NVR INC
Form 10-Q
August 02, 2010

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, 2010

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 July 28, 2010 there were 5,849,824 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, 2010 (unaudited)	December 31, 2009
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 1,089,399	$ 1,248,689
Marketable securities	175,000	219,535
Receivables	15,011	7,995
Inventory:		
Lots and housing units, covered under sales agreements with customers	340,577	337,523
Unsold lots and housing units	55,871	73,673
Land under development	17,000	
Manufacturing materials and other	7,253	7,522
	420,701	418,718
Assets related to consolidated variable interest entities	22,980	70,430
Contract land deposits, net	71,389	49,906
Property, plant and equipment, net	19,075	20,215
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Other assets, net	240,394	258,659
	2,095,529	2,335,727
Mortgage Banking:		
Cash and cash equivalents	1,483	1,461
Mortgage loans held for sale, net	244,313	40,097
Property and equipment, net	821	446
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	9,942	10,692
	263,906	60,043
Total assets	$ 2,359,435	$ 2,395,770

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, 2010 (unaudited)	December 31, 2009
LIABILITIES AND SHAREHOLDERS EQUITY		
Homebuilding:		
Accounts payable	$ 161,708	$ 120,464
Accrued expenses and other liabilities	207,281	221,352
Liabilities related to consolidated variable interest entities		65,915
Customer deposits	69,344	63,591
Other term debt	1,999	2,166
Senior notes		133,370
	440,332	606,858
Mortgage Banking:		
Accounts payable and other liabilities	24,612	19,306
Note payable	79,025	12,344
	103,637	31,650
Total liabilities	543,969	638,508
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,559,671 shares issued as of both June 30, 2010 and December 31, 2009	206	206
Additional paid-in-capital	914,585	830,531
Deferred compensation trust 158,894 and 265,278 shares of NVR, Inc. common stock as of June 30, 2010 and December 31, 2009, respectively	(27,582)	(40,799)
Deferred compensation liability	27,582	40,799
Retained earnings	3,926,430	3,823,067
Less treasury stock at cost 14,635,123 and 14,609,560 shares at June 30, 2010 and December 31, 2009, respectively	(3,025,755)	(2,896,542)
Total shareholders equity	1,815,466	1,757,262
Total liabilities and shareholders equity	$ 2,359,435	$ 2,395,770

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,	
	2010	**2009**	**2010**	**2009**
Homebuilding:				
Revenues	$ 946,972	$ 612,488	$ 1,524,353	$ 1,160,817
Other income	2,110	1,750	4,479	4,289
Cost of sales	(771,475)	(494,240)	(1,242,544)	(956,870)
Selling, general and administrative	(69,137)	(54,664)	(129,878)	(114,358)
Operating income	108,470	65,334	156,410	93,878
Interest expense	(1,897)	(2,462)	(4,068)	(5,236)
Homebuilding income	106,573	62,872	152,342	88,642
Mortgage Banking:				
Mortgage banking fees	17,532	12,943	30,365	23,213
Interest income	1,492	611	2,248	1,195
Other income	233	154	399	243
General and administrative	(7,275)	(6,475)	(13,804)	(12,233)
Interest expense	(296)	(276)	(560)	(613)
Mortgage banking income	11,686	6,957	18,648	11,805
Income before taxes	118,259	69,829	170,990	100,447
Income tax expense	(46,983)	(28,403)	(67,627)	(41,033)
Net income	$ 71,276	$ 41,426	$ 103,363	$ 59,414
Basic earnings per share	$ 11.64	$ 7.17	$ 16.96	$ 10.41
Diluted earnings per share	$ 11.13	$ 6.79	$ 16.15	$ 9.85
Basic average shares outstanding	6,123	5,777	6,095	5,710
Diluted average shares outstanding	6,405	6,101	6,402	6,032

