, and options to purchase 34,238 shares of common stock during both the three and six months ended June 30, 2007, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. In addition, 377,861 and 408,737 performance-based options were outstanding as of June 30, 2008 and 2007, respectively, and accordingly, have been excluded from the computation of diluted earnings per share because the performance target had not been achieved, pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*. NVR does not expect the performance target will be achieved and accordingly does not expect these options to vest. See note 5 for further discussion of the performance-based options.

5. Stock Option Compensation Expense

During the six months ended June 30, 2008, the Company issued 259,946 non-qualified stock options (Management Options) under the 2000 Broadly-Based Stock Option Plan. The exercise price of the Management Options granted was equal to the closing price of the Company s common stock on the day immediately preceding the date of grant. Each Management Option was granted for a term of ten (10) years from the date of grant. These Management Options will vest 100% on December 31, 2010, subject to the grantee s continued employment. The Company also issued 12,765 non-qualified stock options (Director Options) under the 1998 Directors Long Term Stock Option Plan during the six months ended June 30, 2008. The exercise price of the Director Options granted was equal to the closing price of the Company s common stock on the day immediately preceding the date of grant. Each Director Option was granted for a term of ten (10) years from the date of grant. These Director Options will vest in 33 1/3% annual increments beginning December 31, 2010, subject to the director s continued Board service.

To estimate the grant-date fair value of its stock options, the Company uses the Black-Scholes option-pricing model. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the following factors: the option s exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a risk-free interest rate; the estimated option term; and the expected volatility. For the risk-free interest rate, the Company uses a U.S. Treasury Strip due in a number of years equal to the option s expected term. NVR has concluded that its historical exercise experience is the best estimate of future exercise patterns to determine an option s expected term. To estimate expected volatility, NVR analyzed the historic volatility of its common stock. The fair values of the Director Options and Management Options granted during the six months ended June 30, 2008 were estimated on the grant date using the Black-Scholes option-pricing model based on the following assumptions:

	Management Options	**Director Options**
Estimated option life	3.89 years	4.87 years
Risk free interest rate (range)	2.64% - 3.23%	2.83% - 3.71%
Expected volatility (range)	31.60% - 36.73%	30.84% - 36.73%
Expected dividend rate	0.00%	0.00%
Grant-date fair value per share of options granted	$155.89	$174.07

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

Compensation cost for options which vest solely based on continued employment over a long-term vesting schedule (service-only option) 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). As required by SFAS No. 123R, *Share-Based Payment*, compensation cost is recognized within the income statement in the same expense line as the cash compensation paid to the respective employees. SFAS No. 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation and requires that the compensation costs of stock-based awards be recognized net of estimated forfeitures.

As of June 30, 2008, the total unrecognized compensation cost for outstanding unvested service-only stock option awards equals approximately $90,800, net of estimated forfeitures, and the weighted-average period over which the unrecognized compensation will be recorded is equal to approximately 1.86 years.

The following table provides additional information relative to NVR s stock option plans for the six-month period ended June 30, 2008:

	Options	Weighted Average Exercise Price
Stock Options		
Outstanding at beginning of period	2,050,453	$ 325.13
Granted	272,711	$ 516.72
Exercised	(318,156)	$ 185.64
Forfeited or expired	(78,299)	$ 437.40
Outstanding at end of period	1,926,709	$ 370.71
Exercisable at end of period	417,419	$ 193.25

As noted above, SFAS No. 123R requires the Company to recognize compensation expense related to stock based compensation plans net of estimated forfeitures. In addition, the Company is required to adjust stock based compensation expense if the Company s actual forfeiture experience differs from estimates made. During the first quarter of 2008, the Company adjusted its expected forfeiture rate and consequently recorded an adjustment reversing approximately $4,800 of stock-based compensation expense as a result.

The Company determined in the third quarter of 2007 that it was improbable that it would achieve the performance metric related to 377,861 outstanding stock options. Based on the Company s continued assessment that the performance metric (aggregate diluted earnings per share for the years ended December 31, 2005 through 2008 in excess of $339.00 per fully diluted share) will not be met, the Company expects that none of the contingently issuable options will vest. As a result, the Company currently is not recognizing any stock-based compensation expense related to these options and the Company believes it is improbable that any such expense will be recognized in the future.

The Company recognized stock based compensation expense of $12,099 and $14,186 during the three months ended June 30, 2008 and 2007, respectively, and $18,432 and $28,509 during the six months ended June 30, 2008 and 2007, respectively.

6. Excess Reorganization Value, Goodwill and Other Intangibles

SFAS No. 142*, Goodwill and Other Intangible Assets*, requires goodwill and reorganization value in excess of amounts allocable to identifiable assets (excess reorganization value) to be tested for impairment on an annual basis subsequent to the year of adoption. The Company completed the annual assessment of

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

impairment during the first quarter of 2008, and as of June 30, 2008, management believes that there was no impairment of either goodwill or excess reorganization value.

7. Uncertainty in Income Taxes

As of January 1, 2008, the Company has approximately $36,383 (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 as a component of income tax expense. As of January 1, 2008, the Company had a total of $16,969 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 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 2004.

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, 2007	$206	$663,631	$3,529,995	$(3,064,457)	$(75,636)	$75,636	$1,129,375
Net income			94,798				94,798
Deferred compensation activity					175	(175)	
Stock-based compensation		18,432					18,432
Stock option activity		40,164					40,164
Tax benefit from stock-based compensation activity		33,184					33,184
Treasury shares issued upon option exercise		(63,259)		63,259			
Balance, June 30, 2008	$206	$692,152	$3,624,793	$(3,001,198)	$(75,461)	$75,461	$1,315,953

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 318,000 options to purchase shares of the Company s common stock were exercised during the six months ended June 30, 2008.

9. Product Warranties

The Company establishes warranty and product liability reserves 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, 2008 and 2007:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Warranty reserve, beginning of period	$ 72,272	$ 68,328	$ 70,284	$ 70,175
Provision	7,280	10,300	17,016	18,540
Payments	(9,802)	(11,854)	(17,550)	(21,941)
Warranty reserve, end of period	$ 69,750	$ 66,774	$ 69,750	$ 66,774

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 which 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 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), stock option compensation expense, consolidation adjustments and external corporate interest expense. NVR s overhead functions, such as accounting, treasury, human resources, land acquisition, 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 are not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Homebuilding Mid Atlantic	$ 559,865	$ 789,878	$ 1,086,257	$ 1,478,661
Homebuilding North East	98,811	114,705	184,779	203,328
Homebuilding Mid East	154,769	224,489	304,929	379,617
Homebuilding South East	127,588	168,068	234,937	310,644
Mortgage Banking	14,690	19,528	32,752	37,607
Consolidated revenues	$ 955,723	$ 1,316,668	$ 1,843,654	$ 2,409,857

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Profit:				
Homebuilding Mid Atlantic	$ 45,760	$ 115,291	$ 89,240	$ 218,660
Homebuilding North East	5,559	4,583	12,710	8,008
Homebuilding Mid East	9,839	21,862	20,686	35,874
Homebuilding South East	8,290	25,437	17,350	48,164
Mortgage Banking	7,857	12,604	19,517	23,584
Segment profit	77,305	179,777	159,503	334,290
Contract land deposit impairments (1)	16,076	(39,115)	15,439	(47,605)
Stock option expense (2)	(12,099)	(14,186)	(18,432)	(28,509)
Corporate capital allocation (3)	28,237	38,766	56,204	74,229
Unallocated corporate overhead	(24,894)	(20,288)	(51,459)	(46,271)
Consolidation adjustments and other	4,907	5,850	4,567	5,837
Corporate interest expense	(3,115)	(3,127)	(6,230)	(6,262)
Reconciling items sub-total	9,112	(32,100)	89	(48,581)
Consolidated income before tax	$ 86,417	$ 147,677	$ 159,592	$ 285,709

(1) This item represents contract land deposit reserves which have not yet been

charged to the operating segments. During the second quarter of 2008, unallocated reserves decreased as a result of charging previously reserved land impairments to the operating segments.

(2) The stock option expense in 2007 includes expense of approximately $5,600 and $11,300 related to contingently issuable shares for the three and six-month periods, respectively. The Company determined that it was improbable that it would achieve the performance metric related the outstanding contingently issuable stock options. Based on the Company s continued assessment that the performance metric (aggregate diluted earnings per share for the years ended

December 31, 2005 through 2008 in excess of $339.00 per fully diluted share) will not be met, the Company expects that none of the contingently issuable options will vest. As a result, the Company currently is not recognizing any stock-based compensation expense related to these options and the Company believes it is improbable that any such expense will be recognized in the future. In addition, during the first quarter of 2008 the Company adjusted the estimated forfeiture rate used in the calculation of stock option expense. This resulted in a reversal of approximately $4,800 of stock option expense in the first quarter of 2008. These reductions in stock option expense in the

three and six-month periods ended June 30, 2008 as compared to the same periods in 2007 were partially offset by stock option expense related to options granted in 2008. See note 5 for further discussion.

