

NVR INC  
Form 10-Q  
May 04, 2007

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

(Mark One)

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

**For the quarterly period ended March 31, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 1-12378**

**NVR, Inc.**

(Exact name of registrant as specified in its charter)

Virginia

54-1394360

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

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

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

(Not Applicable)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of May 2, 2007 there were 5,606,714 total shares of common stock outstanding.

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**Form 10-Q**  
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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****NVR, Inc.**

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(unaudited)	
<b>ASSETS</b>		
<i>Homebuilding:</i>		
Cash and cash equivalents	\$ 555,317	\$ 551,738
Receivables	12,179	12,213
Inventory:		
Lots and housing units, covered under sales agreements with customers	741,543	667,100
Unsold lots and housing units	53,712	58,248
Manufacturing materials and other	7,105	8,268
	802,360	733,616
Assets not owned, consolidated per FIN 46R	279,736	276,419
Property, plant and equipment, net	37,526	40,430
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	219	250
Contract land deposits, net	387,490	402,170
Other assets	222,270	207,468
	2,350,363	2,277,570
<i>Mortgage Banking:</i>		
Cash and cash equivalents	1,925	4,381
Mortgage loans held for sale, net	101,548	178,444
Property and equipment, net	1,083	1,168
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	5,681	4,898
	117,584	196,238
<b>Total assets</b>	<b>\$ 2,467,947</b>	<b>\$ 2,473,808</b>

See notes to condensed consolidated financial statements.

(Continued)

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(unaudited)	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<i>Homebuilding:</i>		
Accounts payable	\$ 235,180	\$ 273,936
Accrued expenses and other liabilities	220,888	225,178
Liabilities related to assets not owned, consolidated per FIN 46R	252,509	244,805
Obligations under incentive plans	18,660	40,045
Customer deposits	190,721	165,354
Other term debt	3,018	3,080
Senior notes	200,000	200,000
	1,120,976	1,152,398
<i>Mortgage Banking:</i>		
Accounts payable and other liabilities	12,781	15,784
Notes payable	79,062	153,552
	91,843	169,336
<b>Total liabilities</b>	<b>1,212,819</b>	<b>1,321,734</b>
<i>Commitments and contingencies</i>		
<i>Shareholders equity:</i>		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 20,592,640 shares issued as of both March 31, 2007 and December 31, 2006	206	206
Additional paid-in-capital	640,443	585,438
Deferred compensation trust 516,217 and 547,911 shares as of March 31, 2007 and December 31, 2006, respectively, of NVR, Inc. common stock	(75,656)	(80,491)
Deferred compensation liability	75,656	80,491
Retained earnings	3,280,861	3,196,040
Less treasury stock at cost 14,920,656 and 15,075,113 shares at March 31, 2007 and December 31, 2006, respectively	(2,666,382)	(2,629,610)
<b>Total shareholders equity</b>	<b>1,255,128</b>	<b>1,152,074</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,467,947</b>	<b>\$ 2,473,808</b>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
<b><i>Homebuilding:</i></b>		
Revenues	\$ 1,075,110	\$ 1,183,742
Other income	6,965	2,376
Cost of sales	(853,410)	(861,039)
Selling, general and administrative	(97,406)	(114,006)
Operating income	131,259	211,073
Interest expense	(3,322)	(5,527)
Homebuilding income	127,937	205,546
 <b><i>Mortgage Banking:</i></b>		
Mortgage banking fees	18,079	20,913
Interest income	1,307	1,459
Other income	184	231
General and administrative	(9,323)	(9,168)
Interest expense	(152)	(954)
Mortgage banking income	10,095	12,481
 <b><i>Income before taxes</i></b>	 138,032	 218,027
Income tax expense	(53,211)	(85,467)
 <b><i>Net income</i></b>	 \$ 84,821	 \$ 132,560
 <b><i>Basic earnings per share</i></b>	 \$ 14.98	 \$ 23.69
 <b><i>Diluted earnings per share</i></b>	 \$ 12.96	 \$ 19.48
 <b><i>Basic average shares outstanding</i></b>	 5,663	 5,596
 <b><i>Diluted average shares outstanding</i></b>	 6,545	 6,805

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
<b><i>Cash flows from operating activities:</i></b>		
Net income	\$ 84,821	\$ 132,560
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	4,337	3,011
Stock option compensation expense	14,323	13,560
Excess income tax benefit from exercise of stock options	(40,423)	(60,494)
Contract land deposit impairments	12,251	7,226
Mortgage loans closed	(474,003)	(476,798)
Proceeds from sales of mortgage loans	560,693	551,910
Principal payments on mortgage loans held for sale	3,555	2,331
Gain on sale of loans	(13,360)	(15,792)
Net change in assets and liabilities:		
Increase in inventories	(68,744)	(228,335)
Decrease in receivables	1,877	28,971
Decrease (Increase) in contract land deposits	6,635	(11,888)
Increase in accounts payable, customer deposits and accrued expenses	17,234	47,466
Decrease in obligations under incentive plans	(21,385)	(37,008)
Other, net	(15,247)	(9,104)
 Net cash provided (used) by operating activities	 72,564	 (52,384)
 <b><i>Cash flows from investing activities:</i></b>		
Purchase of property, plant and equipment	(1,597)	(4,847)
Other, net	798	88
 Net cash used in investing activities	 (799)	 (4,759)
 <b><i>Cash flows from financing activities:</i></b>		
Net (repayments) borrowings under notes payable and other term debt	(74,552)	33,513
Purchase of treasury stock	(86,351)	(120,817)
Excess income tax benefit from exercise of stock options	40,423	60,494
Proceeds from exercise of stock options	49,838	10,935
 Net cash used by financing activities	 (70,642)	 (15,875)
 Net increase (decrease) in cash and cash equivalents	 1,123	 (73,018)
Cash and cash equivalents, beginning of the period	556,119	177,526