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 103,363	$ 59,414
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,728	4,977
Excess income tax benefit from exercise of stock options	(58,562)	(46,447)
Equity-based compensation expense	20,826	23,402
Contract land deposit recoveries	(949)	(4,744)
Gain on sale of loans	(22,978)	(17,340)
Mortgage loans closed	(1,073,149)	(849,864)
Proceeds from sales of mortgage loans	895,491	813,476
Principal payments on mortgage loans held for sale	330	429
Net change in assets and liabilities:		
Increase in inventories	(1,983)	(60,000)
(Increase) decrease in contract land deposits	(19,256)	1,837
(Increase) decrease in receivables	(6,169)	2,530
Increase in accounts payable, accrued expenses and customer deposits	91,155	31,588
Other, net	1,847	18,349
Net cash used in operating activities	(66,306)	(22,393)
Cash flows from investing activities:		
Purchase of marketable securities	(150,000)	(708,362)
Redemption of marketable securities at maturity	194,535	50,000
Investments in unconsolidated joint ventures	(2,000)	
Purchase of property, plant and equipment	(2,921)	(625)
Proceeds from the sale of property, plant and equipment	265	618
Net cash provided by (used in) investing activities	39,879	(658,369)
Cash flows from financing activities:		
Net borrowings under notes payable and credit lines	66,514	52,340
Redemption of senior notes	(133,370)	(27,950)
Purchase of treasury stock	(176,084)	
Excess income tax benefit from exercise of stock options	58,562	46,447
Exercise of stock options	51,537	45,550
Net cash (used in) provided by financing activities	(132,841)	116,387
Net decrease in cash and cash equivalents	(159,268)	(564,375)

Cash and cash equivalents, beginning of period	1,250,150	1,147,643
Cash and cash equivalents, end of period	$ 1,090,882	$ 583,268
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 4,527	$ 5,262
Income taxes paid, net of refunds	$ 9,710	$ (34,303)
Supplemental disclosures of non-cash activities:		
Investment in newly formed consolidated joint venture	$ (23,776)	$
Change in net consolidated variable interest entities	$	$ (188)

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 2009 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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or thereafter.

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, 2010 and 2009, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

2. Consolidation of Variable Interest Entities, Joint Ventures and Land Under Development

Effective January 1, 2010, NVR adopted Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R),* as codified in Accounting Standards Codification (ASC) 810, *Consolidation*, through Accounting Standards Update 2009-17 (ASC 810). This statement amends FASB Interpretation 46R related to the consolidation of variable interest entities (VIEs), revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature, and requires companies to more frequently reassess whether they must consolidate a VIE.

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 do we guarantee

NVR, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands except per share data)

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

We believe 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 we contract 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. We possess no more than limited protective legal rights through the purchase agreement in the specific finished lots that we are purchasing, and we possess 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 we enter fixed price purchase agreements, and therefore, we do not consolidate any of these VIEs.

As of June 30, 2010, NVR controlled approximately 46,300 lots with deposits in cash and letters of credit totaling approximately $153,000 and $5,100, respectively. As noted 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, as follows:

	June 30, 2010
Contract land deposits	$ 152,696
Loss reserve on contract land deposits	(81,307)
Contract land deposits, net	71,389
Contingent obligations in the form of letters of credit	5,091
Contingent specific performance obligations (1)	6,403
Total risk of loss	$ 82,883

(1) At June 30, 2010, the Company was committed to purchase 71 finished lots under specific performance obligations.

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Upon adoption of ASC 810, all of the assets and liabilities of consolidated VIEs at December 31, 2009 were deconsolidated, and there was no resultant gain or loss.

Joint Ventures

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

At June 30, 2010, we had an aggregate investment totaling approximately $3,400 in four separate JVs, all of which are non-performing and as a result, we had recorded an impairment reserve equal to our total investment due to our determination that our investment was not recoverable. We do not expect to obtain any lots from any of those four JVs in future periods. In addition, at June 30, 2010, we have an aggregate investment totaling approximately $46,000 in three performing JVs that are expected to produce approximately 1,200 finished lots. At June 30, 2010, we had additional funding commitments in the aggregate totaling $7,000 to two of the three performing JVs. We have determined that we are not the primary beneficiary of the four non-performing JVs and two of the performing JVs because NVR and the respective JV partner share power. We have concluded that we are the primary beneficiary of the remaining performing JV because we have the controlling financial interest in the JV. The condensed balance sheet at June 30, 2010 of the consolidated JV is as follows:

	June 30, 2010
Cash	$ 39
Land under development	22,941
Total assets	22,980
Equity	22,980
Total liabilities and equity	$ 22,980

Land Under Development

During the second quarter of 2010, NVR directly acquired a raw parcel of land zoned for its intended use for $17,000 that it will develop into 155 finished lots for use in its homebuilding operations. 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.

