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 September 30, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	**NVR**	**New York Stock Exchange**

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 has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 28, 2019 there were 3,694,905 total shares of common stock outstanding.

NVR, Inc.
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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)

(unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 1,068,172	$ 688,783
Restricted cash	18,337	16,982
Receivables	29,276	18,641
Inventory:		
Lots and housing units, covered under sales agreements with customers	1,236,831	1,076,904
Unsold lots and housing units	161,417	115,631
Land under development	80,193	38,857
Building materials and other	18,008	21,718
	1,496,449	1,253,110
Contract land deposits, net	404,850	396,177
Property, plant and equipment, net	50,463	42,234
Operating lease right-of-use assets	63,505	—
Reorganization value in excess of amounts allocable to identifiable assets, net	41,580	41,580
Other assets	181,234	184,004
	3,353,866	2,641,511
Mortgage Banking:		
Cash and cash equivalents	26,765	23,092
Restricted cash	2,493	3,071
Mortgage loans held for sale, net	411,223	458,324
Property and equipment, net	6,058	6,510
Operating lease right-of-use assets	13,857	—
Reorganization value in excess of amounts allocable to identifiable assets, net	7,347	7,347
Other assets	21,750	26,078
	489,493	524,422
Total assets	$ 3,843,359	$ 3,165,933

See notes to condensed consolidated financial statements.

NVR, Inc.

Condensed Consolidated Balance Sheets (Continued)

(in thousands, except share and per share data)

(unaudited)

	September 30, 2019	December 31, 2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Homebuilding:		
Accounts payable	$ 285,714	$ 244,496
Accrued expenses and other liabilities	319,347	332,871
Customer deposits	142,937	138,246
Operating lease liabilities	70,864	—
Senior notes	598,146	597,681
	1,417,008	1,313,294
Mortgage Banking:		
Accounts payable and other liabilities	40,084	44,077
Operating lease liabilities	14,810	—
	54,894	44,077
Total liabilities	1,471,902	1,357,371
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 20,555,330 shares issued as of both September 30, 2019 and December 31, 2018	206	206
Additional paid-in capital	2,020,180	1,820,223
Deferred compensation trust – 107,295 and 107,340 shares of NVR, Inc. common stock as of September 30, 2019 and December 31, 2018, respectively	(16,912)	(16,937)
Deferred compensation liability	16,912	16,937
Retained earnings	7,653,735	7,031,333
Less treasury stock at cost – 16,857,145 and 16,977,499 shares as of September 30, 2019 and December 31, 2018, respectively	(7,302,664)	(7,043,200)
Total shareholders' equity	2,371,457	1,808,562
Total liabilities and shareholders' equity	$ 3,843,359	$ 3,165,933

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Homebuilding:				
Revenues	$ 1,873,331	$ 1,809,345	$ 5,273,985	$ 5,049,901
Other income	6,696	2,840	18,266	6,981
Cost of sales	(1,518,276)	(1,472,649)	(4,282,470)	(4,101,392)
Selling, general and administrative	(109,969)	(109,372)	(337,913)	(321,436)
Operating income	251,782	230,164	671,868	634,054
Interest expense	(6,008)	(5,968)	(18,034)	(18,022)
Homebuilding income	245,774	224,196	653,834	616,032
Mortgage Banking:				
Mortgage banking fees	37,933	43,062	124,484	119,225
Interest income	3,340	3,362	8,910	8,370
Other income	819	659	2,039	1,824
General and administrative	(20,407)	(21,340)	(57,999)	(62,371)
Interest expense	(285)	(229)	(775)	(786)
Mortgage banking income	21,400	25,514	76,659	66,262
Income before taxes	267,174	249,710	730,493	682,294
Income tax expense	(43,387)	(53,894)	(108,091)	(117,255)
Net income	$ 223,787	$ 195,816	$ 622,402	$ 565,039
Basic earnings per share	$ 60.94	$ 54.21	$ 171.43	$ 155.22
Diluted earnings per share	$ 56.11	$ 48.28	$ 156.61	$ 136.53
Basic weighted average shares outstanding	3,672	3,612	3,631	3,640
Diluted weighted average shares outstanding	3,988	4,056	3,974	4,139

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 622,402	$ 565,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,369	15,053
Equity-based compensation expense	58,680	51,690
Contract land deposit and other (recoveries) impairments, net	(456)	9,311
Gain on sale of loans, net	(95,690)	(92,609)
Mortgage loans closed	(3,749,567)	(3,472,345)
Mortgage loans sold and principal payments on mortgage loans held for sale	3,885,688	3,588,082
Distribution of earnings from unconsolidated joint ventures	3,376	3,863
Net change in assets and liabilities:		
Increase in inventory	(243,339)	(174,871)
Increase in contract land deposits	(8,217)	(6,587)
Increase in receivables	(8,481)	(7,028)
Increase in accounts payable and accrued expenses	27,995	1,201
Increase in customer deposits	4,691	17,643
Other, net	(3,015)	(6,627)
Net cash provided by operating activities	509,436	491,815
Cash flows from investing activities:		
Investments in and advances to unconsolidated joint ventures	(335)	(284)
Distribution of capital from unconsolidated joint ventures	8,237	7,873
Purchase of property, plant and equipment	(16,740)	(14,818)
Proceeds from the sale of property, plant and equipment	1,517	742
Net cash used in investing activities	(7,321)	(6,487)
Cash flows from financing activities:		
Purchase of treasury stock	(365,542)	(657,369)
Distributions to partner in consolidated variable interest entity	—	(234)
Principal payments on finance lease liabilities	(116)	—
Proceeds from the exercise of stock options	247,355	115,268
Net cash used in financing activities	(118,303)	(542,335)
Net increase (decrease) in cash, restricted cash, and cash equivalents	383,812	(57,007)
Cash, restricted cash, and cash equivalents, beginning of the period	732,248	689,557
Cash, restricted cash, and cash equivalents, end of the period	$ 1,116,060	$ 632,550
Supplemental disclosures of cash flow information:		
Interest paid during the period, net of interest capitalized	$ 24,040	$ 24,066
Income taxes paid during the period, net of refunds	$ 109,116	$ 125,762

See notes to condensed consolidated financial statements.

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements include the accounts of NVR, Inc. ("NVR", the "Company", "we", "us" or "our") and its subsidiaries and certain other entities in which the Company is deemed to be the primary beneficiary (see Notes 2 and 3 to the accompanying 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 ("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 our Annual Report on Form 10-K for the year ended December 31, 2018. 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 nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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 nine months ended September 30, 2019 and 2018, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

Cash and Cash Equivalents

The beginning-of-period and end-of-period cash, restricted cash, and cash equivalent balances presented on the accompanying condensed consolidated statements of cash flows includes cash related to a consolidated joint venture which is included in homebuilding "Other assets" on the accompanying condensed consolidated balance sheets. The cash related to this consolidated joint venture as of September 30, 2019 and December 31, 2018 was $293 and $320, respectively, and as of September 30, 2018 and December 31, 2017 was $335 and $1,069, respectively.

Revenue Recognition

Homebuilding revenue is recognized on the settlement date at the contract sales price, when control is transferred to our customers. Our contract liabilities, which consist of deposits received from customers ("Handmoney") on homes not settled, were $142,937 and $138,246 as of September 30, 2019 and December 31, 2018, respectively. We expect that substantially all of the December 31, 2018 Handmoney balance will be recognized in revenue in 2019. Our prepaid sales compensation totaled approximately $18,100 and $17,000, as of September 30, 2019 and December 31, 2018, respectively. These amounts are included in homebuilding "Other assets" on the accompanying condensed consolidated balance sheets.

Recently Adopted Accounting Pronouncements

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which requires the recognition of our leases on the balance sheet as right-of-use ("ROU") assets and lease liabilities. We elected to adopt Topic 842 using the effective date transition method, which permits us to apply the new standard prospectively and present comparative years under legacy GAAP.

In adoption of the standard, we also elected the following:

- to apply the package of practical expedients during transition, under which we were not required to reassess as of the date of adoption (i) whether any of our contracts are or contain leases, (ii) the classifications of our leases, and (iii) any initial direct costs related to those leases.
- to exclude leases with an initial lease term of 12 months or less from the recognition requirements under Topic 842.
- to utilize the portfolio approach for certain office equipment leases, grouping leases by asset type which have similar lease terms and payment schedules.

Upon adoption, on January 1, 2019 we recorded a lease liability of $85,516 and a ROU asset of $79,345, which was recorded net of previously recognized straight-line operating lease adjustments on existing leases. The adoption of Topic 842 did not have an impact on our recognition of lease expense. See additional lease disclosures in Note 13.

2. Variable Interest Entities ("VIEs")

Fixed Price Finished Lot Purchase Agreements ("Lot Purchase Agreements")

We generally do not engage in the land development business. Instead, we typically acquire finished building lots at market prices from various development entities under Lot Purchase Agreements. The Lot Purchase Agreements require deposits that may be forfeited if we fail to perform under the Lot Purchase Agreements. The deposits required under the Lot 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.