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Cash and cash equivalents, end of period	\$ 557,242	\$ 104,508
<b><i>Supplemental disclosures of cash flow information:</i></b>		
Interest paid during the period	\$ 736	\$ 3,397
Income taxes paid, net of refunds	\$ 6,857	\$ 81,662
<b><i>Supplemental disclosures of non-cash activities:</i></b>		
Change in net assets not owned, consolidated per FIN 46	\$ (4,387)	\$ 1,537

See notes to condensed consolidated financial statements.

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**NVR, Inc.**

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

**1. Basis of Presentation**

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. ( NVR or the Company ) and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see note 2 to the condensed consolidated financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America, they should be read in conjunction with the financial statements and notes thereto included in the Company's 2006 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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

For the three-month periods ended March 31, 2007 and 2006, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements. Prior year segment reporting amounts have been reclassified to conform to 2007 presentation.

**2. Consolidation of Variable Interest Entities**

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

NVR does not engage in the land development business. Instead, the Company typically acquires finished building lots at market prices from various development entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if NVR fails to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts, and typically range up to 10% of the aggregate purchase price of the finished lots. As of March 31, 2007, the Company controlled approximately 85,400 lots with deposits in cash and letters of credit totaling approximately \$476,000 and \$12,000, respectively.

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

The Company believes that this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. NVR may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the finished lots under contract. NVR's sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidating 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 with which NVR enters fixed price purchase agreements.

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

At March 31, 2007, NVR had an aggregate investment in twelve separate LLCs totaling approximately \$14,000, which controlled approximately 750 lots. NVR recognizes its share of the earnings of the LLCs 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 three months ended March 31, 2007 and March 31, 2006, NVR adjusted cost of sales by approximately \$223 and \$(110), respectively, which represented NVR's share of the earnings (losses) of the LLCs.

Forward contracts, such as the fixed price purchase agreements utilized by NVR to acquire finished lot inventory, are deemed to be variable interests under FIN 46R. Therefore, the development entities with which NVR enters fixed price purchase agreements, including the LLCs, are examined under FIN 46R for possible consolidation by NVR of such development entities on NVR's financial statements. 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-nine of those development entities with which the agreements and arrangements are held. As a result, at March 31, 2007, NVR has consolidated such development entities in the accompanying consolidated balance sheet. Where NVR deemed itself to be the primary beneficiary of a development entity created after December 31, 2003 and the development entity refused to provide financial statements to NVR, NVR utilized estimation techniques to perform the consolidation. The effect of the consolidation under FIN 46R at March 31, 2007 was the inclusion on the balance sheet of \$279,736 as *Assets not owned, consolidated per FIN 46R*, with a corresponding inclusion of \$252,509 as *Liabilities related to assets not owned, consolidated per FIN 46R*, after elimination of intercompany items. Inclusive in these totals were assets of approximately \$34,000 and liabilities of approximately \$29,000 estimated for six development entities created after December 31, 2003 that did not provide financial statements.

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

Following is the consolidating schedule at March 31, 2007:

	<b>NVR, Inc. and Subsidiaries</b>	<b>FIN 46R Entities</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>ASSETS</b>				
<i>Homebuilding:</i>				
Cash and cash equivalents	\$ 555,317	\$	\$	\$ 555,317
Receivables	12,179			12,179
Homebuilding inventory	802,360			802,360
Property, plant and equipment, net	37,526			37,526
Reorganization value in excess of amount allocable to identifiable assets, net	41,580			41,580
Goodwill and intangibles, net	11,905			11,905
Contract land deposits, net	405,906		(18,416)	387,490
Other assets	231,081		(8,811)	222,270
	2,097,854		(27,227)	2,070,627
 <i>Mortgage banking assets:</i>	 117,584			 117,584
 <i>FIN 46R Entities:</i>				
Land under development		273,463		273,463
Other assets		6,273		6,273
		279,736		279,736
 <i>Total assets</i>	 \$ 2,215,438	 \$ 279,736	 \$ (27,227)	 \$ 2,467,947
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<i>Homebuilding:</i>				
Accounts payable, accrued expenses and other liabilities	\$ 474,728	\$	\$	\$ 474,728
Customer deposits	190,721			190,721
Other term debt	3,018			3,018
Senior notes	200,000			200,000
	868,467			868,467
 <i>Mortgage banking liabilities:</i>	 91,843			 91,843
 <i>FIN 46R Entities:</i>				