3. Contract Land Deposits

During the three-month period ended June 30, 2010, the Company incurred pre-tax impairment charges on contract land deposits of approximately $970. For the six-month period ended June 30, 2010, the Company recognized a net pre-tax recovery of approximately $950 of contract land deposits previously determined to be uncollectible. During the three and six-month periods ended June 30, 2009, the Company recognized a pre-tax recovery of approximately $4,500 and $4,700, respectively, of contract land deposits

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previously determined to be uncollectible. The contract land deposit asset is shown net of a $81,300 and $89,500 impairment valuation allowance at June 30, 2010 and December 31, 2009, respectively.

4. Earnings per Share

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Weighted average number of shares outstanding used to calculate basic EPS	6,123,000	5,777,000	6,095,000	5,710,000
Dilutive Securities:				
Stock options and restricted share units	282,000	324,000	307,000	322,000
Weighted average number of shares and share equivalents used to calculate diluted EPS	6,405,000	6,101,000	6,402,000	6,032,000

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 vesting of the restricted share unit. The assumed amount credited to additional paid-in capital equals the tax benefit from the assumed exercise of stock options or the assumed vesting of restricted share units after consideration of the intrinsic value upon assumed exercise or vesting less the actual stock-based compensation expense to be recognized in the income statement from 2006 and future periods.

Options issued under equity benefit plans to purchase 435,548 and 434,206 shares of common stock during the three and six months ended June 30, 2010, and options issued under equity benefit plans to purchase 317,363 and 337,455 shares of common stock during the three and six months ended June 30, 2009, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

5. Stock-Based Compensation Expense

The Company s Shareholders approved the 2010 Equity Incentive Plan (2010 Equity Plan) at the May 4, 2010 Annual Meeting. The 2010 Equity Plan authorizes the Company to issue non-qualified stock options (Options) and restricted share units (RSUs) to key management employees, including executive officers and Board members, to acquire up to an aggregate 700,000 shares of the Company s common stock. Of the 700,000 aggregate shares available to issue, up to 240,000 may be granted in the form of RSUs.

During the second quarter of 2010, the Company issued 150,104 RSUs and 278,143 Options from the 2010 Equity Plan, and 130,787 Options from the 2000 broadly-Based Stock Option Plan. The RSUs vest as to 50% of the underlying shares on each of December 31, 2011 and 2012, based on continued employment or continued service as a Director, as applicable. The Options were granted at an exercise price equal to the closing price of the Company s common stock on the New York Stock Exchange on the day prior to the date of grant. The Options granted vest 50% on each of December 31, 2013 and 2014, based solely on continued employment or continued service as a Director, as applicable. The Options expire 10 years from the date of grant.

To estimate the grant-date fair value of its stock options, the Company uses the Black-Scholes option-pricing model. The Black-Scholes model estimates the per share fair value of an option on its date of grant

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based on the following factors: the option s exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a risk-free interest rate; the estimated option term; and the expected volatility. For the risk-free interest rate, the Company uses a U.S. Treasury Strip due in a number of years equal to the option s expected term. NVR has concluded that its historical exercise experience is the best estimate of future exercise patterns to determine an option s expected term. To estimate expected volatility, NVR analyzed the historic volatility of its common stock over a period equal to the option s expected term. The fair value of the Options granted during the second quarter of 2010 was estimated on the grant date using the Black-Scholes option-pricing model based on the following assumptions:

	Options
Estimated option life	5.07 years
Risk free interest rate (range)	1.92% - 2.61%
Expected volatility (range)	37.22% - 38.26%
Expected dividend rate	0.00%
Weighted average grant-date fair value per share of options granted	$ 257.98

In accordance with ASC Topic 718, *Compensation-Stock Compensation*, the fair value of the non-vested equity shares is measured as if they were vested and issued on the grant date. Additionally, under ASC 718, service only restrictions on vesting of non-vested equity shares are not reflected in the fair value calculation at the grant date. As a result, the fair value of the RSUs was the closing price of the Company s common stock on the day immediately preceding the date of grant. The weighted average fair value of the RSUs granted in the second quarter of 2010 was $702.94 per share.