We believe this lot acquisition strategy reduces the financial requirements and risks associated with direct land ownership and land development. We may, at our option, choose for any reason and at any time not to perform under these Lot Purchase Agreements by delivering notice of our intent not to acquire the finished lots under contract. Our sole legal obligation and economic loss for failure to perform under these Lot Purchase Agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained within the Lot Purchase Agreements. None of the creditors of any of the development entities with which we enter Lot Purchase Agreements have recourse to our general credit. We generally do not have any specific performance obligations to purchase a certain number or any of the lots, nor do we guarantee completion of the development by the developer or guarantee any of the developers' financial or other liabilities.

We are not involved in the design or creation of the development entities from which we purchase lots under Lot Purchase Agreements. The developer's equity holders have the power to direct 100% of the operating activities of the development entity. We have 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 for the equity holders. Further, we do 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 us pursuant to the Lot Purchase Agreement is deemed to be a variable interest in the respective development entities. Those development entities are deemed to be VIEs. Therefore, the development entities with which we enter into Lot Purchase Agreements, including the joint venture limited liability corporations discussed below, are evaluated for possible consolidation by us. 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 VIE 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. The development entity's equity investors bear the full risk during the development process. Unless and until a development entity completes finished building lots through the development process, the entity does not earn any revenues. The operating development activities are managed solely by the development entity's equity investors.

(dollars and shares in thousands, except per share data)

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 us, 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 us. We possess no more than limited protective legal rights through the Lot Purchase Agreement in the specific finished lots that we are purchasing, and we possess no participative rights in the development entities. Accordingly, we do not have the power to direct the activities of a developer that most significantly impact the developer's economic performance. For this reason, we have concluded that we are not the primary beneficiary of the development entities with which we enter into Lot Purchase Agreements, and therefore, we do not consolidate any of these VIEs.

As of September 30, 2019, we controlled approximately 98,150 lots under Lot Purchase Agreements with third parties through deposits in cash and letters of credit totaling approximately $430,200 and $4,400, respectively. As noted above, our sole legal obligation and economic loss for failure to perform under these Lot Purchase Agreements is limited to the amount of the deposit pursuant to the liquidated damage provisions contained in the Lot Purchase Agreements.

In addition, we have certain properties under contract with land owners that are expected to yield approximately 7,000 lots, which are not included in the number of total lots controlled. Some of these properties may require rezoning or other approvals to achieve the expected yield. These properties are controlled with deposits in cash and letters of credit totaling approximately $2,300 and $100, respectively, as of September 30, 2019, of which approximately $1,400 is refundable if certain contractual conditions are not met. We generally expect to assign the raw land contracts to a land developer and simultaneously enter into a Lot Purchase Agreement with the assignee if the project is determined to be feasible.

Our total risk of loss related to contract land deposits as of September 30, 2019 and December 31, 2018 was as follows:

	September 30, 2019	December 31, 2018
Contract land deposits	$ 432,494	$ 425,393
Loss reserve on contract land deposits	(27,644)	(29,216)
Contract land deposits, net	404,850	396,177
Contingent obligations in the form of letters of credit	4,520	3,923
Specific performance obligations (1)	1,505	1,505
Total risk of loss	$ 410,875	$ 401,605

(1) As of both September 30, 2019 and December 31, 2018, we were committed to purchase 10 finished lots under specific performance obligations.

3. Joint Ventures

On a limited basis, we obtain finished lots using joint venture limited liability corporations ("JVs"). The JVs are typically structured such that we are a non-controlling member and are at risk only for the amount we have invested, or have committed to invest, in addition to any deposits placed under Lot Purchase Agreements with the joint venture. We are not a borrower, guarantor or obligor on any debt of the JVs, as applicable. We enter into Lot Purchase Agreements to purchase lots from these JVs, and as a result have a variable interest in these JVs.

At September 30, 2019, we had an aggregate investment totaling approximately $24,600 in six JVs that are expected to produce approximately 6,400 finished lots, of which approximately 3,050 lots were controlled by us and the remaining approximately 3,350 lots were either under contract with unrelated parties or not currently under contract. In addition, we had additional funding commitments totaling approximately $4,700 in the aggregate to three of the JVs at September 30, 2019. We have determined that we are not the primary beneficiary of five of the JVs because we either share power with the other JV partner or the other JV partner has the controlling financial interest. The aggregate investment in unconsolidated JVs was approximately $24,600 and $29,400 at September 30, 2019 and December 31, 2018, respectively, and is reported in the “Other assets” line item on the accompanying condensed consolidated balance sheets. For the remaining JV, we have concluded that we are the primary beneficiary because we have the controlling financial interest in the JV. As of December 31, 2018, all activities under the consolidated JV had been completed. As of September 30, 2019, we had no investment remaining in the JV and the JV had remaining balances of $293 in cash and $263 in accrued expenses, which are included in homebuilding "Other assets" and "Accrued expenses and other liabilities," respectively, in the accompanying condensed consolidated balance sheets.

We recognize income from the JVs as a reduction to the lot cost of the lots purchased from the respective JVs when the homes are settled, based on the expected total profitability and the total number of lots expected to be produced by the respective JVs.

We classify distributions received from unconsolidated JVs using the cumulative earnings approach. As a result, distributions received up to the amount of cumulative earnings recognized by us are reported as distributions of earnings and those in excess of that amount are reported as a distribution of capital. These distributions are classified within the accompanying condensed consolidated statements of cash flows as cash flows from operating activities and investing activities, respectively.

4. Land Under Development

On a limited basis, we directly acquire raw land parcels 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.

In September 2019, we purchased a raw land parcel for approximately $44,700. The parcel is expected to produce approximately 400 lots.

As of September 30, 2019, we directly owned a total of five separate raw land parcels with a carrying value of $80,193 that are expected to produce approximately 800 finished lots. We also have additional funding commitments of approximately $6,800 under a joint development agreement related to one parcel, a portion of which we expect will be offset by development credits of approximately $2,900.

None of the raw parcels had any indicators of impairment as of September 30, 2019.

5. Capitalized Interest

We capitalize interest costs to land under development during the active development of finished lots. In addition, we capitalize interest costs on our JV investments while the investments are considered qualified assets pursuant to ASC Topic 835-20 - *Interest*. Capitalized interest is transferred to sold or unsold inventory as the development of finished lots is completed, then charged to cost of sales upon our settlement of homes and the respective lots. Interest incurred in excess of the interest capitalizable based on the level of qualified assets is expensed in the period incurred.

(dollars and shares in thousands, except per share data)

The following table reflects the changes in our capitalized interest during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest capitalized, beginning of period	$ 3,854	$ 5,388	$ 4,154	$ 5,583
Interest incurred	6,596	6,517	19,702	19,737
Interest charged to interest expense	(6,293)	(6,197)	(18,809)	(18,808)
Interest charged to cost of sales	(581)	(1,136)	(1,471)	(1,940)
Interest capitalized, end of period	$ 3,576	$ 4,572	$ 3,576	$ 4,572

6. Earnings per Share

The following weighted average shares and share equivalents were used to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average number of shares outstanding used to calculate basic EPS	3,672	3,612	3,631	3,640
Dilutive securities:				
Stock options and restricted share units	316	444	343	499
Weighted average number of shares and share equivalents outstanding used to calculate diluted EPS	3,988	4,056	3,974	4,139

The following non-qualified stock options ("Options") issued under equity incentive plans were outstanding during the three and nine months ended September 30, 2019 and 2018, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Anti-dilutive securities	251	371	319	353

(dollars and shares in thousands, except per share data)

7. Shareholders' Equity

A summary of changes in shareholders' equity for the three months ended September 30, 2019 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, June 30, 2019	$ 206	$ 1,962,156	$ 7,429,948	$ (7,272,871)	$ (16,912)	$ 16,912	$ 2,119,439
Net income	—	—	223,787	—	—	—	223,787
Deferred compensation activity, net	—	—	—	—	—	—	—
Purchase of common stock for treasury	—	—	—	(61,063)	—	—	(61,063)
Equity-based compensation	—	20,770	—	—	—	—	20,770
Proceeds from Options exercised	—	68,524	—	—	—	—	68,524
Treasury stock issued upon option exercise and restricted share vesting	—	(31,270)	—	31,270	—	—	—
Balance, September 30, 2019	$ 206	$ 2,020,180	$ 7,653,735	$ (7,302,664)	$ (16,912)	$ 16,912	$ 2,371,457

A summary of changes in shareholders' equity for the nine months ended September 30, 2019 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, December 31, 2018	$ 206	$ 1,820,223	$ 7,031,333	$ (7,043,200)	$ (16,937)	$ 16,937	$ 1,808,562
Net income	—	—	622,402	—	—	—	622,402
Deferred compensation activity, net	—	—	—	—	25	(25)	—
Purchase of common stock for treasury	—	—	—	(365,542)	—	—	(365,542)
Equity-based compensation	—	58,680	—	—	—	—	58,680
Proceeds from Options exercised	—	247,355	—	—	—	—	247,355
Treasury stock issued upon option exercise and restricted share vesting	—	(106,078)	—	106,078	—	—	—
Balance, September 30, 2019	$ 206	$ 2,020,180	$ 7,653,735	$ (7,302,664)	$ (16,912)	$ 16,912	$ 2,371,457

We repurchased approximately 18 and 130 shares of our common stock during the three and nine months ended September 30, 2019, respectively. We settle Option exercises and vesting of RSUs by issuing shares of treasury stock. Approximately 73 and 250 shares were issued from the treasury account during the three and nine months ended September 30, 2019, respectively, in settlement of Option exercises and vesting of RSUs. Shares are relieved from the treasury account based on the weighted average cost basis of treasury shares acquired.