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Accounts payable, accrued expenses and other liabilities		16,727		16,727
Debt		165,548		165,548
Contract land deposits		45,384	(45,384)	
Advances from NVR, Inc.		7,802	(7,802)	
Minority interest			70,234	70,234
		235,461	17,048	252,509
<b>Equity</b>	1,255,128	44,275	(44,275)	1,255,128
<b>Total liabilities and shareholders equity</b>	\$ 2,215,438	\$ 279,736	\$ (27,227)	\$ 2,467,947

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

Under FIN 46R, an enterprise with an interest in a variable interest entity or potential variable interest entity created before December 31, 2003, is not required to apply FIN 46R to that entity if the enterprise, after making an exhaustive effort, is unable to obtain the information necessary to perform the accounting required to consolidate the variable interest entity for which it is determined to be the primary beneficiary. At March 31, 2007, NVR has been unable to obtain the information necessary to perform the accounting required to consolidate eight separate development entities created before December 31, 2003 for which NVR determined it was the primary beneficiary. NVR has made, or has committed to make, aggregate deposits, totaling approximately \$9,300 to these eight separate development entities, with a total aggregate purchase price for the finished lots of approximately \$80,000. The aggregate deposit made or committed to being made is NVR's maximum exposure to loss. Because NVR does not have any 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 eight development entities, the consolidation of such entities would have no impact on NVR's net income or earnings per share for the three months ended March 31, 2007. Aggregate activity with respect to the eight development entities is included in the following table:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Finished lots purchased - dollars	\$4,197	\$2,056
Finished lots purchased - units	23	24

**3. Contract Land Deposits**

During the three month periods ended March 31, 2007 and 2006, the Company incurred pre-tax charges of approximately \$12,000 and \$7,000, respectively, related to the impairment of contract land deposits due to deteriorating market conditions in the homebuilding industry. These impairment charges were recorded in cost of sales on the accompanying condensed, consolidated statements of income. The contract land deposit asset is shown net of \$70,577 and \$59,636 impairment valuation allowance at March 31, 2007 and December 31, 2006, respectively.

**4. Earnings per Share**

The following weighted average shares and share equivalents are used to calculate basic and diluted EPS for the three months ended March 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Basic weighted average number of shares outstanding	5,663,000	5,596,000
Shares issuable upon exercise of dilutive options	882,000	1,209,000
Diluted average number of shares outstanding	6,545,000	6,805,000

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

**NVR, Inc.**

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

Options to purchase 53,739 and 57,177 shares of common stock were outstanding during the quarters ended March 31, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. In addition, 412,096 and 403,025 performance-based options were outstanding at quarter end March 31, 2007 and 2006, 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 SFAS 128, *Earnings Per Share*.

**5. Excess Reorganization Value, Goodwill and Other Intangibles**

Statement of Financial Accounting Standards ( 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 impairment during the first quarter of 2007 and determined that there was no impairment of either goodwill or excess reorganization value.

**6. Uncertainty in Income Taxes**

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return.

The Company's adoption of FIN 48 on January 1, 2007 did not require a cumulative adjustment to retained earnings to comply with the recognition provisions of FIN 48. As of January 1, 2007, the Company has approximately \$34,200 of unrecognized tax benefits, all of which would decrease income tax expense if recognized. The Company recognizes accrued interest related to unrecognized tax benefits as a component of income tax expense. As of January 1, 2007, the Company has accrued approximately \$7,600 of interest expense. In accordance with the Company's accounting policy, penalties are not accrued unless the position doesn't meet the minimum statutory requirements, but if incurred, would be recorded as a component of income tax expense. The Company's federal income tax returns for 2003 through 2006 are open tax years. The Company files in various state and local jurisdictions, with varying statutes of limitation.

**NVR, Inc.**

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

**7. Shareholders Equity**

A summary of changes in shareholders equity is presented below:

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Deferred Comp. Trust</b>	<b>Deferred Comp. Liability</b>	<b>Total</b>
<b>Balance, December 31, 2006</b>	\$ 206	\$ 585,438	\$ 3,196,040	\$ (2,629,610)	\$ (80,491)	\$ 80,491	\$ 1,152,074
Net income			84,821				84,821
Deferred compensation activity					4,835	(4,835)	
Purchase of common stock for treasury				(86,351)			(86,351)
Stock-based compensation		14,323					14,323
Stock option activity		49,838					49,838
Tax benefit from stock-based compensation activity		40,423					40,423
Treasury shares issued upon option exercise		(49,579)		49,579			
<b>Balance, March 31, 2007</b>	\$ 206	\$ 640,443	\$ 3,280,861	\$ (2,666,382)	\$ (75,656)	\$ 75,656	\$ 1,255,128

The Company repurchased approximately 126,000 shares of its common stock during the three months ended March 31, 2007. 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 280,000 options to purchase shares of the Company's common stock were exercised during the three months ended March 31, 2007.

**8. 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 months ended March 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Warranty reserve, beginning of period	\$ 70,175	\$ 60,112
Provision	8,240	10,285

Payments	(10,087)	(8,831)
Warranty reserve, end of period	\$ 68,328	\$ 61,566

**NVR, Inc.**

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

**9. Segment Disclosures**

Consistent with the principles and objectives of SFAS 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, Michigan, 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 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 the Company's cost of capital. The Company records charges on contract land deposits when it determines 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. 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.