Compensation cost for Options and RSUs 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). For the recognition of equity-based compensation, the RSUs are treated as a separate award from the Options. Compensation cost is recognized within the income statement in the same expense line as the cash compensation paid to the respective employees. ASC 718 also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation and requires that the compensation costs of stock-based awards be recognized net of estimated forfeitures. Total stock based compensation expense, net of forfeitures, recognized during the three months ended June 30, 2010 and 2009 was $15,148 and $11,634, respectively, and for the six months ended June 30, 2010 and 2009 was $20,826 and $23,402, respectively.

As of June 30, 2010, the total unrecognized compensation cost for all outstanding Options and RSUs equals approximately $204,600, net of estimated forfeitures. The unrecognized compensation cost will be recognized over each grant s applicable vesting period with the latest vesting date being December 31, 2015. The weighted-average period over which the unrecognized compensation will be recorded is equal to approximately 2.64 years.

The following table provides additional information relative to NVR s stock-based compensation plans for the period ended June 30, 2010:

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(dollars in thousands except per share data)

Stock Options	Options	Weighted Average Exercise Price
Outstanding at beginning of period	999,142	$ 342.08
Granted	426,235	703.03
Exercised	(236,410)	218.00
Forfeited	(15,992)	503.54
Expired	(62)	759.00
Outstanding at end of period	1,172,913	$ 496.03
Exercisable at end of period	432,739	$ 282.77

The table above does not include the 150,104 RSUs granted in the current year, which were issued at a $0 exercise price. All RSUs granted in the current year are outstanding as of June 30, 2010, and none of the RSUs are exercisable as of June 30, 2010.

6. Marketable Securities

As of June 30, 2010 the Company held marketable securities totaling $175,000. These securities, which are debt securities issued by U.S. government agencies, are classified by the Company as held to maturity and are measured at amortized cost. The contractual maturities of the Company s marketable securities as of June 30, 2010 are as follows:

	June 30, 2010
Within one year	$ 75,000
After one year through five years	100,000
Total marketable securities	$ 175,000

7. Excess Reorganization Value

Reorganization value in excess of identifiable assets (excess reorganization value) is an indefinite life intangible asset that was created upon NVR s emergence from bankruptcy on September 30, 1993. Based on the allocation of the reorganization value, the portion of the reorganization value which was not attributed to specific tangible or intangible assets has been reported as excess reorganization value, which is treated similarly to goodwill. Excess reorganization value is not subject to amortization. Rather, excess reorganization value is subject to an impairment assessment on an annual basis or more frequently if changes in events or circumstances indicate that impairment may have occurred. Because excess reorganization value was based on the reorganization value of NVR s entire enterprise upon bankruptcy emergence, the impairment assessment is conducted on an enterprise basis based on the comparison of NVR s total equity compared to the market value of NVR s outstanding publicly-traded common stock. The Company completed the annual assessment of impairment during the first quarter of 2010 and determined that there was no impairment of excess reorganization value.

8. Income Taxes

As of January 1, 2010, the Company had approximately $31,636 (on a net basis) of unrecognized tax benefits, which would decrease income tax expense if recognized. The Company recognizes interest related to unrecognized tax benefits as a component of income tax expense. As of January 1, 2010, the Company had a total of $22,149 of accrued interest for unrecognized tax benefits on its balance sheet. Based on its historical

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experience in dealing with various taxing authorities, the Company has found that it is the administrative practice of these authorities to not seek penalties from the Company for the tax positions the Company has taken on its returns, related to its unrecognized tax benefits. Therefore, the Company does not accrue penalties for the positions in which it has an unrecognized tax benefit. However, if such penalties were to be accrued, they would be recorded as a component of income tax expense. With few exceptions, the Company is no longer subject to income tax examinations for years prior to 2006.