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

A summary of changes in shareholders' equity for the three months ended September 30, 2018 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, June 30, 2018	$ 206	$ 1,721,696	$ 6,603,359	$ (6,717,690)	$ (17,148)	$ 17,148	$ 1,607,571
Net income	—	—	195,816	—	—	—	195,816
Deferred compensation activity, net	—	—	—	—	220	(220)	—
Purchase of common stock for treasury	—	—	—	(173,831)	—	—	(173,831)
Equity-based compensation	—	23,586	—	—	—	—	23,586
Proceeds from Options exercised	—	29,174	—	—	—	—	29,174
Treasury stock issued upon option exercise and restricted share vesting	—	(12,133)	—	12,133	—	—	—
Balance, September 30, 2018	$ 206	$ 1,762,323	$ 6,799,175	$ (6,879,388)	$ (16,928)	$ 16,928	$ 1,682,316

A summary of changes in shareholders' equity for the nine months ended September 30, 2018 is presented below:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation Trust	Deferred Compensation Liability	Total
Balance, December 31, 2017	$ 206	$ 1,644,197	$ 6,231,940	$ (6,270,851)	$ (17,383)	$ 17,383	$ 1,605,492
Cumulative-effect adjustment from adoption of ASU 2014-09, net of tax	—	—	2,196	—	—	—	2,196
Net income	—	—	565,039	—	—	—	565,039
Deferred compensation activity, net	—	—	—	—	455	(455)	—
Purchase of common stock for treasury	—	—	—	(657,369)	—	—	(657,369)
Equity-based compensation	—	51,690	—	—	—	—	51,690
Proceeds from Options exercised	—	115,268	—	—	—	—	115,268
Treasury stock issued upon option exercise and restricted share vesting	—	(48,832)	—	48,832	—	—	—
Balance, September 30, 2018	$ 206	$ 1,762,323	$ 6,799,175	$ (6,879,388)	$ (16,928)	$ 16,928	$ 1,682,316

We repurchased approximately 64 and 222 shares of our common stock during the three and nine months ended September 30, 2018, respectively. Approximately 30 and 126 shares were issued from the treasury account during the three and nine months ended September 30, 2018, respectively, in settlement of Option exercises and vesting of RSUs.

(dollars and shares in thousands, except per share data)

8. Product Warranties

We establish 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 our homebuilding business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the estimated 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 our Warranty Reserve during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Warranty reserve, beginning of period	$ 100,659	$ 99,702	$ 103,700	$ 94,513
Provision	20,217	15,900	48,486	43,644
Payments	(17,205)	(15,771)	(48,515)	(38,326)
Warranty reserve, end of period	$ 103,671	$ 99,831	$ 103,671	$ 99,831

9. Segment Disclosures

We disclose four homebuilding reportable segments that aggregate geographically our homebuilding operating segments, and our mortgage banking operations presented as one reportable segment. The homebuilding reportable segments are comprised of operating divisions in the following geographic areas:

Mid Atlantic:	Maryland, Virginia, West Virginia, Delaware and Washington, D.C.
North East:	New Jersey and Eastern Pennsylvania
Mid East:	New York, Ohio, Western Pennsylvania, Indiana and Illinois
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 is eliminated in consolidation and is based on the segment's average net assets employed. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker ("CODM") to determine whether the operating segment's results are providing the desired rate of return after covering our cost of capital.

Assets not allocated to the operating segments are not included in either the operating segment's corporate capital allocation charge or the CODM's evaluation of the operating segment's performance. We record 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 generally charged to the operating segment upon the termination of a Lot Purchase Agreement with the developer, or the restructuring of 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 corporate 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. Overhead functions such as accounting, treasury and human resources are centrally performed and these costs are not allocated to our 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 our operating segments. External corporate interest expense primarily consists of interest charges on our 3.95% Senior Notes due 2022 (the "Senior Notes") and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

(dollars and shares in thousands, except per share data)

The following tables present segment revenues, profit and assets with reconciliations to the amounts reported for the consolidated enterprise, where applicable:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Homebuilding Mid Atlantic	$ 1,012,056	$ 991,077	$ 2,875,411	$ 2,807,251
Homebuilding North East	120,478	152,858	364,909	423,190
Homebuilding Mid East	406,145	391,933	1,104,603	1,045,458
Homebuilding South East	334,652	273,477	929,062	774,002
Mortgage Banking	37,933	43,062	124,484	119,225
Total consolidated revenues	$ 1,911,264	$ 1,852,407	$ 5,398,469	$ 5,169,126

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income before taxes:				
Homebuilding Mid Atlantic	$ 124,900	$ 115,180	$ 348,067	$ 318,447
Homebuilding North East	13,164	18,560	36,187	51,041
Homebuilding Mid East	50,210	51,744	125,976	121,129
Homebuilding South East	39,721	31,426	105,582	83,867
Mortgage Banking	22,835	27,183	78,566	69,418
Total segment profit before taxes	250,830	244,093	694,378	643,902
Reconciling items:				
Equity-based compensation expense (1)	(20,770)	(23,586)	(58,680)	(51,690)
Corporate capital allocation (2)	57,887	55,438	168,621	160,091
Unallocated corporate overhead	(27,914)	(20,424)	(89,003)	(74,211)
Consolidation adjustments and other	13,107	142	33,141	22,173
Corporate interest expense	(5,966)	(5,953)	(17,964)	(17,971)
Reconciling items sub-total	16,344	5,617	36,115	38,392
Consolidated income before taxes	$ 267,174	$ 249,710	$ 730,493	$ 682,294

(1) The increase in equity-based compensation expense for the nine-month period ended September 30, 2019 was primarily attributable to incurring a full nine months of expense for the equity awards granted in the second quarter of 2018.

(dollars and shares in thousands, except per share data)

(2) 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 was as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Corporate capital allocation charge:				
Homebuilding Mid Atlantic	$ 31,504	$ 31,733	$ 93,297	$ 93,682
Homebuilding North East	5,028	4,565	14,381	13,325
Homebuilding Mid East	9,791	9,541	28,303	26,571
Homebuilding South East	11,564	9,599	32,640	26,513
Total	$ 57,887	$ 55,438	$ 168,621	$ 160,091

	September 30, 2019	December 31, 2018
Assets:		
Homebuilding Mid Atlantic	$ 1,122,806	$ 1,018,953
Homebuilding North East	176,567	144,412
Homebuilding Mid East	322,672	290,815
Homebuilding South East	410,556	332,468
Mortgage Banking	482,146	517,075
Total segment assets	2,514,747	2,303,723
Reconciling items:		
Cash and cash equivalents	1,068,172	688,783
Deferred taxes	114,579	112,333
Intangible assets and goodwill	49,872	49,989
Operating lease right-of-use assets	63,505	—
Contract land deposit reserve	(27,644)	(29,216)
Consolidation adjustments and other	60,128	40,321
Reconciling items sub-total	1,328,612	862,210
Consolidated assets	$ 3,843,359	$ 3,165,933

10. Fair Value

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.

Financial Instruments

The estimated fair values of our Senior Notes as of September 30, 2019 and December 31, 2018 were $625,500 and $594,000, respectively. The estimated fair value is based on recent market prices of similar transactions, which is classified as Level 2 within the fair value hierarchy. The carrying values at September 30, 2019 and December 31, 2018 were $598,146 and $597,681, respectively. Except as otherwise noted below, we believe that insignificant differences exist between the carrying value and the fair value of our financial instruments, which consist primarily of cash equivalents, due to their short term nature.

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

Derivative Instruments and Mortgage Loans Held for Sale

In the normal course of business, our wholly-owned mortgage subsidiary, NVR Mortgage Finance, Inc. (“NVRM”), enters into contractual commitments to extend credit to our homebuyers with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by NVRM. 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, NVRM enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sales contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. NVRM 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 September 30, 2019, there were contractual commitments to extend credit to borrowers aggregating $827,120 and open forward delivery contracts aggregating $1,101,965, which hedge both the rate lock loan commitments and closed loans held for sale.

The fair value of NVRM’s rate lock commitments to borrowers and the related input levels include, 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 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, NVRM 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. NVRM 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 is included in the fair value measurement and is based upon contractual terms with investors and varies depending on the loan type. NVRM assumes a fallout rate when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which NVRM does not close a mortgage loan and is based on historical experience.