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 of which 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 also 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 enterprise, where applicable:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Homebuilding Mid Atlantic	\$ 688,784	\$ 784,408
Homebuilding North East	88,623	119,671
Homebuilding Mid East	155,128	166,814
Homebuilding South East	142,575	112,849
Mortgage Banking	18,079	20,913
<b>Consolidated revenues</b>	<b>\$ 1,093,189</b>	<b>\$ 1,204,655</b>
	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Profit:</b>		
Homebuilding Mid Atlantic	\$ 103,369	\$ 187,507
Homebuilding North East	3,425	9,777
Homebuilding Mid East	14,012	6,856
Homebuilding South East	22,727	14,434
Mortgage Banking	10,980	13,342
<b>Segment profit</b>	<b>154,513</b>	<b>231,916</b>
Contract land deposit impairments	(10,940)	(6,880)
Stock option expense	(14,323)	(13,559)
Corporate capital allocation	35,463	41,587
Unallocated corporate overhead	(25,983)	(34,484)
Consolidation adjustments and other	2,437	4,764
Corporate interest expense	(3,135)	(5,317)
Reconciling items sub-total	(16,481)	(13,889)
<b>Consolidated income before taxes</b>	<b>\$ 138,032</b>	<b>\$ 218,027</b>
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets:</b>		
Homebuilding Mid Atlantic	\$ 901,233	\$ 1,202,660
Homebuilding North East	134,228	168,138
Homebuilding Mid East	157,388	203,909
Homebuilding South East	125,983	112,094
Mortgage Banking	110,237	138,335
<b>Segment assets</b>	<b>1,429,069</b>	<b>1,825,136</b>

Assets not owned, consolidated per Fin 46R	279,736	274,179
Cash	555,317	101,979
Deferred taxes	174,131	101,729
Intangible assets	60,832	60,957
Land reserve	(70,577)	(32,769)
Consolidation adjustments and other	39,439	(16,277)
Reconciling items sub-total	1,038,878	489,798
<b>Consolidated assets</b>	<b>\$ 2,467,947</b>	<b>\$ 2,314,934</b>

**NVR, Inc.**

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

**10. Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. SFAS 157 will be effective for the Company's fiscal year beginning January 1, 2008. The Company is currently reviewing the effect, if any, SFAS 157 will have on its financial statements upon adoption.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, which provides an approach to simplify efforts to obtain hedge-like (offset) accounting by allowing the Company the option to carry mortgage servicing rights at fair value. This new Statement amends SFAS No. 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB SFAS No. 125, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 became effective for all separately recognized servicing assets and liabilities as of the beginning of the current fiscal year. Because the Company does not retain the servicing rights when it sells its mortgage loans held for sale, the adoption of SFAS No. 156 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 06-8 states that the adequacy of the buyer's continuing investment under SFAS 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 06-8 is effective for the Company beginning on January 1, 2008. The Company does not expect that the adoption of EITF 06-8 will have a material impact on its consolidated financial position, results of operations or cash flows.

**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 NVR in periodic press releases and other public communications, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as believes, expects, may, will, should, or anticipates or the negative thereof or other variations thereof or comparable terminology, or by discussion of strategies, each of which involves risks and uncertainties. All statements other than those of historical facts included herein, including those regarding market trends, NVR's financial position, business strategy, projected plans and objectives of management for future operations, are forward-looking statements. 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 any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks, uncertainties and other factors include, but are not limited to, general economic and business conditions (on both a national and regional level), interest rate changes, access to suitable financing, 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 moratoria, 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 Months Ended March 31, 2007 and 2006**

**Overview**

**Our Business**

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, Michigan, 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 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 March 31, 2007, we controlled approximately 85,400 lots with deposits in cash and letters of credit totaling approximately \$476,000 and \$12,000, respectively, and an additional 750 lots through joint venture limited liability corporations.

**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, low homebuyer confidence and a more restrictive mortgage lending environment resulting from recent changes in the secondary mortgage markets related to sub-prime mortgage programs. The current market conditions continue to exert a depressed effect on selling prices, and in response, we continue to offer incentives to homebuyers and to reduce prices in many of our markets. Overall, new orders increased 8% quarter over quarter, however, market conditions, particularly in the Mid Atlantic market, slowed noticeably as the quarter progressed. We experienced a reduction in homebuyer traffic at our communities quarter over quarter, which we believe to be attributable to the deterioration in the overall market conditions. Our cancellation rate for the first quarter of 2007 was 16% as compared to 17% during the same period in 2006 and 20% in the fourth quarter of 2006, however, they remain above our historical averages. The cancellation rate was highest in our Washington market at approximately 22%, but improved from 26% in the first quarter of 2006 and 34% and 39% in the fourth and third quarters of 2006, respectively.

For the quarter ended March 31, 2007, consolidated revenues decreased approximately 9% from the same period in 2006. Additionally, net income and diluted earnings per share in the current quarter decreased 36% and 33%, respectively, as compared to the first quarter of 2006. Gross profit margins within our homebuilding business declined to 20.6% in the first quarter of 2007 as compared to 27.3% in the first quarter of 2006. Gross profit margins have been negatively impacted by the pricing pressures created by market conditions, which began to erode in the second half of 2005 and as mentioned above, continued to be challenging through the first quarter of 2007. Based on the current uncertainty in the market, we expect gross profit margins to continue to be negatively impacted in future periods.