9. Shareholders Equity

A summary of changes in shareholders equity is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Comp. Trust	Deferred Comp. Liability	Total
Balance, December 31, 2009	$ 206	$ 830,531	$ 3,823,067	$ (2,896,542)	$ (40,799)	$ 40,799	$ 1,757,262
Net income			103,363				103,363
Deferred compensation activity					13,217	(13,217)	
Purchase of common stock for treasury				(176,084)			(176,084)
Stock-based compensation		20,826					20,826
Tax benefit from stock options exercised and deferred compensation distributions		58,562					58,562
Proceeds from stock options exercised		51,537					51,537
Treasury stock issued upon option exercise		(46,871)		46,871			
Balance, June 30, 2010	$ 206	$ 914,585	$ 3,926,430	$ (3,025,755)	$ (27,582)	$ 27,582	$ 1,815,466

The Company repurchased approximately 262,000 shares of its common stock during the six months ended June 30, 2010. 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 236,400 options to purchase shares of the Company s common stock were exercised during the six months ended June 30, 2010.

10. Product Warranties

The Company establishes warranty and product liability reserves (warranty reserve) to provide for estimated future expenses as a result of construction and product defects, product recalls and litigation incidental to NVR s homebuilding business. Liability estimates are determined based on management s judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers and subcontractors participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and discussions with our general counsel and outside counsel retained to handle specific product liability cases. The following table reflects the changes in the Company s warranty reserve during the three and six months ended June 30, 2010 and 2009:

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(dollars in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Warranty reserve, beginning of period	$ 65,082	$ 64,306	$ 64,417	$ 68,084
Provision	14,452	4,613	22,673	7,652
Payments	(9,353)	(8,061)	(16,909)	(14,878)
Warranty reserve, end of period	$ 70,181	$ 60,858	$ 70,181	$ 60,858

11. Segment Disclosures

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

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

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

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

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

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(dollars in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Homebuilding Mid Atlantic	$ 560,105	$ 379,361	$ 899,574	$ 721,116
Homebuilding North East	84,962	57,143	149,119	110,518
Homebuilding Mid East	194,736	113,982	319,725	206,092
Homebuilding South East	107,169	62,002	155,935	123,091
Mortgage Banking	17,532	12,943	30,365	23,213
Total consolidated revenues	$ 964,504	$ 625,431	$ 1,554,718	$ 1,184,030

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Profit:				
Homebuilding Mid Atlantic	$ 77,058	$ 46,978	$ 114,918	$ 78,885
Homebuilding North East	6,173	5,096	11,928	8,323
Homebuilding Mid East	21,382	8,049	32,316	12,744
Homebuilding South East	9,956	3,952	11,013	6,475
Mortgage Banking	12,537	7,659	19,965	13,209
Total segment profit	127,106	71,734	190,140	119,636
Contract land deposit recovery (1)	5,510	8,908	7,518	10,461
Equity-based compensation expense (2)	(15,148)	(11,634)	(20,826)	(23,402)
Corporate capital allocation (3)	17,953	15,699	32,433	30,395
Unallocated corporate overhead (4)	(16,290)	(9,262)	(36,969)	(24,331)
Consolidation adjustments and other	929	(3,244)	2,573	(7,270)
Corporate interest expense	(1,801)	(2,372)	(3,879)	(5,042)
Reconciling items sub-total	(8,847)	(1,905)	(19,150)	(19,189)
Consolidated income before taxes	$ 118,259	$ 69,829	$ 170,990	$ 100,447

	June 30,	
	2010	2009
Assets:		
Homebuilding Mid Atlantic	$ 474,937	$ 457,233
Homebuilding North East	52,710	62,422
Homebuilding Mid East	90,182	100,873
Homebuilding South East	48,389	50,238
Mortgage Banking	256,559	134,447