The fair value of NVRM’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. Fair value is measured using Level 2 inputs. The fair value of loans held for sale of $411,223 included on the accompanying condensed consolidated balance sheet has been increased by $7,051 from the aggregate principal balance of $404,172. As of December 31, 2018, the fair value of loans held for sale of $458,324 were increased by $10,880 from the aggregate principal balance of $447,444.

(dollars and shares in thousands, except per share data)

The fair value measurement of NVRM's undesignated derivative instruments was as follows:

	September 30, 2019	December 31, 2018
Rate lock commitments:		
Gross assets	$ 12,427	$ 13,831
Gross liabilities	959	345
Net rate lock commitments	$ 11,468	$ 13,486
Forward sales contracts:		
Gross assets	$ 1,519	$ 64
Gross liabilities	2,887	10,121
Net forward sales contracts	$ (1,368)	$ (10,057)

As of both September 30, 2019 and December 31, 2018, the net rate lock commitments are reported in mortgage banking "Other assets" and the net forward sales contracts are reported in mortgage banking "Accrued expenses and other liabilities" on the accompanying condensed consolidated balance sheets.

The fair value measurement adjustment as of September 30, 2019 was 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 Measurement Gain/(Loss)
Rate lock commitments	$ 827,120	$ 2,071	$ 1,239	$ 8,158	$ —	$ 11,468
Forward sales contracts	$ 1,101,965	—	—	—	(1,368)	(1,368)
Mortgages held for sale	$ 404,172	1,517	798	4,736	—	7,051
Total fair value measurement		$ 3,588	$ 2,037	$ 12,894	$ (1,368)	$ 17,151

The total fair value measurement adjustment as of December 31, 2018 was $14,309. NVRM recorded a fair value adjustment to expense of $8,711 for the three months ended September 30, 2019, and recorded a fair value adjustment to income of $2,842 for the nine months ended September 30, 2019. NVRM recorded a fair value adjustment to expense of $1,986 for the three months ended September 30, 2018, and recorded a fair value adjustment to income of $7,613 for the nine months ended September 30, 2018.

Unrealized gains/losses from the change in the fair value measurements are included in earnings as a component of mortgage banking fees in the accompanying condensed consolidated statements of income. The fair value measurement will be impacted in the future by the change in the value of the servicing rights, interest rate movements, security price fluctuations, and the volume and product mix of NVRM's closed loans and locked loan commitments.

11. Debt

Senior Notes

As of September 30, 2019, we had Senior Notes outstanding with a principal balance of $600,000. The Senior Notes mature on September 15, 2022 and bear interest at 3.95%, payable semi-annually in arrears on March 15 and September 15. The Senior Notes were issued at a discount to yield 3.97% and have been reflected net of the unamortized discount and unamortized debt issuance costs in the accompanying condensed consolidated balance sheet.

Credit Agreement

We have an unsecured Credit Agreement (the "Credit Agreement"), which provides for aggregate revolving loan commitments of $200,000 (the "Facility"). Under the Credit Agreement, we may request increases of up to $300,000 to the Facility in the form of revolving loan commitments or term loans to the extent that new or existing lenders agree to provide additional revolving loan or term loan commitments. The Credit Agreement provides for a $100,000 sublimit for the issuance of letters of credit, of which approximately $9,400 was outstanding at September 30, 2019, and a $25,000 sublimit for a swing line commitment. The Credit Agreement termination date is July 15, 2021. There was no debt outstanding under the Facility at September 30, 2019.

Repurchase Agreement

NVRM provides for its mortgage origination and other operating activities using cash generated from its operations, borrowings from its parent company, NVR, as well as a revolving mortgage repurchase agreement (the “Repurchase Agreement”), which is non-recourse to NVR. The Repurchase Agreement provides for loan purchases up to $150,000, subject to certain sub-limits. Amounts outstanding under the Repurchase Agreement are collateralized by the Company’s mortgage loans held for sale.

In July 2019, NVRM entered into the Eleventh Amendment (the "Amendment") to the Repurchase Agreement, which extended the term of the Repurchase Agreement through July 22, 2020. All other terms and conditions under the amended Repurchase Agreement remained materially consistent. At September 30, 2019, there were no borrowing base limitations reducing the amount available under the Repurchase Agreement. There was no debt outstanding under the Repurchase Agreement at September 30, 2019.

12. Commitments and Contingencies

We are involved in various 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 our financial position, results of operations or cash flows. Legal costs incurred in connection with outstanding litigation are expensed as incurred.

13. Leases

We have operating leases for our corporate and division offices, production facilities, model homes, and certain office and production equipment. Additionally, we have finance leases for production equipment which are recorded in homebuilding "Property, plant and equipment, net" and "Accrued expenses and other liabilities" on the accompanying condensed consolidated balance sheets. Our leases have remaining lease terms of up to 10 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the lease.

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize most leases on the balance sheet as ROU assets with corresponding lease liabilities. See Note 1 for additional discussion regarding the adoption of Topic 842. The ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term, discounted using our incremental borrowing rate at the commencement date of the lease. We recognize operating lease expense on a straight-line basis over the lease term.

We have elected to use the portfolio approach for certain equipment leases which have similar lease terms and payment schedules. Additionally, for certain equipment we account for the lease and non-lease components as a single lease component. Our sublease income is de minimis.

We have certain leases, primarily the leases of model homes, which have initial lease terms of twelve months or less ("Short-term leases"). We elected to exclude these leases from the recognition requirements under Topic 842, and these leases have not been included in our recognized ROU assets and lease liabilities.

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

The components of lease expense were as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease expense		
Operating lease expense	$ 8,829	$ 24,776
Finance lease expense:		
Amortization of ROU assets	125	146
Interest on lease liabilities	25	30
Short-term lease expense	5,530	16,775
Total lease expense	$ 14,509	$ 41,727

Other information related to leases was as follows:

	Nine Months Ended September 30, 2019
Supplemental Cash Flows Information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 19,515
Operating cash flows from finance leases	30
Financing cash flows from finance leases	116
ROU assets obtained in exchange for lease obligations:	
Operating leases	$ 11,546
Finance leases	$ 6,369
Weighted-average remaining lease term (in years):	
Operating leases	4.6
Finance leases	6.9
Weighted-average discount rate:	
Operating leases	3.7%
Finance leases	2.9%

(dollars and shares in thousands, except per share data)

We are committed under multiple non-cancelable operating and finance leases involving office space, production facilities, model homes, office and production equipment, and automobiles. Future minimum lease payments under these leases as of September 30, 2019 were as follows:

Years Ending December 31,	Operating Leases	Finance Leases
2019	$ 9,054	$ 215
2020	27,450	860
2021	19,867	860
2022	15,578	860
2023	11,899	860
Thereafter	15,665	3,315
Total minimum lease payments	99,513	6,970
Less:		
Imputed interest	(8,043)	(717)
Short-term lease payments	(5,796)	—
Total lease liability	$ 85,674	$ 6,253

14. Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2019 was 16.2% and 14.8%, respectively, compared to 21.6% and 17.2% for the three and nine months ended September 30, 2018, respectively. In both periods, our effective tax rate was favorably impacted by the recognition of income tax benefits related to excess tax benefits from stock option exercises. Excess tax benefits were $27,604 and $86,809 for the three and nine months ended September 30, 2019, respectively and $12,585 and $58,607 for the three and nine months ended September 30, 2018, respectively.

15. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which significantly changes the way impairment of financial assets is recognized. The standard will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. The standard's provisions will be applied as a cumulative-effect adjustment to beginning retained earnings as of the effective date. The standard is effective for us as of January 1, 2020. We do not believe that the adoption of this standard will have a material effect on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. The standard's objective is to simplify the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. Under the amendments in the standard, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge would then be recognized, not to exceed the amount of goodwill allocated to that reporting unit. The standard is effective for us on January 1, 2020, and early adoption is permitted. We do not believe that the adoption of this standard will have a material effect on our consolidated financial statements and related disclosures.

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

(dollars in thousands, except per share data)

Forward-Looking Statements

Some of the statements in this Quarterly Report on 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, as amended. 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 comparable terminology. All statements other than of historical facts are forward-looking statements. Forward-looking statements contained in this document may include those regarding market trends, NVR's financial position, business strategy, the outcome of pending litigation, investigations or similar contingencies, 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; increased regulation in the mortgage banking industry; the ability of our mortgage banking subsidiary to sell loans it originates into the secondary market; 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 II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A of NVR's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

Results of Operations for the Three and Nine Months Ended September 30, 2019 and 2018

Overview

Business

Our primary business is the construction and sale of single-family detached homes, townhomes and condominiums, 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, Delaware and Washington, D.C.
North East:	New Jersey and Eastern Pennsylvania
Mid East:	New York, Ohio, Western Pennsylvania, Indiana and Illinois
South East:	North Carolina, South Carolina, Florida and Tennessee

Our lot acquisition strategy is predicated upon avoiding the financial requirements and risks associated with direct land ownership and development. We generally do not engage in land development (see discussion below of our land development activities). Instead, we typically acquire finished lots at market prices from various third party land developers pursuant to fixed price finished lot purchase agreements ("Lot Purchase Agreements"). These Lot 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 Lot 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.