(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

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

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,	
	2008	**2007**	**2008**	**2007**
Homebuilding Mid Atlantic	$ 18,956	$ 26,457	$ 37,710	$ 51,502
Homebuilding North East	2,666	4,064	5,449	7,603
Homebuilding Mid East	3,257	4,683	6,558	8,510
Homebuilding South East	3,358	3,562	6,487	6,614
Total	$ 28,237	$ 38,766	$ 56,204	$ 74,229

	June 30,	
	2008	**2007**
Assets:		
Homebuilding Mid Atlantic	$ 616,016	$ 949,937
Homebuilding North East	81,204	131,106
Homebuilding Mid East	122,386	176,728
Homebuilding South East	115,350	129,145
Mortgage Banking	147,922	168,583
Segment assets	1,082,878	1,555,499
Assets not owned, consolidated per FIN 46R	145,141	199,246
Cash	867,329	571,522
Deferred taxes	204,140	192,697
Intangible assets	60,655	60,776
Land reserve	(114,271)	(104,468)
Consolidation adjustments and other (4)	67,983	28,009
Reconciling items sub-total	1,230,977	947,782
Consolidated assets	$ 2,313,855	$ 2,503,281

(4) The 2008 balance includes bulk purchases of finished building lots of approximately $25,000 which have not yet been allocated to the reportable segments and a reduction in the consolidating adjustment eliminating FIN 46R land deposits of approximately $14,000. See note 2 for further discussion.

11. Fair Value of Derivative Instruments

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 pursuant to the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and, accordingly, are marked to fair value through earnings. 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

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

which the Company adopted on a prospective basis as of the beginning of 2008. Fair value measurements are included in earnings as a component of mortgage banking fees in the accompanying statements of income.

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 release premium upon sale. Thus, the value of the servicing rights included in the fair value measurement is based upon contractual terms with investors, and range from approximately 45 basis points to 285 basis points of the loan amount, depending on the loan type. The Company assumes an approximate 18% 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 closed at cost, which includes all fair value measurement in accordance with SFAS No. 133, and thereafter are carried at the lower of cost or fair value until sale.

The effect of fair value measurements on earnings in the six months ended June 30, 2008 is 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**
Rate lock commitments	$ 386,600	$ (244)	$ (4,418)	$ 6,435	$	$ 1,773
Forward sales contracts	562,253				6,032	6,032
Mortgages held for sale	132,954	(557)	(1,643)	2,401		201
Total		$ (801)	$ (6,061)	$ 8,836	$ 6,032	$ 8,006

Prior to the adoption of SAB No. 109 and SFAS No. 157, the fair value measurement for locked loan commitments and closed loans held for sale only considered the effects of interest rate movements between the date of the rate lock

and either the loan closing date or the balance sheet date. The Company recognized a net SFAS No. 133 unrealized loss of $111 (pre-tax) in the six-month period ended June 30,

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

2007. The resulting unrealized $8,000 gain in the six-month period ended June 30, 2008 from the fair value measurement was primarily attributable to the inclusion of the value of the servicing rights in the measurement as required by SAB No. 109. The increase in unrealized income from the adoption of SAB No. 109 and SFAS No. 157 was further increased due to the principal volume of the Company s locked loan pipeline increasing by 68% from June 30, 2007 to June 30, 2008 as a result of a 180 day extended lock program offered to homebuyers that was instituted during 2008. The fair value measurement will be impacted in the future by the change in volume and product mix of the Company s locked loan commitments.

12. Debt

NVR Mortgage Finance, Inc., a wholly owned subsidiary of NVR, Inc., increased its borrowing capacity under its existing warehouse credit facility to $149,250 from $125,000 by executing a Lender Addition Agreement dated as of April 22, 2008, with U.S. Bank National Association, as agent, Comerica Bank, National City Bank, Washington Mutual Bank, F.A., Bank of America N.A. and U.S. Bank National Association, each as a Lender. There were no changes made to any other terms of the existing revolving credit agreement.

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.

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 sheet.

In 2006 and 2005, the Company received requests for information pursuant to Section 308(a) of the Clean Water Act (the Act) from Regions 3 and 4 of the United States Environmental Protection Agency (the EPA). The requests sought information regarding the Company s storm water management discharge practices in North Carolina, Pennsylvania, Maryland and Virginia during the homebuilding construction process. The Company was informed in the second quarter of 2008 that this matter has been closed with the EPA, and no fines were assessed.

The Company is involved in various other litigation arising in the ordinary course of business. The Company believes that the disposition of these matters will not have a material adverse effect on the Company s financial position or results of operations.

14. Recent Accounting Pronouncements

On November 29, 2006, the FASB ratified Emerging Issue Task Force (EITF) Issue No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment Under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums*. EITF No. 06-8 states that the adequacy of the buyer s continuing investment under SFAS

No. 66 should be assessed in determining whether to recognize profit under the percentage-of-completion method on the sale of individual units in a condominium project. This consensus could require that additional deposits be collected by developers of condominium projects that want to recognize profit during the construction period under the percentage-of-completion method. EITF No. 06-8 became effective for the Company beginning on January 1, 2008. The adoption of EITF No. 06-8 did not have a material impact on the Company s financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. The statement permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 became effective for the Company on January 1, 2008. The Company did not elect to measure any financial assets or liabilities at fair value except those required to be reported at fair value by SFAS No. 157 as discussed in note 11 above.

NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. 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. 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 is effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) expands on the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which an entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS No. 141(R) expands on required disclosures to improve the statement users abilities to evaluate the nature and financial effects of business combinations. SFAS No. 141(R) is effective for any acquisitions made on or after January 1, 2009.

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 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not expect the adoption of FSP No. 157-2 to have a material impact on its 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 is effective for the Company s fiscal year beginning January 1, 2009. The Company will conform its disclosures to the requirements of SFAS No. 161 upon adoption.

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; the ability of NVR to integrate any acquired business; 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 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 and Six Months Ended June 30, 2008 and 2007

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, 2008, we controlled approximately 60,500 lots with deposits in cash and letters of credit totaling approximately $292,000 and $7,700, respectively. Included in the number of controlled lots are approximately 17,600 lots for which we have recorded a contract land deposit impairment reserve of $114,271 as of June 30, 2008. See note 3 to the condensed consolidated financial statements included herein for additional information regarding contract land deposits.

Current Overview of the Business Environment

The current home sales environment remains challenging, still characterized by relatively higher levels of existing and new homes available for sale, driven by slowed demand and record foreclosure rates. In addition, homebuyer confidence continues to be negatively impacted by concerns regarding a potential economic recession, job stability and declining home prices in many of our markets. The home sales environment also continues to be adversely impacted by a more restrictive mortgage lending environment. The mortgage market changed significantly during 2007 and continues to change in 2008, due to the turmoil in the credit markets. These changes within the mortgage markets continue to make it difficult for our customers to obtain mortgage financing. In response to these challenging market conditions which continue to negatively impact new orders and selling prices in each of our market segments, we continue to offer incentives to homebuyers and to reduce prices in many of our markets. Overall, new orders decreased 29% in the quarter ended June 30, 2008 as compared to the same period in 2007 and selling prices decreased 13% in these same respective periods. Our cancellation rate for the second quarter of 2008 was 19% as compared to 16% during the same period in 2007 and 22% in the first quarter of 2008.

Reflecting the challenging market conditions discussed above, for the quarter ended June 30, 2008, consolidated revenues decreased approximately 27% from the same period in 2007. Additionally, net income and diluted earnings per share in the current quarter decreased 43% and 39%, respectively, as compared to the second quarter of 2007. Gross profit margins within our homebuilding business declined to 17.9% in the second quarter of 2008 as compared to 18.1% in the second quarter of 2007. Gross profit margins were negatively impacted by contract land deposit impairment charges of approximately $5,800, or 62 basis points, in the second quarter of 2008, and $55,000, or 424 basis points, in the same period in 2007. Gross profit margins excluding these impairments were 18.5% in the second quarter of 2008 compared to 22.4% for the same period in 2007. This decline in gross profit margins excluding contract land deposit impairment charges was due to continued pricing pressure in many of our markets.