Total segment assets	922,777	805,213
Consolidated variable interest entities (5)		65,990
Cash and cash equivalents	1,089,399	582,157
Marketable securities	175,000	658,362
Deferred taxes	182,557	196,636
Intangible assets	48,927	48,927
Contract land deposit reserve	(81,307)	(132,544)
Consolidation adjustments and other	22,082	12,344
Reconciling items sub-total	1,436,658	1,431,872
Consolidated assets	$ 2,359,435	$ 2,237,085

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

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(2) The increase in equity-based compensation expense in the second quarter of 2010 compared to the same period of 2009 is attributable to the granting of non-qualified stock options (Options) and restricted share units (RSUs) in the second quarter of 2010 (see Note 5 of the Notes to the Condensed Consolidated Financial Statements). In the six-month period, the increase in equity-based compensation expense related to the second quarter grants is offset due to a significant number of outstanding options, primarily within the 2000 Broadly-based Stock Option Plan, becoming fully vested on December 31, 2009, and thus

fully expensed.

(3) This item represents the elimination of the corporate capital allocation charge included in the respective homebuilding reportable segments. The corporate capital allocation charge is based on the segment s monthly average asset balance, and is as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Homebuilding Mid Atlantic	$ 11,869	$ 10,436	$ 21,664	$ 20,010
Homebuilding North East	1,672	1,710	3,222	3,261
Homebuilding Mid East	2,661	2,179	4,737	4,242
Homebuilding South East	1,751	1,374	2,810	2,882
Total	$ 17,953	$ 15,699	$ 32,433	$ 30,395

(4) The increase in unallocated corporate overhead in both the three and six-month periods is primarily attributable to an increase in management incentive costs as the prior year incentive plan was limited to a payout of 50% of the maximum

bonus opportunity, while the current year has no similar limitation.

(5) The decrease in consolidated variable interest entities (VIEs) is attributable to the adoption of amended ASC 810, which resulted in the deconsolidation in 2010 of all VIEs consolidated in 2009. See Note 2 for additional discussion of VIEs.

12. Fair Value

Financial Instruments

Except as otherwise noted here, NVR believes that insignificant differences exist between the carrying value and the fair value of its financial instruments. On June 15, 2010, the Company redeemed upon maturity, the outstanding 5% Senior Notes due 2010 (Senior Notes) at par. As of December 31, 2009, the carrying value of the Senior Notes was $133,370, and the estimated fair value, which is based on a quoted market price, was $134,829.

Derivative Instruments and Mortgage Loans Held for Sale

In the normal course of business, NVR s mortgage banking segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers lock-in a specified interest rate within time frames established by NVR. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the lock-in of rates by the borrower and the sale date of the loan to a broker/dealer. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. NVR does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers are undesignated derivatives and, accordingly, are marked to fair value through earnings. At June 30, 2010, there were contractual commitments to extend credit to borrowers

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aggregating approximately $162,034 and open forward delivery contracts aggregating approximately $373,512.

GAAP assigns a fair value hierarchy to the inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value of the Company s rate lock commitments to borrowers and the related input levels includes, as applicable:

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

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons and the excess servicing to be received or buydown fees to be paid upon securitization of the loan. The excess servicing and buydown fees are calculated pursuant to contractual terms with investors. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells all of its loans on a servicing released basis, and receives a servicing released premium upon sale. Thus, the value of the servicing rights, which averaged 143 basis points of the loan amount as of June 30, 2010, is included in the fair value measurement and is based upon contractual terms with investors and varies depending on the loan type. The Company assumes an approximate 7% fallout rate when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on historical experience.

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

Mortgage loans held for sale are recorded at fair value when closed, and thereafter are carried at the lower of cost or fair value, net of deferred origination costs, until sold. The fair value of loans held for sale of $244,313 included in the accompanying condensed consolidated balance sheet has been increased by $6,374 from the aggregate principal balance of $237,939.