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. Our continued success is contingent upon our ability to control an adequate supply of finished lots on which to build.

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 already zoned for its intended use for development. Once we acquire control of raw ground, we determine whether to sell the raw parcel to a developer and enter into a Lot Purchase Agreement with the developer to purchase the finished lots or to 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 into 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 our finished lot inventory using Lot Purchase Agreements with forfeitable deposits.

As of September 30, 2019, we controlled approximately 102,000 lots as described below.

Lot Purchase Agreements

We controlled approximately 98,150 lots under Lot Purchase Agreements with third parties through deposits in cash and letters of credit totaling approximately $430,200 and $4,400, respectively. Included in the number of controlled lots are approximately 4,700 lots for which we have recorded a contract land deposit impairment reserve of approximately $27,600 as of September 30, 2019.

Joint Venture Limited Liability Corporations ("JVs")

We had an aggregate investment totaling approximately $24,600 in six JVs, expected to produce approximately 6,400 lots. Of the lots to be produced by the JVs, approximately 3,050 lots were controlled by us and approximately 3,350 were either under contract with unrelated parties or currently not under contract. We had additional funding commitments totaling approximately $4,700 in the aggregate to three of the JVs at September 30, 2019.

Land Under Development

We directly owned five separate raw land parcels, zoned for their intended use, with a cost basis, including development costs, of approximately $80,200 that we intend to develop into approximately 800 finished lots. We had additional funding commitments of approximately $6,800 under a joint development agreement related to one parcel, a portion of which we expect will be offset by development credits of approximately $2,900. One of our five land parcels under development was purchased during September 2019 for approximately $44,700. The parcel is expected to produce approximately 400 lots.

See Notes 2, 3 and 4 to the condensed consolidated financial statements included herein for additional information regarding Lot Purchase Agreements, JVs and land under development, respectively.

Raw Land Purchase Agreements

In addition, we have certain properties under contract with land owners that are expected to yield approximately 7,000 lots, which are not included in the number of total lots controlled. Some of these properties may require rezoning or other approvals to achieve the expected yield. These properties are controlled with deposits in cash and letters of credit totaling approximately $2,300 and $100, respectively, as of September 30, 2019, of which approximately $1,400 is refundable if certain contractual conditions are not met. We generally expect to assign the raw land contracts to a land developer and simultaneously enter into a Lot Purchase Agreement with the assignee if the project is determined to be feasible.

Current Business Environment and Key Financial Results

During the third quarter of 2019, general market conditions continued to be favorably impacted by low unemployment and strong consumer confidence. Additionally, affordability issues, which had slowed demand for new homes during the second half of 2018, continued to be favorably impacted by a pull back in interest rates throughout 2019, which contributed to improved demand.

Our consolidated revenues for the third quarter of 2019 totaled $1,911,264, a 3% increase from the third quarter of 2018. Net income for the third quarter ended September 30, 2019 was $223,787, or $56.11 per diluted share, increases of 14% and 16% when compared to net income and diluted earnings per share in the third quarter of 2018, respectively. Our homebuilding gross profit margin percentage increased to 19.0% in the third quarter of 2019 from 18.6% in the third quarter of 2018. New orders, net of cancellations ("New Orders") increased by 11% in the third quarter of 2019 compared to the third quarter of 2018. The average sales price for New Orders in the third quarter of 2019 decreased by 1% to $369.2 compared to the third quarter of 2018.

We believe that the strength in demand for new homes is dependent upon sustained economic growth, driven by favorable unemployment levels and continued improvements in wage growth and household formation. Demand is also impacted by homebuyer affordability concerns, which are driven by both home prices and interest rate movements. We expect to continue to face gross margin pressure, impacted by modest pricing power and our ability to manage land and construction costs. We also expect to face pressure on mortgage banking profit due to the competitive pricing pressures in the mortgage market. We believe that we are well positioned to take advantage of opportunities that may arise from future economic and homebuilding market volatility due to the strength of our balance sheet.

Homebuilding Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Financial Data:				
Revenues	$ 1,873,331	$ 1,809,345	$ 5,273,985	$ 5,049,901
Cost of sales	$ 1,518,276	$ 1,472,649	$ 4,282,470	$ 4,101,392
Gross profit margin percentage	19.0%	18.6%	18.8%	18.8%
Selling, general and administrative expenses	$ 109,969	$ 109,372	$ 337,913	$ 321,436
Operating Data:				
New orders (units)	4,766	4,302	15,144	14,440
Average new order price	$ 369.2	$ 374.0	$ 364.8	$ 376.3
Settlements (units)	5,124	4,754	14,337	13,261
Average settlement price	$ 365.5	$ 380.5	$ 367.8	$ 380.8
Backlog (units)			9,172	9,710
Average backlog price			$ 371.0	$ 377.1
New order cancellation rate	15.7%	15.5%	14.3%	14.0%

Consolidated Homebuilding - Three Months Ended September 30, 2019 and 2018

Homebuilding revenues increased 4% in the third quarter of 2019 compared to the same period in 2018, as a result of an 8% increase in the number of units settled, offset by a 4% decrease in the average settlement price. The increase in the number of units settled was primarily attributable to a higher backlog turnover rate quarter over quarter. The decrease in the average settlement price was attributable to a 3% lower average price of units in backlog entering the third quarter of 2019 compared to the same period in 2018, driven by a shift to smaller, lower priced products and to lower priced markets.

Gross profit margin percentage in the third quarter of 2019 increased to 19.0%, from 18.6% in the third quarter of 2018. Gross profit margin in the prior year quarter was negatively impacted by a $7,400, or 41 basis points, impairment charge recognized on one of our JVs.

The number of New Orders increased 11% while the average sales price of New Orders decreased 1% in the third quarter of 2019 compared to the third quarter of 2018. The increase in New Orders was attributable primarily to an increase in New Orders in our Mid East and South East market segments, partially driven by an increase in the average number of active communities in each of these segments. Additionally, more favorable market conditions in the third quarter of 2019 led to higher community absorption rates in each of our market segments quarter over quarter. The decrease in the average sales price of New Orders was attributable to a shift to markets with lower average sales prices, as well as a continued shift in New Orders to smaller, lower priced products.

Selling, general and administrative ("SG&A") expenses in the third quarter of 2019 were essentially flat when compared to the same period in 2018, and as a percentage of revenue decreased slightly to 5.9% in the third quarter of 2019 from 6.0% in the third quarter of 2018.

Consolidated Homebuilding - Nine Months Ended September 30, 2019 and 2018

Homebuilding revenues increased 4% for the nine months ended September 30, 2019 from the same period in 2018, due to an 8% increase in the number of units settled, offset partially by a 3% decrease in the average settlement price year over year. The increase in the number of units settled was primarily attributable to a higher backlog turnover rate year over year. The decrease in the average settlement price was attributable to a 2% lower average price of units in backlog entering 2019 compared to the same period in 2018 and a shift in settlements to smaller, lower priced products and to lower priced markets.

Gross profit margin percentage in the first nine months of both 2019 and 2018 was 18.8%. Increases in certain construction costs in 2019 were offset largely by lower lumber costs year over year.

The number of New Orders increased 5% while the average sales price of New Orders decreased by 3% in the first nine months of 2019 when compared to the first nine months of 2018. New Orders increased primarily due to an increase in New Orders in our South East and Mid East market segments, driven in part by an increase in the average number of active communities in those segments. Additionally, favorable market conditions in 2019 led to a higher community absorption rate year over year. The decrease in the average sales price of New Orders was attributable to a shift to markets with lower average sales prices, as well as a continued shift in New Orders to smaller, lower priced products.

SG&A expenses in the first nine months of 2019 increased by 5% when compared to the first nine months of 2018, but as a percentage of revenue were flat at 6.4% in both 2019 and 2018. SG&A expenses increased primarily due to an approximate $7,800 increase in equity-based compensation expense attributable to incurring a full nine months of expense for the equity awards granted in the second quarter of 2018, and an approximate $7,600 increase in personnel costs.

Backlog units and dollars were 9,172 units and $3,402,933, respectively, as of September 30, 2019 compared to 9,710 units and $3,662,037, respectively, as of September 30, 2018. The 6% decrease in backlog units was primarily attributable to the aforementioned 8% increase in units settled year over year, resulting in a higher backlog turnover rate year over year. Backlog dollars were 7% lower year over year due primarily to the lower backlog unit balance.