Based on the current uncertainty in both the homebuilding and mortgage markets, we expect to see continued pricing pressures and in turn, continued pressure on gross profit margins in future periods. To offset these declining selling prices and customer affordability issues, we continue to work with our vendors to reduce material and labor costs incurred in the construction process. In addition, we continue to focus on reducing lot costs by working with our developers in certain of our communities to reduce lot prices to current market values and/or to defer scheduled lot purchases to coincide with our slower than expected sales pace. In communities where we are unsuccessful in negotiating necessary adjustments to the contracts to meet current market conditions, we may exit the community and forfeit our deposit. As mentioned above, we recorded a contract land deposit impairment charge of approximately $5,800 during the second quarter of 2008, as compared to approximately $55,000 in the second quarter of 2007. Additionally, in response to continuing pricing pressures and customer affordability issues, we are also providing house types at lower sales price points by reducing the square footage of the products offered and by providing fewer upgraded features as standard options. This provides homebuyers with greater affordability and the option to upgrade only those features important to each particular buyer. We also continue to assess and adjust our staffing levels and organizational structure as market conditions warrant.

Homebuilding Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	$941,033	$1,297,140	$1,810,902	$2,372,250
Cost of Sales	$772,369	$1,061,937	$1,499,300	$1,915,347
Gross profit margin percentage	17.9%	18.1%	17.2%	19.3%
Selling, general and administrative	$ 89,871	$ 101,198	$ 174,037	$ 198,604
Settlements (units)	2,750	3,463	5,215	6,163
Average settlement price	$ 341.7	$ 374.2	$ 346.9	$ 384.4
New orders (units)	2,670	3,745	5,401	7,662
Average new order price	$ 316.4	$ 363.9	$ 318.2	$ 368.2
Backlog (units)			5,331	7,887
Average backlog price			$ 341.5	$ 391.3

Consolidated Homebuilding Three Months Ended June 30, 2008 and 2007

Homebuilding revenues decreased 27% for the second quarter of 2008 compared to the same period in 2007 as a result of a 21% decrease in the number of units settled and a 9% decrease 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 29% lower at the start of the second quarter of 2008 as compared to the same period of 2007. Average settlement prices were primarily impacted by an 11% lower average price of homes in backlog entering the second quarter of 2008 as compared to the same period in 2007.

Gross profit margins in the quarter ended June 30, 2008 declined slightly as compared to the second quarter of 2007 despite lower contract land deposit impairment charges of approximately $5,800 in the second quarter of 2008 as compared to approximately $55,000 in the second quarter of 2007. The decline in gross profit margins was primarily driven by continued pressure on selling prices. We expect continued gross profit margin pressure over at least the next several quarters due to the current market conditions discussed above.

The number of new orders and the average selling price for new orders for the second quarter of 2008 decreased by 29% and 13%, respectively, as compared to the second quarter of 2007. New orders were negatively impacted by a continuing decline in consumer confidence driven by concerns regarding an economic recession and job stability, as well as by concerns regarding the stability in home values. In addition, net new orders have been negatively impacted by higher cancellation rates in the second quarter of 2008, which increased to 19% from 16% in the same period of 2007. Cancellation rates have been impacted by tighter mortgage underwriting standards and financing availability, negatively impacting both our customers ability to secure financing for their new home purchase and our customers ability to sell their current homes. New orders were also negatively impacted by a 16% reduction in our average number of active communities in the second quarter of 2008 to 435 from 516 in the same period of 2007. The decrease in the average number of active communities is a result of the termination of certain lot purchase agreements and a reduced pace of entering into new lot purchase agreements.

Selling, general and administrative (SG&A) expenses for the second quarter decreased by approximately $11,300, but as a percentage of revenue increased to 9.6% from 7.8% in the second quarter of 2007. The decrease in SG&A expenses is primarily attributable to a $9,100 decrease in selling and marketing costs in the second quarter of 2008 compared to the same period in 2007 due to the previously mentioned 16% decrease in the average number of active communities period over period.

Consolidated Homebuilding Six Months Ended June 30, 2008 and 2007

Homebuilding revenues decreased 24% for the six months ended June 30, 2008 compared to the same period in 2007 due to a 15% decrease in the number of units settled and a 10% decrease in the average settlement price. The decrease in the number of units settled is primarily attributable to our beginning backlog units being approximately 19% lower entering 2008 as compared to the backlog unit balance entering 2007. Average settlement prices were impacted primarily by a 10% lower average price of homes in the beginning backlog entering the second quarter of 2008 compared to the same period in 2007.

Gross profit margins in the first six months of 2008 declined compared to the first six months of 2007 despite lower contract land deposit impairment charges of approximately $12,400, or 69 basis points, in the 2008 period as compared to approximately $67,200, or 283 basis points, in the same period in 2007. The decline in gross profit margins was primarily driven by continued pressure on selling prices as a result of the aforementioned challenging market conditions.

New orders for the six months ended June 30, 2008 decreased by 30% compared to the same period in 2007 and the average sales price of new orders decreased 14% over the same respective periods. New order units and prices have been negatively impacted by the aforementioned challenging market conditions. In addition, new order units have been negatively impacted by a 16% reduction in the average number of active communities period over period to 438 in 2008 from 522 in 2007. We expect to continue to experience downward pressure on sales and selling prices over at least the next several quarters in all of our market segments as the market remains challenging.

SG&A expenses for the six-month period ended June 30, 2008 decreased approximately $24,600 compared to the same period in 2007, and as a percentage of revenue increased to 9.6% in 2008 compared to 8.4% for the 2007 period. The decrease in SG&A expenses is primarily attributable to a $12,400 decrease in selling and marketing costs in 2008 as compared to the same period in 2007 due to previously mentioned 16% decrease in the average number of active communities year over year. In addition, stock based compensation expense decreased approximately $9,400 in 2008 as compared to 2007. This decrease is attributable to the recognition of approximately $10,300 of performance based stock compensation in 2007, with no corresponding charge in 2008 due to our determination that it is improbable the performance metric associated with our contingently issuable stock options will be met. Further, in the first quarter of 2008, we reversed approximately $4,500 of previously expensed stock based compensation due to a change in our estimated stock option forfeiture rate. These decreases were partially offset by additional expense in 2008 related to 2008 stock option grants. See note 5 to the accompanying condensed consolidated financial statements for additional discussion of stock option compensation expense.

Backlog units and dollars were 5,331 and $1,820,482, respectively, as of June 30, 2008 compared to 7,887 and $3,085,939 as of June 30, 2007. The decrease in backlog units is primarily attributable to our beginning backlog units being approximately 19% lower at the beginning of 2008 as compared to the beginning of 2007, coupled with net new order and settlement activity, for the first six months of 2008 as compared to the same period in 2007. Backlog dollars were negatively impacted by the decrease in backlog units coupled with a 13% decrease in the average price of homes in ending backlog, resulting primarily from a 14% decrease in the average selling price for new orders over the six-month period ended June 30, 2008 compared to the same period in 2007.

Reportable Segments

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 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 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. The following table summarizes certain homebuilding operating activity by segment for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Mid Atlantic:				
Revenues	$559,865	$789,878	$1,086,257	$1,478,661
Settlements (units)	1,344	1,720	2,585	3,072
Average settlement price	$ 416.4	$ 459.1	$ 420.1	$ 481.1
New orders (units)	1,341	1,803	2,633	3,724
Average new order price	$ 378.2	$ 456.3	$ 380.7	$ 460.5
Backlog (units)			2,774	4,317
Average backlog price			$ 409.4	$ 479.2
Gross profit margin	$ 93,117	$179,537	$ 183,253	$ 341,570
Gross profit margin percentage	16.6%	22.7%	16.9%	23.1%
Segment profit	$ 45,760	$115,291	$ 89,240	$ 218,660
North East:				
Revenues	$ 98,811	$114,705	$ 184,779	$ 203,328
Settlements (units)	304	324	549	573
Average settlement price	$ 325.0	$ 353.9	$ 336.6	$ 354.8
New orders (units)	240	345	520	762
Average new order price	$ 298.1	$ 344.7	$ 303.1	$ 342.3
Backlog (units)			476	729
Average backlog price			$ 302.3	$ 345.1
Gross profit margin	$ 13,727	$ 16,794	$ 28,959	$ 31,047
Gross profit margin percentage	13.9%	14.6%	15.7%	15.3%
Segment profit	$ 5,559	$ 4,583	$ 12,710	$ 8,008
Mid East:				
Revenues	$154,769	$224,489	$ 304,929	$ 379,617
Settlements (units)	639	839	1,256	1,411
Average settlement price	$ 240.3	$ 266.4	$ 241.5	$ 267.5
New orders (units)	726	923	1,443	1,953
Average new order price	$ 231.1	$ 245.2	$ 235.5	$ 251.4
Backlog (units)			1,300	1,816
Average backlog price			$ 238.3	$ 252.4
Gross profit margin	$ 25,760	$ 41,571	$ 51,527	$ 72,172
Gross profit margin percentage	16.6%	18.5%	16.9%	19.0%
Segment profit	$ 9,839	$ 21,862	$ 20,686	$ 35,874
South East:				
Revenues	$127,588	$168,068	$ 234,937	$ 310,644
Settlements (units)	463	580	825	1,107
Average settlement price	$ 275.6	$ 289.8	$ 284.8	$ 280.6
New orders (units)	363	674	805	1,223
Average new order price	$ 270.5	$ 288.8	$ 271.9	$ 289.7
Backlog (units)			781	1,025
Average backlog price			$ 296.2	$ 299.9
Gross profit margin	$ 21,388	$ 39,100	$ 42,447	$ 73,223
Gross profit margin percentage	16.8%	23.3%	18.1%	23.6%
Segment profit	$ 8,290	$ 25,437	$ 17,350	$ 48,164

