NVR INC
Form 10-Q
August 08, 2011

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

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission File Number: 1-12378

NVR, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of August 2, 2011 there were 5,431,193 total shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 927,370	$ 1,190,731
Receivables	7,871	6,948
Inventory:		
Lots and housing units, covered under sales agreements with customers	390,498	275,272
Unsold lots and housing units	58,071	70,542
Land under development	78,468	78,058
Manufacturing materials and other	8,142	7,457
	535,179	431,329
Assets related to consolidated variable interest entity	23,022	22,371
Contract land deposits, net	129,202	100,786
Property, plant and equipment, net	23,530	19,523
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Other assets, net	285,292	243,005
	1,973,046	2,056,273
Mortgage Banking:		
Cash and cash equivalents	2,075	2,661
Mortgage loans held for sale, net	181,525	177,244
Property and equipment, net	1,081	950
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	10,601	15,586
	202,629	203,788
Total assets	$ 2,175,675	$ 2,260,061

See notes to condensed consolidated financial statements.

(Continued)

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

	June 30, 2011 (unaudited)	December 31, 2010
LIABILITIES AND SHAREHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 148,658	$ 115,578
Accrued expenses and other liabilities	184,615	237,052
Liabilities related to consolidated variable interest entity	1,242	500
Non-recourse debt related to consolidated variable interest entity	6,535	7,592
Customer deposits	67,593	53,705
Other term debt	1,696	1,751
	410,339	416,178
Mortgage Banking:		
Accounts payable and other liabilities	24,891	13,171
Note payable	89,649	90,338
	114,540	103,509
Total liabilities	524,879	519,687
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,556,198 and 20,557,913 shares issued as of June 30, 2011 and December 31, 2010, respectively	206	206
Additional paid-in-capital	1,037,299	951,234
Deferred compensation trust 152,964 and 158,894 shares of NVR, Inc. common stock as of June 30, 2011 and December 31, 2010, respectively	(25,582)	(27,582)
Deferred compensation liability	25,582	27,582
Retained earnings	4,082,691	4,029,072
Less treasury stock at cost 14,977,205 and 14,894,357 shares at June 30, 2011 and December 31, 2010, respectively	(3,469,400)	(3,240,138)
Total shareholders equity	1,650,796	1,740,374
Total liabilities and shareholders equity	$ 2,175,675	$ 2,260,061

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Homebuilding:				
Revenues	$ 682,663	$ 946,972	$ 1,185,407	$ 1,524,353
Other income	1,362	2,110	2,820	4,479
Cost of sales	(558,601)	(771,475)	(976,521)	(1,242,544)
Selling, general and administrative	(68,045)	(69,137)	(135,233)	(129,878)
Operating income	57,379	108,470	76,473	156,410
Interest expense	(287)	(1,897)	(509)	(4,068)
Homebuilding income	57,092	106,573	75,964	152,342
Mortgage Banking:				
Mortgage banking fees	13,218	17,532	24,978	30,365
Interest income	1,085	1,492	2,200	2,248
Other income	121	233	160	399
General and administrative	(7,898)	(7,275)	(14,575)	(13,804)
Interest expense	(264)	(296)	(538)	(560)
Mortgage banking income	6,262	11,686	12,225	18,648
Income before taxes	63,354	118,259	88,189	170,990
Income tax expense	(24,909)	(46,983)	(34,570)	(67,627)
Net income	$ 38,445	$ 71,276	$ 53,619	$ 103,363
Basic earnings per share	$ 6.65	$ 11.64	$ 9.24	$ 16.96
Diluted earnings per share	$ 6.48	$ 11.13	$ 8.98	$ 16.15
Basic average shares outstanding	5,785	6,123	5,804	6,095
Diluted average shares outstanding	5,929	6,405	5,974	6,402