Backlog, which represents homes sold but not yet settled with the customer, may be impacted by customer cancellations for various reasons that are beyond our control, such as failure to obtain mortgage financing, inability to sell an existing home, job loss, or a variety of other reasons. In any period, a portion of the cancellations that we experience are related to new sales that occurred during the same period, and a portion are related to sales that occurred in prior periods and therefore appeared in the opening backlog for the current period. Expressed as the total of all cancellations during the period as a percentage of gross sales during the period, our cancellation rate was approximately 14% in the first nine months of both 2019 and 2018. During the most recent four quarters, approximately 6% of a reporting quarter's opening backlog cancelled during the fiscal quarter. We can provide no assurance that our historical cancellation rates are indicative of the actual cancellation rate that may occur during the remainder of 2019 or future years. Other than those units that are cancelled, we expect to settle substantially all of our September 30, 2019 backlog within the next twelve months.

The backlog turnover rate is impacted by various factors, including, but not limited to, changes in New Order activity, internal production capacity, external subcontractor capacity and other external factors over which we do not exercise control.

Reportable Segments

Homebuilding segment profit includes all revenues and income generated from the sale of homes, less the cost of homes sold, SG&A expenses, and a corporate capital allocation charge determined by corporate management. The corporate capital allocation charge eliminates in consolidation and is based on the segment's average net assets employed. The corporate capital allocation charged to the operating segment allows the Chief Operating Decision Maker to determine whether the operating segment is 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 generally charged to the operating segment upon the termination of a Lot Purchase Agreement with the developer, or the restructuring of a Lot Purchase Agreement resulting in the forfeiture of the deposit. We evaluate our entire net contract land deposit portfolio for impairment each quarter. For presentation purposes below, the contract land deposit reserve at September 30, 2019 and December 31, 2018 has been allocated to the respective year's reportable segments to show contract land deposits on a net basis. The net contract land deposit balances below also include approximately $4,500 and $3,900 at September 30, 2019 and December 31, 2018, respectively, of letters of credit issued as deposits in lieu of cash.

The following tables summarize certain homebuilding operating activity by reportable segment for the three and nine months ended September 30, 2019 and 2018.

Selected Segment Financial Data:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Mid Atlantic	$ 1,012,056	$ 991,077	$ 2,875,411	$ 2,807,251
North East	120,478	152,858	364,909	423,190
Mid East	406,145	391,933	1,104,603	1,045,458
South East	334,652	273,477	929,062	774,002

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gross profit margin:				
Mid Atlantic	$ 189,535	$ 181,993	$ 540,060	$ 517,433
North East	25,364	30,184	71,452	84,701
Mid East	79,227	78,546	208,870	197,675
South East	66,836	55,557	182,940	152,197

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gross profit margin percentage:				
Mid Atlantic	18.7%	18.4%	18.8%	18.4%
North East	21.1%	19.7%	19.6%	20.0%
Mid East	19.5%	20.0%	18.9%	18.9%
South East	20.0%	20.3%	19.7%	19.7%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Segment profit:				
Mid Atlantic	$ 124,900	$ 115,180	$ 348,067	$ 318,447
North East	13,164	18,560	36,187	51,041
Mid East	50,210	51,744	125,976	121,129
South East	39,721	31,426	105,582	83,867

Operating Activity:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Units	Average Price	Units	Average Price	Units	Average Price	Units	Average Price
New orders, net of cancellations:								
Mid Atlantic	2,086	$ 427.7	2,124	$ 426.9	6,852	$ 419.1	7,041	$ 429.4
North East	323	$ 379.0	315	$ 386.5	1,000	$ 378.9	1,051	$ 401.5
Mid East	1,141	$ 328.6	962	$ 328.9	3,631	$ 322.0	3,400	$ 327.7
South East	1,216	$ 304.2	901	$ 293.3	3,661	$ 301.6	2,948	$ 296.8
Total	4,766	$ 369.2	4,302	$ 374.0	15,144	$ 364.8	14,440	$ 376.3

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Units	Average Price	Units	Average Price	Units	Average Price	Units	Average Price
Settlements:								
Mid Atlantic	2,421	$ 418.0	2,297	$ 431.4	6,890	$ 417.3	6,462	$ 434.4
North East	316	$ 381.3	367	$ 416.5	933	$ 391.0	1,022	$ 414.1
Mid East	1,255	$ 323.5	1,164	$ 336.6	3,382	$ 326.5	3,135	$ 333.4
South East	1,132	$ 295.6	926	$ 295.3	3,132	$ 296.6	2,642	$ 293.0
Total	5,124	$ 365.5	4,754	$ 380.5	14,337	$ 367.8	13,261	$ 380.8

	As of September 30,			
	2019		2018	
	Units	Average Price	Units	Average Price
Backlog:				
Mid Atlantic	4,110	$ 426.4	4,803	$ 425.0
North East	630	$ 383.3	711	$ 405.2
Mid East	2,055	$ 327.0	2,163	$ 331.2
South East	2,377	$ 310.0	2,033	$ 303.2
Total	9,172	$ 371.0	9,710	$ 377.1

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
New order cancellation rate:				
Mid Atlantic	16.2%	15.8%	14.7%	14.6%
North East	13.9%	13.5%	12.3%	11.5%
Mid East	15.9%	13.8%	13.9%	12.8%
South East	15.0%	17.3%	14.2%	14.8%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Average active communities:				
Mid Atlantic	201	236	208	238
North East	34	36	32	37
Mid East	136	118	131	119
South East	102	89	93	87
Total	473	479	464	481

Homebuilding Inventory:

	September 30, 2019	December 31, 2018
Sold inventory:		
Mid Atlantic	$ 679,895	$ 622,997
North East	89,891	79,530
Mid East	216,517	195,149
South East	242,876	182,458
Total (1)	$ 1,229,179	$ 1,080,134

	September 30, 2019	December 31, 2018
Unsold lots and housing units inventory:		
Mid Atlantic	$ 90,956	$ 74,689
North East	29,480	11,088
Mid East	15,788	9,045
South East	23,803	20,611
Total (1)	$ 160,027	$ 115,433

(1) The reconciling items between segment inventory and consolidated inventory include certain consolidation adjustments 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. These consolidation adjustments are not allocated to our operating segments.

Lots Controlled and Land Deposits:

	September 30, 2019	December 31, 2018
Total lots controlled:		
Mid Atlantic	40,800	40,350
North East	9,550	8,950
Mid East	23,500	24,350
South East	28,150	26,050
Total	102,000	99,700

	September 30, 2019	December 31, 2018
Contract land deposits, net:		
Mid Atlantic	$ 198,308	$ 199,917
North East	47,035	42,591
Mid East	56,213	52,899
South East	107,814	104,693
Total	$ 409,370	$ 400,100

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Contract land deposit impairments (recoveries), net:				
Mid Atlantic	$ (247)	$ 1,750	$ 42	$ 1,932
North East	—	—	1,050	641
Mid East	41	187	50	213
South East	21	(4)	21	1,911
Total	$ (185)	$ 1,933	$ 1,163	$ 4,697

Mid Atlantic

Three Months Ended September 30, 2019 and 2018

The Mid Atlantic segment had an approximate $9,700, or 8%, increase in segment profit in the third quarter of 2019 compared to the third quarter of 2018. The increase in segment profit was driven by improved gross profit margins, and by an increase in segment revenues of approximately $21,000, or 2%, quarter over quarter. Segment revenues increased due to a 5% increase in the number of units settled, offset partially by a 3% decrease in the average settlement price quarter over quarter. The increase in the number of units settled was favorably impacted by a higher backlog turnover rate quarter over quarter. The decrease in the average settlement price was primarily attributable to a relative shift in settlements to lower priced products in the third quarter of 2019 compared to the same period in 2018. The Mid Atlantic segment's gross profit margin percentage increased to 18.7% in the third quarter of 2019 from 18.4% in the third quarter of 2018, due in part to the prior year quarter being negatively impacted by the aforementioned JV impairment charge of approximately $7,400. Excluding the 2018 JV impairment charge, gross profit margin percentage was lower by approximately 40 basis points quarter over quarter due to higher construction costs, offset partially by lower lumber costs quarter over quarter.

Segment New Orders decreased 2%, and the average sales price of New Orders was flat in the third quarter of 2019 compared to the third quarter of 2018. New Orders decreased primarily due to a 14% decrease in the average number of active communities quarter over quarter, offset partially by higher community absorption rates quarter over quarter.

Nine Months Ended September 30, 2019 and 2018

The Mid Atlantic segment had an approximate $29,600, or 9%, increase in segment profit in the first nine months of 2019 compared to the first nine months of 2018. The increase in segment profit was driven by an increase in segment revenues of approximately $68,200, or 2%, and by improved gross profit margins year over year. Segment revenues increased due to a 7% increase in the number of units settled, offset partially by a 4% decrease in the average settlement price year over year. The increase in units settled is attributable primarily to a higher backlog turnover rate year over year. The average settlement price in the current year was negatively impacted by a relative shift in settlements to lower priced products and lower priced markets within the segment. The segment's gross profit margin percentage increased to 18.8% for the first nine months of 2019 from 18.4% in the first nine months of 2018, primarily due to lower lumber costs, offset partially by increases in certain construction costs.