Mid Atlantic

Three Months Ended June 30, 2008 and 2007

The Mid Atlantic segment had an approximate $69,500 reduction in segment profit in the three months ended June 30, 2008 compared to the same period in 2007. Revenues decreased approximately $230,000, or 29%, for the three months ended June 30, 2008 from the prior year quarter due primarily to a 22% decrease in the number of units settled and a 9% decrease in the average settlement price. The decrease in units settled is attributable to a 34% lower backlog unit balance entering the second quarter of 2008 compared to the same period in 2007, offset partially by a higher backlog turnover rate period over period. The Mid Atlantic segment s gross profit margin percentage for the second quarter of 2008 decreased to 16.6% from 22.7% in the same period in 2007. Gross profit margins were negatively impacted by the increased pressure on selling prices resulting in a 9% decrease in the average settlement price in the second quarter of 2008 as compared to the second quarter of 2007. In addition, gross margins were also negatively impacted by higher contract land deposit impairment charges of approximately $12,400 in the second quarter of 2008 compared to approximately $10,800 in the second quarter of 2007.

Segment new orders for the second quarter of 2008 decreased 26% from the same period in 2007. The segment s average sales price of new orders decreased 17% in the quarter compared to the second quarter of 2007. New orders and new order sale prices have been negatively impacted by deteriorating market conditions within this segment resulting from high levels of new and existing home inventory for sale, low consumer confidence, and a tougher lending environment. In addition, new orders are down in the current quarter from the same period in 2007 as a result of a 16% decrease in the average number of active communities in the second quarter of 2008 as compared to the same period in 2007.

Six Months Ended June 30, 2008 and 2007

The Mid Atlantic segment had an approximate $129,400 decrease in segment profit in the six months ended June 30, 2008 compared to the same period in 2007. Revenues decreased approximately $392,400, or 27%, for the six months ended June 30, 2008 from the prior year period on a 16% decrease in the number of units settled and a 13% decrease in the average settlement price. The decrease in units settled is attributable to a 26% lower backlog unit balance at the beginning of 2008 as compared to the same period in 2007. The decrease in the average settlement price is primarily attributable to an 11% lower average price of homes in the beginning backlog period over period. The segment s gross profit margin percentage fell to 16.9% in 2008 from 23.1% in 2007. Gross profit margins were adversely affected by the downward pressure on selling prices which resulted in the aforementioned 13% decrease in the average settlement price and higher contract land deposit impairment charges of approximately $18,400 in 2008 compared to approximately $14,700 in 2007.

Segment new orders for the six-month period ended June 30, 2008 decreased 29% from the same period in 2007 and the segment s average sales price of new orders decreased 17% period over period. As discussed above, we continue to experience downward pressure on new order units and selling prices as a result of the challenging market conditions. Backlog units and dollars decreased approximately 36% and 45%, respectively. The decrease in backlog units is attributable to the beginning backlog units being approximately 26% lower at the beginning of 2008 as compared to the beginning of 2007, coupled with the net new order and settlement activity for the six-month period ended June 30, 2008. Backlog dollars were negatively impacted by the decrease in backlog units and a 15% decrease in the average price of homes in ending backlog, due primarily to the aforementioned 17% decrease in the average selling price for new orders over the six-month period ended June 30, 2008 compared to the same period in 2007.

North East

Three Months Ended June 30, 2008 and 2007

The North East segment had an approximate $1,000 increase in segment profit in the three months ended June 30, 2008 compared to the same period in 2007, despite a decrease in revenues of approximately $15,900, or 14%. Revenues declined as a result of a 6% decrease in the number of units settled and an 8% decrease in the average settlement price. The decrease in units settled is attributable to a 24% lower backlog unit balance entering the second quarter of 2008 compared to the same period in 2007, offset partially by a higher backlog turnover rate quarter over quarter. Average settlement prices were down primarily as a result of selling price pressures in prior quarters, which were reflected in the average price of homes in our backlog balance at the beginning of the second quarter of 2008 being 9% lower than the same period in 2007. Gross profit margins decreased to 13.9% in 2008 from 14.6% in 2007 primarily as a result of the lower average settlement prices in 2008.

Segment new orders and the average new order sales price for the second quarter of 2008 decreased 30% and 14%, respectively, from the same period in 2007, as a result of challenging market conditions and continued pricing pressures in each market within this segment. New orders have also been negatively impacted by an increase in the cancellation rate in the segment to 18% in the second quarter of 2008 from 15% in the second quarter of 2007. In addition, new orders were negatively impacted by a 20% reduction in the average number of active communities within the North East segment in the second quarter of 2008 as compared to the same period in 2007.

Six Months Ended June 30, 2008 and 2007

The North East segment had an approximate $4,700 increase in segment profit in the six-month period ended June 30, 2008 compared to the same period in 2007, despite a decrease in revenues of approximately $18,500, or 9%, for the six-month period ended June 30, 2008 from the prior year period. Revenues declined due to a 4% decrease in the number of units settled and a 5% decrease in the average settlement price period over period. The decrease in the number of units settled and the average settlement price is primarily attributable to a 7% lower beginning backlog balance and 6% lower average price of homes in beginning backlog period over period. Gross profit margins increased slightly to 15.7% in the first six months of 2008 from 15.3% in the same period 2007. The increase in segment profit is attributable primarily to cost control measures as well as to reduced sales and marketing costs due to a 20% reduction in the average number of active communities during 2008 as compared to the same period in 2007.

Segment new orders and the average new order sales price for the six-month period ended June 30, 2008, decreased 32% and 11%, respectively, from the same period in 2007, as a result of deteriorating market conditions in each of the markets in this segment. New orders have also been negatively impacted by an increase in the cancellation rate in the segment to 18% in 2008 from 15% in 2007. In addition, new orders were negatively impacted by a 20% reduction in the average number of active communities within the North East segment. The net new order and settlement activity for the first six months of 2008 resulted in a 35% decrease in backlog units at June 30, 2008 as compared to June 30, 2007. Backlog dollars decreased 43% year over year due to the decrease in backlog units and to a 11% decrease in the average selling price for new orders for the six-month period ended June 30, 2008 as compared to the same period in 2007.

Mid East

Three Months Ended June 30, 2008 and 2007

The Mid East segment had an approximate $12,000 decrease in segment profit quarter over quarter. Revenues decreased approximately $69,700, or 31%, due to a 24% decrease in the number of units settled and

a 10% decrease in the average settlement price. The decrease in units settled is attributable to a 30% lower backlog unit balance entering the second quarter of 2008 compared to the same period in 2007, offset partially by a higher backlog turnover rate period over period. The decrease in the average settlement price is primarily attributable to a 7% lower average price of homes in beginning backlog quarter over quarter. Gross profit margins decreased to 16.6% in the second quarter of 2008 from 18.5% in the same period of 2007, primarily as a result of the 10% decrease in the average settlement price quarter over quarter.

Segment new orders and the average selling price during the second quarter of 2008 decreased 21% and 6%, respectively, from the same period in 2007. The decrease in new orders was attributable to a continuing deterioration in each of the markets within the Mid East segment quarter over quarter. In addition, new orders were negatively impacted by a 19% decrease in the average number of active communities in the second quarter of 2008 as compared to the same period in 2007.