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 53,619	$ 103,363
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,236	3,728
Excess income tax benefit from exercise of stock options	(21,391)	(58,562)
Equity-based compensation expense	31,705	20,826
Contract land deposit impairments (recoveries)	4,069	(949)
Gain on sales of loans	(18,865)	(22,978)
Mortgage loans closed	(816,908)	(1,073,149)
Proceeds from sales of mortgage loans	833,579	895,491
Principal payments on mortgage loans held for sale	2,061	330
Distribution of earnings from unconsolidated joint ventures	1,657	
Net change in assets and liabilities:		
Increase in inventories	(103,558)	(1,983)
Increase in contract land deposits	(32,485)	(19,256)
Increase in receivables	(487)	(6,169)
Increase in accounts payable, accrued expenses and customer deposits	29,100	91,155
Other, net	9,445	1,847
Net cash used in operating activities	(25,223)	(66,306)
Cash flows from investing activities:		
Purchase of marketable securities		(150,000)
Redemption of marketable securities at maturity		194,535
Investments in and advances to unconsolidated joint ventures	(61,600)	(2,000)
Distribution of capital from unconsolidated joint ventures	7,343	
Purchase of property, plant and equipment	(7,478)	(2,921)
Proceeds from the sale of property, plant and equipment	307	265
Net cash (used in) provided by investing activities	(61,428)	39,879
Cash flows from financing activities:		
Purchase of treasury stock	(300,885)	(176,084)
Net (repayments) borrowings under notes payable and credit lines	(744)	66,514
Redemption of senior notes		(133,370)
Net repayments under non-recourse debt related to consolidated variable interest entity	(1,057)	
Excess income tax benefit from equity-based compensation	21,391	58,562
Exercise of stock options	104,592	51,537

Net cash used in financing activities	(176,703)	(132,841)
Net decrease in cash and cash equivalents	(263,354)	(159,268)
Cash and cash equivalents, beginning of the period	1,193,750	1,250,150
Cash and cash equivalents, end of period	$ 930,396	$ 1,090,882
Supplemental disclosures of cash flow information:		
Interest paid during the period, net	$ 1,056	$ 4,527
Income taxes paid, net of refunds	$ 14,033	$ 9,710
Supplemental disclosures of non-cash activities:		
Investment in consolidated joint venture	$	$ (23,776)

See notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. (NVR or the Company) and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see Note 2 to the accompanying financial statements). Intercompany accounts and transactions have been eliminated in consolidation. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company s 2010 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

For the three and six-month periods ended June 30, 2011 and 2010, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Variable Interest Entities and Joint Ventures

Fixed Price Purchase Agreements

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

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

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

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

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

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

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

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

As discussed above, NVR s sole legal obligation and economic loss for failure to perform under these purchase agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the purchase agreements and in very limited circumstances, specific performance obligations. NVR s total risk of loss related to contract land deposits as of June 30, 2011 and December 31, 2010, is as follows:

	June 30, 2011	December 31, 2010
Contract land deposits	$ 197,324	$ 174,303
Loss reserve on contract land deposits	(68,122)	(73,517)
Contract land deposits, net	129,202	100,786
Contingent obligations in the form of letters of credit	3,054	6,610
Contingent specific performance obligations (1)	3,617	1,944
Total risk of loss	$ 135,873	$ 109,340

(1) At June 30, 2011 and December 31, 2010, the Company was committed to purchase 27 and 43 finished lots under specific performance obligations, respectively.