Segment New Orders and the average sales price of New Orders decreased 3% and 2%, respectively in the first nine months of 2019 compared to the same period in 2018. New Orders decreased primarily due to a 13% decrease in the average number of active communities year over year, offset partially by higher community absorption rates year over year. The decrease in the average sales price of New Orders is attributable to a relative shift to lower priced products and a shift to markets with lower average sales prices within the segment.

North East

Three Months Ended September 30, 2019 and 2018

The North East segment had an approximate $5,400, or 29%, decrease in segment profit in the third quarter of 2019 compared to the third quarter of 2018 due primarily to a decrease in segment revenues of approximately $32,400, or 21%, quarter over quarter. The decrease in segment revenues was attributable to decreases in the number of units settled and the average settlement price of 14% and 8%, respectively, due primarily to an 18% lower backlog unit balance and an 8% lower average sales price of units in backlog entering the third quarter of 2019 compared to the backlog entering the third quarter of 2018. The segment's gross profit margin percentage increased to 21.1% in the third quarter of 2019 from 19.7% in the third quarter of 2018, primarily attributable to lower lot costs as a percentage of revenue.

Segment New Orders increased 3%, while the average sales price of New Orders decreased 2%, in the third quarter of 2019 compared to the third quarter of 2018. The increase in New Orders was attributable to favorable market conditions which led to higher community absorption rates quarter over quarter. The average sales price of New Orders was negatively impacted primarily by a relative shift in New Orders to lower priced products.

Nine Months Ended September 30, 2019 and 2018

The North East segment had an approximate $14,900, or 29%, decrease in segment profit in the first nine months of 2019 compared to the first nine months of 2018 due to a decrease in segment revenues of approximately $58,300, or 14%. The decrease in segment revenues was attributable to decreases in the number of units settled and the average settlement price of 9% and 6%, respectively, due primarily to a 17% lower backlog unit balance and a 5% lower average sales price of units in backlog entering 2019 compared to the backlog entering 2018. The North East segment's gross profit margin percentage decreased to 19.6% in the first nine months of 2019 from 20.0% in the first nine months of 2018, primarily due to higher construction costs, offset partially by lower lot costs as a percentage of revenue.

Segment New Orders and the average sales price of New Orders decreased 5% and 6%, respectively, in the first nine months of 2019 compared to the same period in 2018. New Orders were negatively impacted by a 12% decrease in the average number of active communities year over year. The average sales price of New Orders was negatively impacted primarily by a relative shift in New Orders to lower priced products.

Mid East

Three Months Ended September 30, 2019 and 2018

The Mid East segment had an approximate $1,500, or 3%, decrease in segment profit in the third quarter of 2019 compared to the third quarter of 2018. Segment profit was lower despite an increase in segment revenues of approximately $14,200, or 4%, quarter over quarter. Segment revenues increased primarily due to an 8% increase in the number of units settled, offset partially by a 4% decrease in the average settlement price quarter over quarter. The increase in the number of units settled was favorably impacted by a higher backlog turnover rate quarter over quarter. The decrease in the average settlement price was primarily attributable to a 3% lower average sales price of units in backlog entering the third quarter of 2019 compared to the backlog entering the third quarter of 2018. The segment's gross profit margin percentage decreased to 19.5% in the third quarter of 2019 from 20.0% in the third quarter of 2018. The segment profit and gross profit margin percentage were negatively impacted primarily by higher construction costs, offset partially by lower lumber costs.

Segment New Orders increased 19%, while the average sales price of New Orders was flat in the third quarter of 2019 compared to the third quarter of 2018. New Orders increased due primarily to a 16% increase in the average number of active communities quarter over quarter.

Nine Months Ended September 30, 2019 and 2018

The Mid East segment had an approximate $4,800, or 4%, increase in segment profit in the first nine months of 2019 compared to the first nine months of 2018. The increase in segment profit was driven by an increase in segment revenues of approximately $59,100, or 6%, year over year. Segment revenues increased due to an 8% increase in the number of units settled, offset partially by a 2% decrease in the average settlement price year over year. The increase in the number of units settled was favorably impacted by a higher backlog turnover rate year over year. The decrease in the average settlement price is attributable to a relative shift in settlements to lower priced products and lower priced markets within the segment. The segment's gross profit margin percentage was flat year over year at 18.9%.

Segment New Orders increased 7%, while the average sales price of New Orders decreased 2% in the first nine months of 2019 compared to the same period in 2018. New Orders increased primarily due to a 9% increase in the average number of active communities in 2019 compared to the same period in 2018. The average sales price of New Orders was negatively impacted by a relative shift to lower priced products and a shift to markets with lower average sales prices within the segment.

South East

Three Months Ended September 30, 2019 and 2018

The South East segment had an approximate $8,300, or 26%, increase in segment profit in the third quarter of 2019 compared to the third quarter of 2018. The increase in segment profit was primarily driven by an increase in segment revenues of approximately $61,200, or 22%, quarter over quarter, attributable primarily to a 22% increase in the number of units settled quarter over quarter. The number of units settled was favorably impacted by an 11% higher backlog unit balance entering the third quarter of 2019 compared to the same period in 2018, coupled with a higher backlog turnover rate quarter over quarter. The segment's gross profit margin percentage decreased to 20.0% in the third quarter of 2019 from 20.3% in the third quarter of 2018, primarily due to increased lot costs, offset partially by lower lumber costs.

Segment New Orders increased 35%, while the average sales price on New Orders increased 4%, in the third quarter of 2019 compared to the third quarter of 2018. New Orders were favorably impacted by a 14% increase in the average number of active communities and by favorable market conditions which led to a higher segment absorption rate in the third quarter of 2019 compared to the third quarter of 2018. The average sales price of New Orders was favorably impacted by a relative shift to markets within the segment with higher average sales prices.

Nine Months Ended September 30, 2019 and 2018

The South East segment had an approximate $21,700, or 26%, increase in segment profit in the first nine months of 2019 compared to the first nine months of 2018. The increase in segment profit was primarily driven by an increase in segment revenues of approximately $155,100, or 20%, year over year, due primarily to a 19% increase in the number of units settled year over year. The increase in units settled was attributable to a 7% higher backlog unit balance entering 2019 compared to the backlog unit balance entering 2018, coupled with a higher backlog turnover rate year over year. The segment's gross profit margin percentage was flat year over year.

Segment New Orders and the average sales price of New Orders increased 24% and 2%, respectively, in the first nine months of 2019 compared to the first nine months of 2018. New Orders were favorably impacted by an 8% increase in the average number of active communities and by favorable market conditions which led to a higher segment absorption rate year over year. The average sales price of New Orders was favorably impacted by a relative shift to markets within the segment with higher average sales prices.

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 income before tax include unallocated corporate overhead (which includes all management incentive compensation), equity-based compensation expense, consolidation adjustments and external corporate interest expense. Our overhead functions, such as accounting, treasury and human resources, are centrally performed and the costs 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 primarily consists of interest charges on our 3.95% Senior Notes due 2022, and is not charged to the operating segments because the charges are included in the corporate capital allocation discussed above.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Homebuilding consolidated gross profit:				
Mid Atlantic	$ 189,535	$ 181,993	$ 540,060	$ 517,433
North East	25,364	30,184	71,452	84,701
Mid East	79,227	78,546	208,870	197,675
South East	66,836	55,557	182,940	152,197
Consolidation adjustments and other	(5,907)	(9,584)	(11,807)	(3,497)
Homebuilding consolidated gross profit	$ 355,055	$ 336,696	$ 991,515	$ 948,509

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Homebuilding consolidated income before taxes:				
Mid Atlantic	$ 124,900	$ 115,180	$ 348,067	$ 318,447
North East	13,164	18,560	36,187	51,041
Mid East	50,210	51,744	125,976	121,129
South East	39,721	31,426	105,582	83,867
Reconciling items:				
Equity-based compensation expense (1)	(19,335)	(21,917)	(56,773)	(48,534)
Corporate capital allocation (2)	57,887	55,438	168,621	160,091
Unallocated corporate overhead	(27,914)	(20,424)	(89,003)	(74,211)
Consolidation adjustments and other	13,107	142	33,141	22,173
Corporate interest expense	(5,966)	(5,953)	(17,964)	(17,971)
Reconciling items sub-total	17,779	7,286	38,022	41,548
Homebuilding consolidated income before taxes	$ 245,774	$ 224,196	$ 653,834	$ 616,032

(1) The increase in equity-based compensation expense for the nine-month period ended September 30, 2019 was primarily attributable to incurring a full nine months of expense for the equity awards granted in the second quarter of 2018.