Six Months Ended June 30, 2008 and 2007

The Mid East segment had an approximate $15,200 decrease in segment profit in the six-month period ended June 30, 2008 compared to the same period in 2007. Revenues decreased approximately $74,700, or 20%, for the six months ended June 30, 2008 from the prior year period due to an 11% decrease in the number of units settled and a 10% decrease in the average settlement price period over period. The decrease in the number of units settled and the average settlement price is primarily attributable to a 13% lower beginning backlog balance and 9% lower average price of homes in beginning backlog period over period. Gross profit margins decreased to 16.9% in the first six months of 2008 from 19.0% in the same period in 2007, primarily as a result of the 10% decrease in the average settlement price period over period.

Segment new orders and the average new order sales price for the six-month period ended June 30, 2008, decreased 26% and 6%, respectively, from the same period in 2007. New orders have been negatively impacted by an increase in the cancellation rate in the segment to 14% in 2008 from 12% in 2007. In addition, new orders were negatively impacted by a 22% reduction in the average number of active communities within the Mid East segment. The net new order and settlement activity for the first six months of 2008 resulted in a 28% decrease in backlog units at June 30, 2008 as compared to June 30, 2007. Backlog dollars decreased 32% year over year due to the decrease in backlog units and to a 6% decrease in the average selling price for new orders for the six-month period ended June 30, 2008 as compared to the same period in 2007.

South East

Three Months Ended June 30, 2008 and 2007

The South East segment had an approximate $17,100 decrease in segment profit quarter over quarter. Revenues decreased approximately $40,500, or 24%, due to a 20% decrease in the number of homes settled and a 5% decrease in the average settlement price. The decrease in units settled is attributable to a 5% lower unit backlog entering the second quarter of 2008 compared to the same period in 2007, coupled with a slower backlog turnover rate quarter over quarter. The decrease in the average settlement price is primarily attributable to a 2% lower average price of units in backlog entering the second quarter of 2008 compared to the same period in 2007. Gross profit margins decreased to 16.8% in the second quarter of 2008 from 23.3% in the same period in 2007. Gross profit margins were negatively impacted by higher contract land deposit write-offs of approximately $4,100 in the second quarter of 2008 as compared to $72 in the second quarter of 2007. In addition, gross profit margins were negatively impacted by higher average lot and operating costs per settled unit.

Segment new orders and the average selling price during the second quarter of 2008 decreased 46% and 6%, respectively, from the same period in 2007. The decrease in new orders is attributable to lower sales absorption on 5% lower average number of active communities quarter over quarter. In addition, sales were negatively impacted by an increase in the cancellation rate to 28% in the second quarter of 2008 from 14% in the same period of 2007, as market conditions have become more challenging in the markets within the South East segment.

Six Months Ended June 30, 2008 and 2007

The South East segment had an approximate $30,800 decrease in segment profit in the six-month period ended June 30, 2008 compared to the same period in 2007. Revenues decreased approximately $75,700, or 24%, for the six months ended June 30, 2008 from the prior year period due primarily to a 25% decrease in the number of units settled period over period. The decrease in units settled is attributable to a 12% lower beginning backlog unit balance entering 2008 compared to the same period in 2007, coupled with a lower backlog turnover rate period over period. Gross profit margins decreased to 18.1% in the first six months of 2008 from 23.6% in the same period of 2007 as a result of higher contract land deposit write-offs of approximately $3,900 in 2008 as compared to $73 in 2007. In addition, gross profit margins were negatively impacted by higher average lot and operating costs per settled unit.

Segment new orders and the average new order price decreased 34% and 6%, respectively, during the six-month period ended June 30, 2008 as compared to the same period in 2007. Market conditions within the South East segment have continued to deteriorate throughout 2008. These worsening market conditions have negatively impacted net new orders as seen by lower sales absorption rates within our active communities and higher cancellation rates. Cancellation rates in the overall segment increased to 26% in 2008 from 16% in 2007. The net new order and settlement activity for the first six months of 2008, coupled with a 12% lower beginning backlog balance entering 2008 as compared to 2007, resulted in a 24% decrease in backlog units at June 30, 2008 as compared to June 30, 2007. The decrease in backlog units has resulted in a 25% decline in backlog dollars year over year.

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, consolidation adjustments, stock option compensation expense and external corporate interest. NVR s overhead functions, such as accounting, treasury, human resources, land acquisition, etc., are centrally performed and the costs are not allocated to the Company s 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 the Company s operating segments. Likewise, stock option compensation expenses are 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 are not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Homebuilding Consolidated Gross Profit:				
Homebuilding Mid Atlantic	$ 93,117	$ 179,537	$ 183,253	$ 341,570
Homebuilding North East	13,727	16,794	28,959	31,047
Homebuilding Mid East	25,760	41,571	51,527	72,172
Homebuilding South East	21,388	39,100	42,447	73,223
Consolidation adjustments and other (1)	14,672	(41,799)	5,416	(61,109)
Segment gross profit	$ 168,664	$ 235,203	$ 311,602	$ 456,903

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Homebuilding Consolidated Profit Before Tax:				
Homebuilding Mid Atlantic	$ 45,760	$ 115,291	$ 89,240	$ 218,660
Homebuilding North East	5,559	4,583	12,710	8,008
Homebuilding Mid East	9,839	21,862	20,686	35,874
Homebuilding South East	8,290	25,437	17,350	48,164
Reconciling items:				
Contract land deposit impairments (1)	16,076	(39,115)	15,439	(47,605)
Stock option expense (2)	(11,397)	(13,301)	(17,313)	(26,739)
Corporate capital allocation (3)	28,237	38,766	56,204	74,229
Unallocated corporate overhead	(24,894)	(20,288)	(51,459)	(46,271)
Consolidation adjustments and other	4,907	5,850	4,567	5,837
Corporate interest expense	(3,115)	(3,127)	(6,230)	(6,262)
Reconciling items sub-total	9,814	(31,215)	1,208	(46,811)
Homebuilding consolidated profit before taxes	$ 79,262	$ 135,958	$ 141,194	$ 263,895

(1) This line item contains contract land deposit reserves which have not yet been charged to the operating segments. During the second quarter of 2008, unallocated reserves

decreased as a result of charging previously reserved land impairments to the operating segments.

(2) The stock option expense recognized in the homebuilding operations in 2007 includes expense of approximately $5,200 and $10,600 related to contingently issuable shares for the three and six-month periods, respectively. We determined that it was improbable that we would achieve the performance metric related to the outstanding contingently issuable stock options. Based on our continued assessment that the performance metric (aggregate diluted earnings per share for the years ended December 31, 2005 through 2008 in excess of $339.00 per fully diluted

share) will not be met, we expect that none of the contingently issuable options will vest. As a result, we currently are not recognizing any stock-based compensation expense related to these options and we believe it is improbable that any such expense will be recognized in the future. In addition, during the first quarter of 2008 we adjusted the estimated forfeiture rate used in the calculation of stock option expense. This resulted in a reversal of approximately $4,500 of stock option expense in the homebuilding operations in the first quarter of 2008. These reductions in stock option expense in the three and six-month periods ended June 30, 2008 as compared to the same periods in 2007 were partially offset

by stock option expense related to options granted in 2008. See note 5 for further discussion.

(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,	
	2008	2007	2008	2007
Homebuilding Mid Atlantic	$ 18,956	$ 26,457	$ 37,710	$ 51,502
Homebuilding North East	2,666	4,064	5,449	7,603
Homebuilding Mid East	3,257	4,683	6,558	8,510
Homebuilding South East	3,358	3,562	6,487	6,614
Total	$ 28,237	$ 38,766	$ 56,204	$ 74,229

Mortgage Banking Segment

Three and Six Months Ended June 30, 2008 and 2007

We conduct our mortgage banking activity through NVR Mortgage Finance, Inc. (NVRM), a wholly owned subsidiary. NVRM focuses exclusively on serving the homebuilding segment s customer base.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Loan closing volume:				
Total principal	$ 593,867	$ 849,430	$ 1,117,405	$ 1,564,469
Loan volume mix:				
Adjustable rate mortgages	3%	21%	4%	24%
Fixed-rate mortgages	97%	79%	96%	76%
Operating profit:				
Segment profit	$ 7,857	$ 12,604	$ 19,517	$ 23,584
Stock option expense	(702)	(885)	(1,119)	(1,770)
Mortgage banking income before tax	$ 7,155	$ 11,719	$ 18,398	$ 21,814
Mortgage banking fees:				
Net gain on sale of loans	$ 10,804	$ 14,042	$ 25,175	$ 27,402
Title services	3,772	5,368	7,216	9,913
Servicing	114	118	361	292
	$ 14,690	$ 19,528	$ 32,752	$ 37,607

Loan closing volume for the three months ended June 30, 2008 decreased 30% from the same period in 2007. The 2008 decrease is primarily attributable to a 22% decrease in the number of units closed and a 10% decrease in the average loan amount. Loan closing volume for the six months ended June 30, 2008 decreased 29% from the same period in 2007. This decrease is primarily attributable to an 18% decrease in the number of units closed and a 13% decrease in the average loan amount. The unit decreases for the three and six months ended June 30, 2008 primarily reflect the aforementioned decreases in the number of homes that our homebuilding segment settled during the same

periods in 2007. The unit decreases also reflect a decrease in the number of loans closed by NVRM for our homebuyers who obtain a mortgage to purchase the home (Capture Rate), which decreased to 84% for the three month period ended June 30, 2008, compared to 86% for the same period in 2007 and decreased to 83% for the six-month period ended June 30, 2008, compared to 86% for the same period in 2007. The decrease in the average loan amount for the three and six months ended June 30, 2008 reflects the aforementioned decrease in the homebuilding segment s average settlement prices.