The Company is actively involved in implementing strategic steps to address this challenging homebuilding market. We continue to work 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 demonstrated by our actions in 2006. During the quarter ended March 31, 2007, we recorded a contract land deposit impairment charge of approximately \$12,000 as compared to \$7,000 in the first quarter of 2006. We are also aggressively working with our vendors to reduce material and labor costs incurred in the construction process. 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 options as standard options. This provides homebuyers with greater affordability and the option to upgrade only those features important to each particular buyer. We are also taking steps to reduce our exposure to sub-prime loans which represented approximately 7% of our mortgage dollar volume in the current quarter. In addition, we made staffing reductions in 2006 to size our organization to meet sales activity levels expected for 2007. In 2007, we will continue to assess our staffing levels and organizational structure as conditions warrant.

**Homebuilding Operations**

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenues	\$1,075,110	\$1,183,742
Cost of sales	\$ 853,410	\$ 861,039
Gross profit margin percentage	20.6%	27.3%
Selling, general and administrative	\$ 97,406	\$ 114,006
Settlements (units)	2,700	2,986
Average settlement price	\$ 397.6	\$ 395.9
New Orders (units)	3,917	3,633
Average new order price	\$ 372.3	\$ 387.6
Backlog (units)	7,605	8,957
Average backlog price	\$ 397.0	\$ 435.6

***Consolidated Homebuilding Three Months Ended March 31, 2007 and 2006***

Homebuilding revenues decreased 9% for the first quarter of 2007 from the same period in 2006 as a result of a 10% decrease in the number of units settled, offset partially by a slight increase in the average settlement price quarter over quarter. The decrease in the number of units settled is primarily attributable to our beginning backlog units being approximately 23% lower at the start of the first quarter of 2007 as compared to the beginning of 2006, offset partially by a higher backlog turnover rate quarter over quarter. Average settlement prices were primarily impacted by a shift in the product type settled from our single family attached product to our single family detached product which is generally higher priced.

Gross profit margins in the first quarter of 2007 declined as compared to the first quarter of 2006 primarily as a result of the increased pressure on selling prices, resulting in higher selling incentives required to generate sales, and to a lesser extent, were negatively impacted by higher lot and certain commodity costs, excluding lumber. We expect continued gross profit margin pressure over at least the next several quarters due to the current market conditions, discussed above.

New orders for the first quarter of 2007 increased by 8% from the first quarter of 2006, with the largest increases occurring in our Mid Atlantic and Mid East segments, which increased 18% and 11%, respectively. Despite these quarter over quarter increases, in the Mid Atlantic segment, we experienced a noticeable slowdown in market conditions as the first quarter of 2007 progressed. In addition, new orders in the North East and South East segments were down 8% and 12%, respectively. We expect new orders to be negatively impacted in future quarters as the market remains challenging. Affordability issues continue to impact many of our markets, which may be further impacted by the deterioration of the sub-prime mortgage market. We have experienced reduced homebuyer traffic at our communities in the first quarter of 2007 as compared to the same period in 2006.

Selling, general and administrative ( SG&A ) expenses for the first quarter decreased by approximately \$16,600, and as a percentage of revenue decreased to 9.1% from 9.6% in the first quarter of 2006. The decrease in SG&A expenses is primarily attributable to a \$15,200 decrease in personnel costs as staffing levels were reduced to meet current and expected levels of sales activity.

Backlog units and dollars were 7,605 and \$3,018,921, respectively, at March 31, 2007 compared to backlog units and dollars of 8,957 and \$3,901,354, respectively, at March 31, 2006. The decrease in backlog units is primarily attributable to our beginning backlog units being approximately 23% lower at the start of the first quarter of 2007 as compared to the beginning of 2006, offset partially by an 8% increase in new orders and 10% decrease in homes settled in the first quarter of 2007 as compared to the same period in 2006. Backlog dollars were negatively impacted by the decrease in backlog units coupled with a 9% decrease in the average price of homes in ending backlog, resulting from a 7% decrease in the average selling price for new orders over the six month period ended March 31, 2007 as compared to the same period in 2006.

### 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. The following table summarizes certain homebuilding operating activity by segment for the three months ended March 31, 2007 and 2006:

	2007	2006
<b>Mid Atlantic:</b>		
Revenues	\$688,784	\$784,408
Settlements (units)	1,352	1,575
Average settlement price	\$ 509.2	\$ 497.7
New orders (units)	1,921	1,634
Average new order price	\$ 464.4	\$ 519.1
Backlog (units)	4,234	5,033
Average backlog price	\$ 480.7	\$ 547.5
Gross margin	\$162,033	\$255,223
Gross profit margin percentage	23.5%	32.5%
Segment profit	\$103,369	\$187,507
<b>North East:</b>		
Revenues	\$ 88,623	\$119,671
Settlements (units)	249	302
Average settlement price	\$ 355.9	\$ 396.3
New orders (units)	417	451
Average new order price	\$ 340.2	\$ 357.3
Backlog (units)	708	933
Average backlog price	\$ 349.3	\$ 384.5
Gross margin	\$ 14,252	\$ 22,711
Gross profit margin percentage	16.1%	19.0%
Segment profit	\$ 3,425	\$ 9,777
<b>Mid East:</b>		
Revenues	\$155,128	\$166,814
Settlements (units)	572	612
Average settlement price	\$ 269.1	\$ 270.8
New orders (units)	1,030	928
Average new order price	\$ 256.9	\$ 266.8
Backlog (units)	1,732	1,917