(2) 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Corporate capital allocation charge:				
Mid Atlantic	$ 31,504	$ 31,733	$ 93,297	$ 93,682
North East	5,028	4,565	14,381	13,325
Mid East	9,791	9,541	28,303	26,571
South East	11,564	9,599	32,640	26,513
Total	$ 57,887	$ 55,438	$ 168,621	$ 160,091

Mortgage Banking Segment

Three and Nine Months Ended September 30, 2019 and 2018

We conduct our mortgage banking activity through NVR Mortgage Finance, Inc. ("NVRM"), a wholly owned subsidiary. NVRM focuses exclusively on serving the homebuilding segment customer base. NVRM sells all of the mortgage loans it closes to investors in the secondary markets on a servicing-released basis, typically within 30 days from the loan closing. The following table summarizes the results of our mortgage banking operations and certain statistical data for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Loan closing volume:				
Total principal	$ 1,373,946	$ 1,249,199	$ 3,745,983	$ 3,472,976
Loan volume mix:				
Adjustable rate mortgages	7%	10%	9%	9%
Fixed-rate mortgages	93%	90%	91%	91%
Operating profit:				
Segment profit	$ 22,835	$ 27,184	$ 78,566	$ 69,419
Equity-based compensation expense	(1,435)	(1,670)	(1,907)	(3,157)
Mortgage banking income before tax	$ 21,400	$ 25,514	$ 76,659	$ 66,262
Capture rate:	90%	88%	89%	87%
Mortgage banking fees:				
Net gain on sale of loans	$ 27,771	$ 33,718	$ 95,690	$ 92,609
Title services	10,005	9,217	28,297	26,143
Servicing fees	157	127	497	473
	$ 37,933	$ 43,062	$ 124,484	$ 119,225

Loan closing volume for the three and nine months ended September 30, 2019 increased by approximately $124,700, or 10%, and $273,000 or 8%, respectively, from the same periods in 2018. The increase in loan closing volume during the three and nine months ended September 30, 2019, respectively, was primarily attributable to the 8% increase in the homebuilding segment's number of units settled during both the three and nine months ended September 30, 2019, when compared to the same periods in 2018.

Segment profit for the three months ended September 30, 2019 decreased by approximately $4,300, or 16%, from the same period in 2018. This decrease was primarily attributable to a decrease of approximately $5,100, or 12%, in mortgage banking fees, resulting from the timing of loan sales and a decrease in the fair value measurement adjustment. Segment profit for the nine months ended September 30, 2019 increased by approximately $9,100, or 13%, from the same period in 2018. This increase was primarily attributable to an increase in mortgage banking fees and a decrease in general and administrative expenses.

Mortgage banking fees increased by approximately $5,300, or 4%, during the nine months ended September 30, 2019, resulting from the aforementioned increase in loan closing volume and an increase in secondary marketing gains. General and administrative expenses decreased by approximately $3,100, or 5%, during the nine months ended September 30, 2019, primarily due to a decrease in personnel costs. Mortgage banking income before tax in the first nine months of 2019 was favorably impacted by a reversal of approximately $2,200 of equity-based compensation expense related to options forfeited during the first quarter.

Effective Tax Rate

Our effective tax rate during the three and nine months ended September 30, 2019 was 16.2% and 14.8%, respectively, compared to 21.6% and 17.2% for the three and nine months ended September 30, 2018, respectively. Our effective tax rate was favorably impacted by the recognition of income tax benefits related to excess tax benefits from stock option exercises, which totaled $27,604 and $86,809, for the three and nine months ended September 30, 2019, respectively, and $12,585 and $58,607, for the three and nine months ended September 30, 2018, respectively.

We expect to experience volatility in our effective tax rate in future quarters as the amount of the excess tax benefit from equity-based awards is dependent on our stock price when awards are exercised as well as on the timing of exercises, which historically has varied from quarter to quarter.

Liquidity and Capital Resources

Lines of Credit and Notes Payable

Our homebuilding business segment funds its operations from cash flows provided by operating activities, a short-term unsecured working capital revolving credit facility and capital raised in the public debt and equity markets. Our unsecured Credit Agreement (the "Credit Agreement") provides for aggregate revolving loan commitments of $200,000. Under the Credit Agreement, we may request increases of up to $300,000 to the facility in the form of revolving loan commitments or term loans to the extent that new or existing lenders agree to provide additional revolving loan or term loan commitments. The Credit Agreement provides for a $100,000 sublimit for the issuance of letters of credit of which there was approximately $9,400 outstanding at September 30, 2019, and a $25,000 sublimit for a swing line commitment. The Credit Agreement termination date is July 15, 2021. There was no debt outstanding under the Credit Agreement at September 30, 2019.

Our mortgage banking subsidiary, NVRM, provides for its mortgage origination and other operating activities using cash generated from its operations, borrowings from its parent company, NVR, as well as a $150,000 revolving mortgage repurchase facility (the "Repurchase Agreement"), which is non-recourse to NVR. In July 2019, NVRM entered into the Eleventh Amendment to the Repurchase Agreement, which extended the term of the Repurchase Agreement through July 22, 2020. All other terms and conditions under the amended Repurchase Agreement remained materially consistent. At September 30, 2019, there were no borrowing base limitations reducing the amount available under the Repurchase Agreement. There was no debt outstanding under the Repurchase Agreement at September 30, 2019.

There have been no material changes in our lines of credit and notes payable during the nine months ended September 30, 2019. For additional information regarding lines of credit and notes payable, see Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

Cash Flows

For the nine months ended September 30, 2019, cash, restricted cash, and cash equivalents increased by $383,812. Cash provided by operating activities was $509,436. Cash was provided by earnings for the nine months ended September 30, 2019 and net proceeds of $136,121 from mortgage loan activity. Cash was primarily used to fund the increase in homebuilding inventory of $243,339, due to an increase in the number of units under construction at September 30, 2019 compared to December 31, 2018.

Net cash used in investing activities for the nine months ended September 30, 2019 of $7,321 included cash used for purchases of property, plant and equipment of $16,740, partially offset by the receipt of capital distributions from our unconsolidated JVs totaling $8,237.

Net cash used in financing activities was $118,303 for the nine months ended September 30, 2019. Cash was used to repurchase 129,679 shares of our common stock at an aggregate purchase price of $365,542 under our ongoing common stock repurchase program, discussed below. Cash was provided from stock option exercise proceeds totaling $247,355.

Equity Repurchases

In addition to funding growth in our homebuilding and mortgage banking operations, we historically have used a substantial portion of our excess liquidity to repurchase outstanding shares of our common stock in open market and 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 promulgated under the Exchange Act. In addition, the Board resolutions authorizing us to repurchase shares of our common stock specifically prohibit us from purchasing shares from our officers, directors, Profit Sharing/401(k) Plan Trust or Employee Stock Ownership Plan Trust. The repurchase program assists us in accomplishing our primary objective of creating increases in shareholder value. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, of this Quarterly Report on Form 10-Q for further discussion of repurchase activity during the third quarter of 2019.

Recent Accounting Pronouncements

See Note 15 to the accompanying condensed consolidated financial statements for discussion of recently issued accounting pronouncements applicable to us.

Critical Accounting Policies

There have been no material changes to our critical accounting policies as previously disclosed in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in our market risks during the nine months ended September 30, 2019. For additional information regarding our market risks, see Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

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, as defined in 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 control over financial reporting in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various 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 our financial position, results of operations or cash flows. Legal costs incurred in connection with outstanding litigation are expensed as incurred.

Item 1A. Risk Factors

There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(dollars in thousands, except per share data)

We had two share repurchase authorizations outstanding during the quarter ended September 30, 2019. On December 12, 2018 and May 2, 2019, we publicly announced that our Board of Directors authorized the repurchase of our outstanding common stock in one or more open market and/or privately negotiated transactions, up to an aggregate of $300,000 per authorization. The repurchase authorizations do not have expiration dates. We repurchased the following shares of our common stock during the third quarter of 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - 31, 2019	2,851	$ 3,265.57	2,851	$ 401,769
August 1 - 31, 2019	9,196	$ 3,354.23	9,196	$ 370,924
September 1 - 30, 2019	5,977	$ 3,498.07	5,977	$ 350,016
Total	18,024	$ 3,387.91	18,024	

Item 6. Exhibits

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	File Number	Exhibit Number	Filing Date
31.1	Certification of NVR's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
31.2	Certification of NVR's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
32	Certification of NVR's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

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.

NVR, Inc.

Date: November 1, 2019	By:	/s/ Daniel D. Malzahn
		Daniel D. Malzahn
		Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

SARBANES-OXLEY ACT SECTION 302 CERTIFICATIONS

I, Paul C. Saville, certify that:

1. I have reviewed this report on Form 10-Q of NVR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 1, 2019

By: /s/ Paul C. Saville

Paul C. Saville

President and Chief Executive Officer

Exhibit 31.2

SARBANES-OXLEY ACT SECTION 302 CERTIFICATIONS

I, Daniel D. Malzahn, certify that:

1. I have reviewed this report on Form 10-Q of NVR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2019

By: /s/ Daniel D. Malzahn

Daniel D. Malzahn

Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NVR, Inc. for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of NVR, Inc., hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of NVR, Inc.

Date: November 1, 2019

By: /s/ Paul C. Saville
Paul C. Saville
President and Chief Executive Officer

By: /s/ Daniel D. Malzahn
Daniel D. Malzahn
Senior Vice President, Chief Financial Officer and Treasurer