Segment profit for the three months ended June 30, 2008 decreased approximately $4,700 from the same period for 2007. The decrease is primarily due to a net decrease in mortgage banking fees attributable to

the aforementioned decrease in closed loan volume, a reduction in fees charged to borrowers to assist our selling efforts and a decrease in secondary marketing gains from the sale of loans. The decrease in mortgage banking fees was partially offset by a 35 basis point increase in fees received for servicing released premiums as a result of the product mix shift towards fixed rate mortgages, partly driven by an increase in the use of FHA fixed rate loan products in the current period which generally carry a higher servicing release premium than other non-FHA loan products, and an approximate $1,900 increase in unrealized income from the fair value measurements of our locked loan commitments, forward mortgage-backed securities sales, and closed loans held for sale, which is included in mortgage banking fees (see details below).

Segment profit for the six months ended June 30, 2008 decreased approximately $4,100 from the same period for 2007. The decrease is primarily due to a reduction in mortgage banking fees caused by the decrease in closing volume, a reduction in fees charged to borrowers to assist our selling efforts and a decrease in secondary marketing gains from the sale of loans. The decrease in mortgage banking fees was partially offset by a 30 basis point increase in fees received for servicing released premiums as a result of the product mix shift towards fixed rate and FHA mortgages, as noted above, and an approximate $8,000 increase in unrealized income from the fair value measurements of our locked loan commitments, forward mortgage-backed securities sales, and closed loans held for sale, which is included in mortgage banking fees (see details below). Segment profit for the six months ended June 30, 2008 was favorably impacted by an approximate $1,600 decrease in general and administrative expenses. This decrease was partially attributable to an approximate $1,100 decrease in salary and other personnel costs due to a 16% reduction in staffing from the same period for 2007. General and administrative costs also decreased due to an approximate $900 decrease in loan loss charges for the same period in 2007.

The aforementioned fair value measurement gain of $1,900 for the three month period ended June 30, 2008 and the $8,000 year to date gain in unrealized income from the fair value measurement was the result of the adoption of Staff Accounting Bulleting 109, *Written Loan commitments recorded at Fair Value through Earnings* (SAB No. 109) and FASB Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement*, both of which the Company adopted on a prospective basis as of January 1, 2008. As a result of the adoption of SAB No. 109 and SFAS No. 157, the fair value measurement for locked loan commitments and closed loans held for sale now includes the assumed gain/loss on the expected resultant loan sale and the value of the servicing rights associated with the loan. This is in addition to the prior fair value measurement, which only considered the effects of interest rate movements between the date of the rate lock and either the loan closing date or the balance sheet date. We recognized a net SFAS No. 133 unrealized gain of $16 (pre-tax) during the three months ended June 30, 2007 and a net SFAS No. 133 unrealized loss of $111 (pre-tax) during the six months ended June 30, 2007. Each of the aforementioned fair value calculations are classified as Level 2 observable inputs as defined in SFAS No. 157. The resulting $1,900 unrealized gain for the three month period ended June 30, 2008 and the $8,000 unrealized gain for the six-month period ended June 30, 2008 from the fair value measurement is primarily attributable to the inclusion of the value of the servicing rights in the fair value measurement as required by SAB No. 109. The increase in unrealized income from the adoption of SAB No. 109 and SFAS No. 157 was further increased due to the principal volume of our locked loan pipeline increasing by 68% at June 30, 2008 compared to June 30, 2007 as a result of a 180 day extended lock program offered to homebuyers that was instituted during the first quarter of 2008. The aforementioned fair value measurement will be impacted in the future by the change in volume and product mix of our locked loan commitments.

NVRM is dependent on our homebuilding segment s customers for business. As sales and selling prices of the homebuilding segment decline, NVRM s operations will also be adversely affected. As mentioned above, NVRM is reducing the fees charged to its borrowers to assist our selling efforts and is likely to continue doing so in the foreseeable future, which will adversely impact the mortgage segment s future results. 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.

Liquidity and Capital Resources

We fund our operations with cash flows provided by our operating activities, a short-term credit facility and the public debt and equity markets. For the six months ended June 30, 2008, our operating activities provided cash of $100,948. Operating cash was primarily provided by our homebuilding operations and a reduction in our homebuilding inventory of approximately $63,000. The presentation of operating cash flows was also reduced by $33,184, which is the amount of the excess tax benefit realized from the exercise of stock options during the period and credited directly to additional paid in capital.

Net cash used in investing activities was $2,985 for the period ended June 30, 2008, primarily for property and equipment purchases throughout the period.

Net cash provided by financing activities was $105,967 for the period ended June 30, 2008. During the six months ended June 30, 2008, we increased net borrowings under the mortgage warehouse facility by approximately $33,000. Cash was also provided by the receipt of $40,164 in proceeds from employee stock option exercises and by the realization of $33,184 in excess income tax benefits from the exercise of stock options, which pursuant to SFAS 123R, must be reported as a financing cash inflow.

In addition to our homebuilding operating activities, we also utilize a short-term unsecured working capital revolving credit facility (the Facility) to provide for working capital cash requirements. The Facility provides for borrowings up to $600,000, subject to certain borrowing base limitations. The Facility expires in December 2010 and outstanding amounts bear interest at either: (i) the prime rate, or (ii) the London Interbank Offering Rate (LIBOR) plus applicable margin as defined within the Facility. Up to $150,000 of the Facility is currently available for issuance in the form of letters of credit, of which $15,760 was outstanding at June 30, 2008. There were no direct borrowings outstanding under the Facility as of June 30, 2008. At June 30, 2008, we were in compliance with all covenants under the Facility and there were no borrowing base limitations reducing the amount available to us for borrowings.

Our mortgage banking segment provides for its mortgage origination and other operating activities using cash generated from operations as well as a short-term credit facility. NVRM has available an annually renewable mortgage warehouse facility (the Revolving Credit Agreement) with an aggregate borrowing limit of $149,250. The Revolving Credit Agreement is used to fund NVRM s mortgage origination activities, under which $116,199 was outstanding at June 30, 2008. As of June 30, 2008, the borrowing base limitation reduced the amount available to us for borrowing to approximately $122,800. The Revolving Credit Agreement expires in August 2008. The interest rate under the Revolving Credit Agreement is either: (i) LIBOR plus 1.0%, or (ii) 1.125%, depending on whether NVRM provides compensating balances. NVRM s mortgage warehouse facility limits the ability of NVRM to transfer funds to NVR in the form of dividends, loans or advances. In addition, NVRM is required to maintain a minimum net worth of $14,000, with which we were compliant at June 30, 2008. We expect that the mortgage warehouse facility will be replaced with a revolving mortgage repurchase facility prior to the expiration of the warehouse facility in August. We expect to reduce the size of the new facility to correspond with our expected lower level of mortgage origination activity.

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 did not repurchase any shares of our common stock during the second quarter of 2008. We expect to continue to repurchase shares of our common stock from time to time subject to market conditions and available excess liquidity.

We believe that internally generated cash and borrowings available under credit facilities and the public debt and equity markets will be sufficient to satisfy near and long term cash requirements for working capital in both our homebuilding and mortgage banking operations.

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 management believes to be reasonable under the facts and circumstances. Actual results could differ materially from those estimates made by management.

Variable Interest Entities

Revised Financial Interpretation No. 46 (FIN 46R), *Consolidation of Variable Interest Entities,* requires the primary beneficiary of a variable interest entity to consolidate that entity in 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.