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Average backlog price	\$ 262.9	\$ 270.3
Gross margin	\$ 30,601	\$ 27,618
Gross profit margin percentage	19.7%	16.6%
Segment profit	\$ 14,012	\$ 6,856
<b>South East:</b>		
Revenues	\$142,575	\$112,849
Settlements (units)	527	497
Average settlement price	\$ 270.5	\$ 227.0
New orders (units)	549	620
Average new order price	\$ 290.8	\$ 244.1
Backlog (units)	931	1,074
Average backlog price	\$ 301.9	\$ 250.7
Gross margin	\$ 34,124	\$ 24,550
Gross profit margin percentage	23.9%	21.8%
Segment profit	\$ 22,727	\$ 14,434

## **Mid Atlantic**

### ***Three Months Ended March 31, 2007 and 2006***

The Mid Atlantic segment had an approximate \$84,000 reduction in segment profit quarter over quarter. Revenues decreased 12% for the three months ended March 31, 2007 from the prior year quarter due primarily to a 14% decrease in the number of units settled. The decrease in units settled is attributable to a 26% lower backlog unit balance entering the first quarter of 2007 compared to the same period in 2006, offset partially by a higher backlog turnover rate quarter over quarter. The Mid Atlantic segment's gross profit margin percentage decreased to 23.5% in 2007 from 32.5% in 2006. Gross profit margins were negatively impacted by the increased pressure on selling prices, resulting in higher selling incentives required to generate sales, and to a lesser extent, by higher lot and certain commodity costs, excluding lumber.

New orders for the first quarter of 2007 increased 18% from the same period in 2006. Despite the overall increase in new orders in this segment, the markets in the Mid Atlantic segment remain competitive and we experienced a noticeable slowdown in market conditions as the quarter progressed. We expect that these markets will continue to be negatively impacted by affordability issues, a tougher lending environment resulting from the sub-prime mortgage market deterioration and higher levels of new and existing home inventory for sale as discussed above. The segment's overall average sales price of new orders decreased 11% from the first quarter of 2006, with the Washington D.C. sub-market declining 16%.

## **North East**

### ***Three Months Ended March 31, 2007 and 2006***

The North East segment had an approximate \$6,000 decrease in segment profit quarter over quarter. Revenues decreased approximately 26% as a result of an 18% decrease in the number of units settled and a 10% decline in the average settlement price. The decrease in units settled is attributable to a 31% lower backlog unit balance entering the first quarter of 2007 compared to the same period in 2006, 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 first quarter of 2007 being 11% lower than the same period in 2006. Gross profit margins decreased to 16.1% in 2007 from 19.0% in 2006 from the lower average settlement prices in 2007. New orders for the first quarter of 2007 decreased 8% from the same period in 2006, as a result of an increase in the cancellation rate to 15% in the first quarter of 2007 from 10% in the first quarter of 2006 and as a result of the competitive sales environment within each of our markets in the North East segment.

**Mid East**

***Three Months Ended March 31, 2007 and 2006***

The Mid East segment had an approximate \$7,000 increase in segment profit quarter over quarter. Revenues decreased 7% due to a 7% decrease in the number of units settled. The decrease in the settlements is primarily attributable to a 20% lower backlog unit balance entering the first quarter of 2007 compared to the same period in 2006. Gross profit margins increased to 19.7% in the first quarter of 2007 from 16.6% in the same period of 2006 as a result of increased efforts to control operating costs, including personnel and material costs. New orders for the first quarter of 2007 increased 11% from the same period in 2006, while the average price for new orders declined 4% quarter over quarter. The increase in new orders was attributable to a decrease in the segments cancellation rate to 10% in the first quarter of 2007 from 14% in the first quarter of 2006 and to reducing prices to meet market demand by introducing smaller product offerings and product offerings with fewer available options.

**South East**

***Three Months Ended March 31, 2007 and 2006***

The South East segment has not been as severely impacted by the recent adverse economic conditions within the homebuilding industry as our other reporting segments, although the markets in this segment are beginning to show signs of the overall slowdown being experienced in our other reporting segments. The South East segment had an approximate \$8,000 increase in segment profit quarter over quarter. Revenues increased 26% for the three months ended March 31, 2007 from the prior year quarter due to a 6% increase in the number of units settled and a 19% increase in the average settlement price. The increase in units settled is attributable to a higher backlog turnover rate quarter over quarter. The increase in the average settlement price is primarily attributable to a 20% higher average price of homes in the beginning of the period backlog quarter over quarter as a result of a product shift away from our single family attached product to our single family detached product which is generally higher priced. Gross profit margins increased to 23.9% in 2007 from 21.8% in 2006 due to the higher average settlement prices experienced in the current quarter. New orders during the first quarter of 2007 were 12% lower than the first quarter of 2006, however the average new order price was 19% higher during the same respective periods. The decrease in new orders is primarily attributable to lower sales absorption on a flat average number of active communities quarter over quarter.