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

Joint Ventures

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

During the second quarter of 2011, NVR invested $61,250 for a fifty percent (50%) interest in a joint venture entered into with Morgan Stanley Real Estate Investing, which holds the other fifty percent interest. NVR is not contractually committed to making any additional investments in the JV, nor will it be a borrower, guarantor or obligor on any debt of the joint venture, as applicable. The joint venture acquired nine separate parcels of land from entities controlled by a single developer that are in various stages of development and all nine parcels are zoned for their intended use. The joint venture controls approximately 5,600 lots within the nine parcels, as follows:

	Lots Under Contract With:		Not Under	
Location	**NVR**	**Others**	**Contract**	**Totals**
Spotsylvania County, VA	143	16		159
Loudoun County, VA	1,769	50		1,819
Prince Georges County, MD	969			969
Jefferson County, WV			2,659	2,659
Total	2,881	66	2,659	5,606

Substantially all of the 2,881 lots under contract with the joint venture noted above were previously controlled by NVR under contracts with the prior developer, and those lots were formerly reported in NVR s lots controlled total. In 2008, NVR recorded a valuation reserve on the deposits related to those lots.

At June 30, 2011, the Company had investments in four JVs that are expected to produce approximately 6,600 finished lots. In addition, at June 30, 2011, NVR had additional funding commitments in the aggregate totaling $5,000 to one of the four JVs. The Company has determined that it is not the primary beneficiary of three of the JVs because NVR and the other JV partner either share power or the other JV partner has the controlling financial interest. The aggregate investment in these three JVs was approximately $77,200 and is reported in the Other assets line item in accompanying condensed consolidated balance sheets. For the remaining JV, NVR has concluded that it is the primary beneficiary because the Company has the controlling financial interest in the JV. The condensed balance sheets at June 30, 2011 and December 31, 2010, of the consolidated JV are as follows:

	June 30, 2011	**December 31, 2010**
Cash	$ 951	$ 358
Restricted cash	852	501
Other assets	125	126
Land under development	21,094	21,386
Total assets	$ 23,022	$ 22,371
Debt	$ 6,535	$ 7,592

Accrued expenses		492		59
Equity		15,995		14,720
Total liabilities and equity	$	23,022	$	22,371

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

3. Land Under Development

On a limited basis, NVR directly acquires raw parcels of land already zoned for its intended use to develop into finished lots. Land under development includes the land acquisition costs, direct improvement costs, capitalized interest, where applicable, and real estate taxes. As of June 30, 2011, NVR directly owned three separate raw parcels of land with a carrying value of approximately $78,500 that it intends to develop into approximately 850 finished lots for use in its homebuilding operations. All three of the raw parcels are located in the Washington, D.C. metropolitan area and none of them had any indicators of impairment as of June 30, 2011. Based on current market conditions, NVR may, on a very limited basis, directly acquire additional raw parcels to develop into finished lots. See the Overview section of Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations included herein for additional discussion.

4. Contract Land Deposits

As of June 30, 2011, NVR controlled approximately 49,100 lots with deposits in cash and letters of credit of $197,300 and $3,100, respectively. At December 31, 2010, NVR controlled approximately 50,400 lots with deposits in cash and letters of credit totaling approximately $174,300 and $6,600, respectively. During the three and six month periods ended June 30, 2011, the Company recognized a net pre-tax charge of approximately $2,700 and $4,100, respectively, related to the impairment of contract land deposits. During the three-month period ended June 30, 2010, the Company recognized a net pre-tax contract land deposit impairment charge of approximately $970 and for the six-month period recognized a net pre-tax recovery of approximately $950 of contract land deposits previously determined to be uncollectible. The contract land deposit asset is shown net of an approximate $68,100 and $73,500 impairment valuation allowance at June 30, 2011 and December 31, 2010, respectively.

5. Earnings per Share

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Weighted average number of shares outstanding used to calculate basic EPS	5,785,000	6,123,000	5,804,000	6,095,000
Dilutive Securities:				
Stock options and restricted share units	144,000	282,000	170,000	307,000
Weighted average number of shares and share equivalents used to calculate diluted EPS	5,929,000	6,405,000	5,974,000	6,402,000

The assumed proceeds used in the treasury method for calculating NVR s diluted earnings per share includes the amount the employee must pay upon exercise, the amount of compensation cost attributed to future services and not yet recognized, and the amount of tax benefits that would be credited to additional paid-in capital assuming exercise of the option or the vesting of the restricted share unit.