Forward contracts, such as the fixed price purchase agreements utilized by us to acquire finished lot inventory, are deemed to be variable interests under FIN 46R. Therefore, the development entities with which we enter fixed price purchase agreements are examined under FIN 46R for possible consolidation by us, including certain joint venture limited liability corporations (LLC s) utilized by us to acquire finished lots on a limited basis. We have developed a methodology to determine whether we, or, conversely, the owner(s) of the applicable development entity, are the primary beneficiary of a development entity. The methodology used to evaluate our primary beneficiary status requires substantial management judgment and estimates. 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 we believe that our accounting policy is designed to properly assess our primary beneficiary status relative to our involvement with the development entities from which we acquire finished lots, changes to the probabilities and the cash flow possibilities used in our evaluation could produce widely different conclusions regarding whether we are or are not a development entity s primary beneficiary, possibly resulting in additional, or fewer, development entities being consolidated on our financial statements. See note 2 to the condensed, consolidated financial statements contained within for further information.

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. 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. Recoverability and impairment, if any, is primarily evaluated by analyzing sales of comparable assets. We

believe that our accounting policy is designed to properly assess the carrying value of homebuilding inventory.

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 we believe is sufficient to provide for losses in the existing contract land deposit portfolio. The allowance reflects our judgment of the present loss exposure at the end of the reporting period, considering market and economic conditions, sales absorption and profitability within specific communities and terms of the various contracts. Although we consider the allowance for losses on contract land deposits reflected on the June 30, 2008 balance sheet to be adequate (see note 3 to the condensed consolidated financial statements), 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.

Intangible Assets

Reorganization value in excess of identifiable assets (excess reorganization value), goodwill and indefinite life intangible assets are not subject to amortization upon the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. Rather, excess reorganization value, goodwill and other intangible assets are subject to at least an annual assessment for impairment by applying a fair-value based test. We continually evaluate whether events and circumstances have occurred that indicate that the remaining value of excess reorganization value, goodwill and other intangible assets may not be recoverable. We completed the annual assessment of impairment during the first quarter of 2008, and as of June 30, 2008, we believe that excess reorganization value, goodwill and other intangible assets were not impaired. This conclusion is based on management s judgment, considering such factors as our history of operating success, our well-recognized brand names, the significant positions held in the markets in which we operate and our expected future cash flows. However, changes in strategy or adverse changes in market conditions could impact this judgment and require an impairment loss to be recognized for the amount that the carrying value of excess reorganization value, goodwill and/or other intangible assets exceeds their 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 June 30, 2008 balance sheet (see note 9 to the condensed consolidated financial statements) to be adequate, 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.

Stock Option Expense

SFAS No. 123R, Share-Based Payment, requires us to recognize within our income statement compensation costs related to our stock based compensation plans. The costs recognized are based on the grant date fair value. Compensation cost for service-only option 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). Compensation cost for performance condition option grants is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards (graded vesting attribution method), and if the performance condition is expected to be met.

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. 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 option 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 estimate future forfeitures of granted stock options. 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.

In addition, when recognizing stock based compensation cost related to performance condition option grants, we are required to make a determination as to whether the performance conditions will be met prior to the completion of the actual performance period. The performance metric requires our aggregate diluted earnings per share for the years ended December 31, 2005 through December 31, 2008 to exceed $339.00 per share. While we currently believe that this performance condition will not be satisfied, our future expected activity levels could cause us to make a different determination, resulting in the recognition of all compensation cost related to performance condition option grants that would otherwise have been recognized to date. Although we believe that the compensation costs recognized during the period ended June 30, 2008 are representative of the cumulative ratable amortization of the grant-date fair value of unvested options outstanding and expected to be exercised, changes to the estimated input values such as expected term and expected volatility, changes to our forfeiture rate experience and changes to the determination of whether performance condition grants will vest, could produce widely different fair values. See note 5 to the condensed consolidated financial statements for additional information.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in our market risks during the six months ended June 30, 2008. For additional information regarding market risk, see our Annual Report on Form 10-K for the year ended December 31, 2007.

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 controls over financial reporting identified in connection with the evaluation referred to above that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II.OTHER INFORMATION

Item 1. Legal Proceedings

On July 18, 2007, former and current employees filed lawsuits against us 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 we incorrectly classified our 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.

We believe that our 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, we have vigorously defended and intend to continue to vigorously defend these lawsuits. Because we are unable to determine the likelihood of an unfavorable outcome of this case, or the amount of damages, if any, we have not recorded any associated liabilities in the accompanying condensed, consolidated balance sheet.

In 2006 and 2005, we received requests for information pursuant to Section 308(a) of the Clean Water Act (the Act) from Regions 3 and 4 of the United States Environmental Protection Agency (the EPA). The requests sought information regarding our storm water management discharge practices in North Carolina, Pennsylvania, Maryland and Virginia during the homebuilding construction process. We were informed in the second quarter of 2008 that this matter has been closed with the EPA, and no fines were assessed.

We are involved in various claims and litigation arising principally in the ordinary course of business. At this time, we are not involved in any legal proceedings that we believe are likely to have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Our business is affected by the risks generally incident to the residential construction business, including, but not limited to:

- actual and expected direction of interest rates, which affect our costs, the availability of construction financing, and long-term financing for potential purchasers of homes;
- the availability of adequate land in desirable locations on favorable terms;
- unexpected changes in customer preferences; and
- changes in the national economy and in the local economies of the markets in which we have operations.

All of these risks are discussed in detail below.

The homebuilding industry is experiencing a significant downturn. The continuation of this downturn could adversely affect our business and our results of operations.

The homebuilding industry has continued to experience a significant downturn as a result of declining consumer confidence, affordability issues and uncertainty as to the stability of home prices. As a result, we have experienced reduced demand for new homes. These market factors have also resulted in pricing pressures and in turn lower gross profit margins in most of our markets. A continued downturn in the homebuilding industry could result in a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

If the market value of our inventory or controlled lot position declines, our profit could decrease and we may incur losses.

Inventory risk can be substantial for homebuilders. The market value of building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We must, in the ordinary course of our business, continuously seek and make acquisitions of lots for expansion into new markets as well as for replacement and expansion within our current markets, which is accomplished by us entering fixed price purchase agreements and paying forfeitable deposits under the purchase agreement to developers for the contractual right to acquire the lots. In the event of significant changes in economic or market conditions, we may cease further building activities in communities or restructure existing purchase agreements, resulting in forfeiture of some or all of any remaining land contract deposit paid to the developer. We may also dispose of certain subdivision inventories on a bulk or other basis. Either action

may result in a loss which could have a material adverse effect on our profitability, stock performance, ability to service our debt obligations and future cash flows.

Because almost all of our customers require mortgage financing, the availability of suitable mortgage financing could impair the affordability of our homes, lower demand for our products, and limit our ability to fully deliver our backlog.

Our business and earnings depend on the ability of our potential customers to obtain mortgages for the purchase of our homes. In addition, many of our potential customers must sell their existing homes in order to buy a home from us. The tightening of credit standards and the availability of suitable mortgage financing could prevent customers from buying our homes and could prevent buyers of our customers homes from obtaining mortgages they need to complete that purchase, both of which could result in our potential customers inability to buy a home from us. If our potential customers or the buyers of our customers current homes are not able to obtain suitable financing, the result could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

If our ability to sell mortgages to investors is impaired, we may be required to fund these commitments ourselves, or may not be able to originate loans at all.

Our mortgage segment sells all of the loans it originates into the secondary market usually within 30 days from the date of closing, and has up to approximately $149 million available in an annually renewable warehouse credit facility to fund mortgage closings. In the event that disruptions to the secondary markets similar to those which occurred during 2007 and the first half of 2008 continue to tighten or eliminate the available liquidity within the secondary markets for mortgage loans, or the underwriting requirements by our secondary market investors continue to become more stringent, our ability to sell future mortgages could decline and we could be required, among other things, to fund our commitments to our buyers with our own financial resources, which is limited, or require our home buyers to find another source of financing. The result of such secondary market disruption could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Interest rate movements, inflation and other economic factors can negatively impact our business.

High rates of inflation generally affect the homebuilding industry adversely because of their adverse impact on interest rates. High interest rates not only increase the cost of borrowed funds to homebuilders but also have a significant effect on housing demand and on the affordability of permanent mortgage financing to prospective purchasers. We are also subject to potential volatility in the price of commodities that impact costs of materials used in our homebuilding business. Increases in prevailing interest rates could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Our financial results also are affected by the risks generally incident to our mortgage banking business, including interest rate levels, the impact of government regulation on mortgage loan originations and servicing and the need to issue forward commitments to fund and sell mortgage loans. Our homebuilding customers account for almost all of our mortgage banking business. The volume of our continuing homebuilding operations therefore affects our mortgage banking business.