**Homebuilding Segment Reconciliations to Consolidated Homebuilding Operations**

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

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
<b><i>Homebuilding Consolidated Gross Profit:</i></b>		
Homebuilding Mid Atlantic	\$ 162,033	\$ 255,223
Homebuilding North East	14,252	22,711
Homebuilding Mid East	30,601	27,618
Homebuilding South East	34,124	24,550
Consolidation adjustments and other (1)	(19,310)	(7,399)
<b><i>Segment gross profit</i></b>	<b>\$ 221,700</b>	<b>\$ 322,703</b>
<b><i>Homebuilding Consolidated Income Before Tax:</i></b>		
Homebuilding Mid Atlantic	\$ 103,369	\$ 187,507
Homebuilding North East	3,425	9,777
Homebuilding Mid East	14,012	6,856
Homebuilding South East	22,727	14,434
<b><i>Reconciling items:</i></b>		
Contract land deposit impairments	(10,940)	(6,880)
Stock option expense	(13,438)	(12,698)
Corporate capital allocation (2)	35,463	41,587
Unallocated corporate overhead	(25,983)	(34,484)
Consolidation adjustments and other	2,437	4,764
Corporate interest expense	(3,135)	(5,317)
Reconciling items sub-total	(15,596)	(13,028)
<b><i>Homebuilding consolidated profit before taxes</i></b>	<b>\$ 127,937</b>	<b>\$ 205,546</b>

(1) Increase is due to unallocated contract land deposit impairments and other primarily activity driven consolidation adjustments.

- (2) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The increases in the corporate capital allocation charge are due to the higher segment asset balances during the respective periods due to the increases 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:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Homebuilding Mid Atlantic	\$ 25,044	\$ 30,122
Homebuilding North East	3,539	4,249
Homebuilding Mid East	3,828	4,675
Homebuilding South East	3,052	2,541
<b><i>Total</i></b>	<b>\$ 35,463</b>	<b>\$ 41,587</b>

**Mortgage Banking Segment****Three Months Ended March 31, 2007 and 2006**

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.

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Loan closing volume:</b>		
Total principal	\$ 715,039	\$ 736,782
Percent sub-prime	7%	6%
<b>Loan volume mix:</b>		
Adjustable rate mortgages	27%	36%
Fixed-rate mortgages	73%	64%
<b>Operating profit:</b>		
Segment profit	\$ 10,980	\$ 13,342
Stock option expense	(885)	(861)
Mortgage income before tax	\$ 10,095	\$ 12,481
<b>Mortgage banking fees:</b>		
Net gain on sale of loans	\$ 13,360	\$ 15,792
Title services	4,545	4,882
Servicing	174	239
	\$ 18,079	\$ 20,913

Loan closing volume for the three months ended March 31, 2007 decreased 3% over the same period for 2006. The 2007 decrease is primarily attributable to an 8% decrease in the number of units closed, partially offset by a 6% increase in the average loan amount. The unit decrease reflects a decrease in the number of homes that we settled in the first quarter of 2007. The unit decrease was partially offset by a 3 percentage point increase in the number of loans closed by NVRM for our homebuyers who obtain a mortgage to purchase the home ( Capture Rate ), which increased to 86% compared to 83% for the first quarter of 2006. The increase in the average loan amount reflects Capture Rate gains quarter over quarter in our higher priced Mid Atlantic homebuilding segment.

Segment income for the three months ended March 31, 2007 decreased approximately \$2,400 from the same period for 2006. The decrease is primarily due to a decrease in mortgage banking fees attributable to the aforementioned decrease in closed loan volume and a decrease in fees received per loan. Mortgage banking fees were favorably impacted quarter over quarter by a \$1,400 reduction in costs associated with contractual repayments of loan sale income to investors for loans that were paid in full within a set number of days following the sale of the loan. General and administrative expenses remained materially constant quarter over quarter, as a comparative \$1,200 reduction in salaries and other personnel costs due to a 23% reduction in staffing was primarily offset by a \$1,000 increase in charges due to repurchased sold loans that went into early payment default within a set period of time after the loan was sold.

**Liquidity and Capital Resources**

We fund our operations from cash flows provided by our operating activities, a short-term credit facility and the public debt and equity markets. In the first quarter of 2007, our operating activities provided cash of approximately \$73,000. Cash was provided by our homebuilding operations, the sale of mortgage loans and by an approximate \$17,000 increase in accounts payable and accrued expenses. Cash was used to fund the increase in homebuilding inventory of approximately \$69,000 as a result of an increase in units under construction at March 31, 2007 as compared to December 31, 2006. The presentation of operating cash flows was also reduced by \$40,423, which is the amount of the excess tax benefit realized from the exercise of stock options during the quarter and credited directly to additional paid in capital.

Net cash used for investing activities was approximately \$800 for the period ended March 31, 2007, which primarily resulted from property and equipment purchases throughout the period.