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

	Balance Sheet Location	Fair Value June 30, 2010
Derivative Assets:		
Rate Lock Commitments	NVRM - Other assets	$ 2,709
Derivative Liabilities:		
Forward Sales Contracts	NVRM - Accounts payable and other liabilities	$ 5,422

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

	Notional or Principal Amount	Assumed Gain (Loss) From Loan Sale	Interest Rate Movement Effect	Servicing Rights Value	Security Price Change	Total Fair Value Adjustment Gain/(Loss)
Rate lock commitments	$ 162,034	$ (756)	$ 1,356	$ 2,109		$ 2,709
Forward sales contracts	$ 373,512				(5,422)	(5,422)
Mortgages held for sale	$ 237,939	(1,131)	4,100	3,405		6,374
Total Fair Value Measurement, June 30, 2010		(1,887)	5,456	5,514	(5,422)	3,661
Less: Fair Value Measurement, December 31, 2009		(788)	(2,501)	2,187	2,445	1,343
Total Fair Value Adjustment for the six-month period ended June 30, 2010		**$ (1,099)**	**$ 7,957**	**$ 3,327**	**$ (7,867)**	**$ 2,318**

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

13. Debt

On June 15, 2010, the Company redeemed upon maturity, $133,370 in outstanding 5% Senior Notes due 2010 (Senior Notes) at par. The Company has no Senior Notes outstanding as of June 30, 2010.

NVR s wholly owned mortgage banking subsidiary, NVR Mortgage Finance, Inc. (NVRM), provides for its mortgage origination activities through a revolving mortgage repurchase facility (the Repurchase Facility). The Repurchase Facility provides for loan purchases up to $100,000, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which NVRM may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $125,000. The Repurchase Agreement expires on August 3, 2010.

At June 30, 2010, there was approximately $79,000 outstanding under the Repurchase Facility, which is included in Mortgage Banking Note payable in the accompanying condensed consolidated financial statement. Amounts outstanding under the Repurchase Facility are collateralized by the Company s mortgage loans held for sale, which are included in assets in the June 30, 2010 balance sheet in the accompanying condensed consolidated financial statements. As of June 30, 2010, there were no borrowing base limitations under the Repurchase Facility. There are several restrictions on purchased loans, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement.

On July 30, 2010, the Company entered into the Second Amendment to the Master Repurchase Agreement (the Amended Repurchase Agreement), extending the term of the Repurchase Facility to August 2, 2011. Terms and conditions of the Amended Repurchase Agreement are consistent with those in the expiring Repurchase Facility. The Amended Repurchase Agreement is attached as Exhibit 10.6 to this Form 10-Q.

14. Commitments and Contingencies

On July 18, 2007, former and current employees filed lawsuits against the Company in the Court of Common Pleas in Allegheny County, Pennsylvania and Hamilton County, Ohio, in Superior Court in Durham County, North Carolina, and in the Circuit Court in Montgomery County, Maryland, and on July 19, 2007 in the Superior Court in New Jersey, alleging that the Company incorrectly classified its sales and marketing

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

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

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

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

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

15. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets*, as codified in ASC 860, *Transfers and Servicing*, which changes the conditions for reporting a transfer of a

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portion of a financial asset as a sale and requires additional year-end and interim disclosures. ASC 860 was effective for the Company beginning January 1, 2010. The adoption of ASC 860 did not have a material impact on the Company s financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*, which amends ASC 820 to require the disclosure of additional information related to fair value measurement and provide clarification to existing requirements for fair value measurement disclosure. ASU 2010-06 was effective for the Company beginning January 1, 2010. The Company s disclosures conform to the requirements of ASU 2010-06. Refer to Note 11 for additional discussion of fair value measurements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Some of the statements in this Form 10-Q, as well as statements made by us in periodic press releases or other public communications, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as believes, expects, may, will, should, or anticipates or the negativ or other comparable terminology. All statements other than of historical facts are forward looking statements. Forward looking statements contained in this document include those regarding market trends, NVR s financial position, business strategy, the outcome of pending litigation, projected plans and objectives of management for future operations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of NVR to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Such risk factors include, but are not limited to the following: general economic and business conditions (on both a national and regional level); interest rate changes; access to suitable financing by NVR and NVR s customers; competition; the availability and cost of land and other raw materials used by NVR in its homebuilding operations; shortages of labor; weather related slow-downs; building moratoriums; governmental regulation; fluctuation and volatility of stock and other financial markets; mortgage financing availability; and other factors over which NVR has little or no control. NVR undertakes no obligation to update such forward-looking statements, except as required by law. For additional information regarding risk factors, see Part I, Item 1A of our Form 10-K for the year ended December 31, 2009 and Part II, Item 1A of this Report.