Our mortgage banking business also is affected by interest rate fluctuations. We also may experience marketing losses resulting from daily increases in interest rates to the extent we are unable to match interest rates and amounts on loans we have committed to originate with forward commitments from third parties to purchase such loans. Increases in interest rates may have a material adverse effect on our mortgage banking revenue, profitability, stock performance, ability to service our debt obligations and future cash flows.

Our operations may also be adversely affected by other economic factors within our markets such as negative changes in employment levels, job growth, and consumer confidence and availability of mortgage financing, one or all of which could result in reduced demand or price depression from current levels. Such negative trends could have a material adverse effect on homebuilding operations.

These factors and thus, the homebuilding business, have at times in the past been cyclical in nature. Any downturn in the national economy or the local economies of the markets in which we operate could have a material adverse effect on our sales, profitability, stock performance and ability to service our debt obligations. In particular, approximately 34% of our home settlements during the first half of 2008 occurred in the Washington, D.C. and

Baltimore, MD metropolitan areas, which accounted for 45% of our homebuilding revenues in the first half of 2008. Thus, we are dependent to a significant extent on the economy and demand for housing in those areas.

Our inability to secure and control an adequate inventory of lots could adversely impact our operations.

The results of our homebuilding operations are dependent upon our continuing ability to control an adequate number of homebuilding lots in desirable locations. There can be no assurance that an adequate supply of building lots will continue to be available to us on terms similar to those available in the past, or that we will not be required to devote a greater amount of capital to controlling building lots than we have historically. An insufficient supply of building lots in one or more of our markets, an inability of our developers to deliver finished lots in a timely fashion, or our inability to purchase or finance building lots on reasonable terms could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Our current indebtedness may impact our future operations and our ability to access necessary financing.

Our homebuilding operations are dependent in part on the availability and cost of working capital financing, and may be adversely affected by a shortage or an increase in the cost of such financing. If we require working capital greater than that provided by our operations and our credit facility, we may be required to seek to increase the amount available under the facility or to obtain alternative financing. No assurance can be given that additional or replacement financing will be available on terms that are favorable or acceptable. If we are at any time unsuccessful in obtaining sufficient capital to fund our planned homebuilding expenditures, we may experience a substantial delay in the completion of any homes then under construction. Any delay could result in cost increases and could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Our existing indebtedness contains financial and other restrictive covenants and any future indebtedness may also contain covenants. These covenants include limitations on our ability, and the ability of our subsidiaries, to incur additional indebtedness, pay cash dividends and make distributions, make loans and investments, enter into transactions with affiliates, effect certain asset sales, incur certain liens, merge or consolidate with any other person, or transfer all or substantially all of our properties and assets. Substantial losses by us or other action or inaction by us or our subsidiaries could result in the violation of one or more of these covenants which could result in decreased liquidity or a default on our indebtedness, thereby having a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Our mortgage banking operations are dependent on the availability, cost and other terms of mortgage warehouse financing, and may be adversely affected by any shortage or increased cost of such financing. No assurance can be given that any additional or replacement financing will be available on terms that are favorable or acceptable. Our mortgage banking operations are also dependent upon the securitization market for mortgage-backed securities, and could be materially adversely affected by any fluctuation or downturn in such market.

Government regulations and environmental matters could negatively affect our operations.

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning and density requirements in

order to limit the number of homes that can eventually be built within the boundaries of a particular area. We have from time to time been subject to, and may also be subject in the future to, periodic delays in our homebuilding projects due to building moratoriums in the areas in which we operate. Changes in regulations that restrict homebuilding activities in one or more of our principal markets could have a material adverse effect on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. We are subject to a variety of environmental conditions that can affect our business and our homebuilding projects. The particular environmental laws that apply to any given homebuilding site vary greatly according to the location and environmental condition of the site and the present and former uses of the site and adjoining properties. Environmental laws and conditions may result in delays, cause us to incur substantial compliance and other costs, or prohibit or severely restrict homebuilding activity in certain environmentally sensitive regions or areas, thereby adversely affecting our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

We are an approved seller/servicer of FNMA, GNMA, FHLMC, FHA and VA mortgage loans, and are subject to all of those agencies rules and regulations. Any significant impairment of our eligibility to sell/service these loans could have a material adverse impact on our mortgage operations. In addition, we are subject to regulation at the state and federal level with respect to specific origination, selling and servicing practices. Adverse changes in governmental regulation may have a negative impact on our mortgage loan origination business.

We face competition in our housing and mortgage banking operations.

The homebuilding industry is highly competitive. We compete with numerous homebuilders of varying size, ranging from local to national in scope, some of whom have greater financial resources than we do. We face competition:

- for suitable and desirable lots at acceptable prices;
- from selling incentives offered by competing builders within and across developments; and
- from the existing home resale market.

Our homebuilding operations compete primarily on the basis of price, location, design, quality, service and reputation.

The mortgage banking industry is also competitive. Our main competition comes from national, regional and local mortgage bankers, thrifts, banks and mortgage brokers in each of these markets. Our mortgage banking operations compete primarily on the basis of customer service, variety of products offered, interest rates offered, prices of ancillary services and relative financing availability and costs.

There can be no assurance that we will continue to compete successfully in our homebuilding or mortgage banking operations. An inability to effectively compete may have an adverse impact on our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

A shortage of building materials or labor, or increases in materials or labor costs may adversely impact our operations.

The homebuilding business has from time to time experienced building material and labor shortages, including shortages in insulation, drywall, certain carpentry work and concrete, as well as fluctuating lumber prices and supply. In addition, high employment levels and strong construction market conditions could restrict the labor force available to our subcontractors and us in one or more of our markets. Significant increases in costs resulting from these shortages, or delays in construction of homes, could have a material adverse effect upon our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

Product liability litigation and warranty claims may adversely impact our operations.

Construction defect and home warranty claims are common and can represent a substantial risk for the homebuilding industry. The cost of insuring against construction defect and product liability claims, as well as the claims themselves, can be high. In addition, insurance companies limit coverage offered to protect against these claims. Further restrictions on coverage available, or significant increases in premium costs or claims, could have a

material adverse effect on our financial results.

We are subject to litigation proceedings that could harm our business if an unfavorable ruling were to occur.

From time to time, we may become involved in litigation and other legal proceedings relating to claims arising from our operations in the normal course of business. In addition, as described in Part II, Item 1, Legal Proceedings of this 10-Q, we are currently subject to certain legal proceedings. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. We cannot assure you that these or other litigation or legal proceedings will not materially affect our ability to conduct our business in the manner that we expect or otherwise adversely affect us should an unfavorable ruling occur.

Changes in tax laws or the interpretation of tax laws may negatively affect our operating results.

The effects of possible changes in the tax laws or changes in their interpretation could have a material negative impact on our operating results.

Weather-related and other events beyond our control may adversely impact our operations.

Extreme weather or other events, such as hurricanes, tornadoes, earthquakes, forest fires, floods, terrorist attacks or war, may affect our markets, our operations and our profitability. These events may impact our physical facilities or those of our suppliers or subcontractors, causing us material increases in costs, or delays in construction of homes, which could have a material adverse effect upon our sales, profitability, stock performance, ability to service our debt obligations and future cash flows.

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 June 30, 2008. On July 31, 2007 (July Authorization), we publicly announced the board of directors approval for us to repurchase up to an aggregate of $300 million of our common stock in one or more open market and/or privately negotiated transactions. The July Authorization does not have an expiration date. We did not repurchase any shares of our common stock during the second quarter of 2008. We have $226.3 million available under the July Authorization as of June 30, 2008.

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Shareholders on May 6, 2008. There were 5,261,961 shares of NVR, Inc. common stock eligible to vote at the 2008 Annual Meeting. The following are the matters voted upon at the Annual Meeting and the results of the votes on such matters:

	Votes For	Votes Against	Abstentions
1. Election of three directors to serve three-year terms:			
Dwight C. Schar	4,641,465	128,029	1,541
Robert C. Butler	4,704,135	30,974	35,926
C. E. Andrews	4,688,276	46,846	35,913

C. Scott Bartlett, Jr., Timothy M. Donahue, Manuel H. Johnson, William A. Moran, David A. Preiser, John M. Toups and Paul W. Whetsell continued as directors after the Annual Meeting.

	Votes For	Votes Against	Abstentions
2. Ratification of appointment of KPMG LLP as independent registered public accountants for NVR for 2008	4,724,335	34,005	12,695

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.

31.2 Certification of NVR s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of NVR s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

August 1, 2008

NVR, Inc.

By: /s/ Dennis M. Seremet
Dennis M. Seremet
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit Index

Exhibit Number	Description	Page
31.1	Certification of NVR s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	44
31.2	Certification of NVR s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	44
32	Certification of NVR s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	45