Net cash used for financing activities was approximately \$71,000 for the period ended March 31, 2007. During the first quarter of 2007, we repurchased approximately 126,000 shares of our common stock at an aggregate purchase price of \$86,351 under our ongoing common stock repurchase program, discussed below. We also reduced borrowings under the mortgage warehouse facility by approximately \$75,000 based on current borrowing needs. Stock option exercise activity during the 2007 quarter provided approximately \$50,000 in exercise proceeds, and a realized excess income tax benefit of \$40,423, 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 \$19,585 was outstanding at March 31, 2007. There were no direct borrowings outstanding under the Facility as of March 31, 2007. At March 31, 2007, 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. The mortgage banking segment utilizes an annually renewable mortgage warehouse facility with an aggregate available borrowing limit of \$175,000 to fund its mortgage origination activities. The interest rate under the Revolving Credit Agreement is either: (i) LIBOR plus 1.0%, or (ii) 1.125% to the extent that NVRM provides compensating balances. The mortgage warehouse facility expires in August 2007. We believe that the mortgage warehouse facility will be renewed with terms consistent with the current warehouse facility prior to its expiration. There was \$79,062 outstanding under this facility at March 31, 2007. At March 31, 2007, borrowing base limitations reduced the amount available to us for borrowings to approximately \$100,400.

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. We believe the repurchase program assists us in accomplishing our primary objective, increasing shareholder value. See Part II, Item 2 of this Form 10-Q for disclosure of amounts repurchased during the first quarter of 2007. We expect to continue to repurchase shares of our common stock from time to time subject to market conditions and available excess liquidity.

In 2004, we filed a shelf registration statement (Shelf) with the Securities and Exchange Commission (SEC) to register up to \$1,000,000 for future offer and sale of debt securities, common shares, preferred shares, depositary shares representing preferred shares and warrants. The SEC declared the Shelf effective on June 15, 2004. The proceeds received from future offerings issued under the New Shelf are expected to be used for general corporate purposes. In addition, we have \$55,000 available for issuance under a prior shelf registration statement filed with the SEC on January 20, 1998. The prior shelf registration statement, which was declared effective on February 27, 1998, provides that securities may be offered from time to time in one or more series and in the form of senior or subordinated debt. This discussion of our shelf registration capacity does not constitute an offer of any securities for sale.

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 management 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 periodically evaluate the estimates we use to prepare the consolidated financial statements, and update those estimates as necessary. In general, management's 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 Accounting Standards Board 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.

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 thereof. 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 units 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 our 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 our existing contract land deposit portfolio. The allowance reflects management's 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 March 31, 2007 balance sheet to be adequate, there can be no assurance that this allowance will prove to be adequate over time to cover losses due to unanticipated 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 Statement of Financial Accounting Standards ( 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 periodically 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 2007, and as of March 31, 2007, we believe that excess reorganization value, goodwill and other intangible assets were not impaired. This conclusion is based on our judgment, considering such factors as our history of operating success, our well recognized brand names and the significant positions held in the markets in which we operate. 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 expenses as a result of construction and product defects, product recalls and litigation incidental to our 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. Although we consider the warranty and product liability accrual reflected on the March 31, 2007 balance sheet (see note 8 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 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).

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. Further, although we believe that the compensation costs recognized during the quarter ended March 31, 2007 are representative of the 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 could produce widely different fair values.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There have been no material changes in our market risks during the three months ended March 31, 2007. For additional information regarding market risk, see our Annual Report on Form 10-K for the year ended December 31, 2006.

### **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**

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.

### **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 and ability to service our debt obligations.

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 accounted for almost all of our mortgage banking business in 2006. The volume of our continuing homebuilding operations therefore affects our mortgage banking business.

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, 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.

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 and ability to service our debt obligations.

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 37% of our home settlements during 2006 occurred in the Washington, D.C. and Baltimore, MD metropolitan areas, which accounted for 52% of our 2006 homebuilding revenues. 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 and ability to service our debt obligations.

**If the market value of our inventory declines, our profit could decrease.**

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. In the event of significant changes in economic or market conditions, we may dispose of certain subdivision inventories on a bulk or other basis which may result in a loss which could have a material adverse effect on our profitability, stock performance and ability to service our debt obligations.

**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.

**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 and ability to service our debt obligations.

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 and ability to service our debt obligations.

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 and ability to service our debt obligations.

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. Historically we have been one of the leading homebuilders in each of the markets where we operate.

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 and ability to service our debt obligations.

**A shortage of building materials or labor 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 and ability to service our debt obligations.

**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.

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

We believe that our recorded tax balances are adequate. However, it is not possible to predict the effects of possible changes in the tax laws or changes in their interpretation and whether they 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 and ability to service our debt obligations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (Dollars in thousands, except per share data)**

We had one repurchase authorization outstanding during the quarter ended March 31, 2007. On June 23, 2006 ( June Authorization ), we publicly announced the board of directors approval for us to repurchase up to an aggregate of \$300,000 of our common stock in one or more open market and/or privately negotiated transactions. The June Authorization does not have an expiration date. We repurchased the following shares of our common stock during the first quarter of 2007:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1-31, 2007				
February 1-28, 2007				
March 1-31, 2007	126,000	\$685.32	126,000	\$ 47,403
Total	126,000	\$685.32	126,000	\$ 47,403

On April 4, 2007 ( April Authorization ), we publicly announced the board of directors approval for us to repurchase up to an aggregate of \$300,000 of our common stock in one or more open market and/or privately negotiated transactions. The April Authorization does not have an expiration date.

**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.

May 4, 2007

NVR, Inc.

By: /s/ Dennis M. Seremet

Dennis M. Seremet  
Vice President, Chief Financial Officer and  
Treasurer  
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**Exhibit Index**

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31.2	Certification of NVR's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	36
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