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

Results of Operations for the Three and Six Months Ended June 30, 2010 and 2009

Overview

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

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

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

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

As of June 30, 2010, we controlled approximately 46,300 lots under purchase agreements with deposits in cash and letters of credit totaling approximately $153,000 and $5,100, respectively, and approximately 1,200 additional lots through joint ventures. Included in the number of controlled lots are approximately 10,200 lots for which we have recorded a contract land deposit impairment reserve of $81,300 as of June 30, 2010. See Note 3 to the condensed consolidated financial statements included herein for additional information regarding contract land deposits. Further, as of June 30, 2010, we had approximately $17,000 in land under development, all of which was acquired during the current quarter, that once fully developed will result in 155 lots.

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

Overview of the Current Business Environment

The current home sales environment remains challenging. Homebuyer confidence continues to be negatively impacted by the economic downturn, concerns regarding unemployment (which remains at historically high rates), as well as the weakness of home values. In addition, the housing market is still characterized by high levels of existing and new homes available for sale driven by slowed demand and high foreclosure rates. The stabilization we had begun to experience towards the end of 2009 and into the first quarter of 2010 has been negatively impacted by the expiration of the federal homebuyer tax credit as of April 30, 2010. To qualify for the tax credit, purchasers were required to enter into a sales contract prior to April 30, 2010. After April 30, new home sales experienced sharp declines, providing evidence that rather than increasing overall demand, the tax credit may have merely accelerated existing demand. The current home sales environment also continues to be adversely impacted by a restrictive mortgage lending environment that has made it more difficult for our customers to obtain mortgage financing.

In addition to the sales contract deadline noted above, purchasers intending to qualify for the tax credit were also subject to an initial settlement deadline of June 30, 2010. This initial settlement deadline had a significant impact on our second quarter financial results, as we experienced a 63% increase in the number of units settled in the current quarter compared to the same quarter in the prior year and a 74% increase from the first quarter of the current year. Due to the increase in settlements, consolidated revenues for the second quarter of 2010 totaled approximately $964,504, a 54% increase from the second quarter of 2009. Additionally, net income and diluted earnings per share in the current quarter increased approximately 72% and 64%, respectively, compared to the second quarter of 2009. Gross profit margins within our homebuilding business decreased to 18.5% in the second quarter of 2010 as compared to 19.3% in the second quarter of 2009. The decrease in gross profit margins is primarily attributable to the 2009 second quarter being favorably impacted by the recovery of approximately $4,500, or 73 basis points, of contract land deposits previously determined to be uncollectible.

We expect to continue to experience pressure on sales and selling prices over at least the next several quarters in all of our markets despite historically low mortgage rates and reduced housing prices, as significant economic uncertainties remain. However, we believe that we are well positioned to take advantage of opportunities that may arise due to the strength of our balance sheet and liquidity. As of June 30, 2010, our cash and cash equivalents and marketable securities balances totaled approximately $1,266,000. During the current quarter, we redeemed our 5% Senior Notes due 2010, totaling $133,370, upon their maturity on June 15, 2010. In addition, we repurchased approximately $176,100 of our common stock during the quarter.

Homebuilding Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues	$ 946,972	$ 612,488	$ 1,524,353	$ 1,160,817
Cost of Sales	$ 771,475	$ 494,240	$ 1,242,544	$ 956,870
Gross profit margin percentage	18.5%	19.3%	18.5%	17.6%
Selling, general and administrative	$ 69,137	$ 54,664	$ 129,878	$ 114,358
Settlements (units)	3,345	2,048	5,264	3,821
Average settlement price	$ 283.0	$ 298.6	$ 289.5	$ 303.3
New orders (units)	2,559	2,728		