

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 1-08951

**M.D.C. HOLDINGS, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

84-0622967  
(I.R.S. Employer  
Identification No.)

4350 South Monaco Street, Suite 500  
Denver, Colorado  
(Address of principal executive offices)

80237  
(Zip code)

(303) 773-1100  
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange of which registered</u>
Common Stock, \$.01 par value	552676108	New York Stock Exchange
5.625% Senior Notes due February 2020	552676AP3	New York Stock Exchange
6.000% Senior Notes due January 2043	552676AQ1	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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, a 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 June 30, 2019, the aggregate market value of the Registrants' common stock held by non-affiliates of the Registrants was \$1.6 billion based on the closing sales price of \$32.78 per share as reported on the New York Stock Exchange on June 28, 2019.

As of December 31, 2019, the number of shares outstanding of Registrant's common stock was 62,574,961.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant's 2020 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.



**M.D.C. HOLDINGS, INC.**  
**FORM 10-K**  
**For the Year Ended December 31, 2019**

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**Table of Contents**

	<b><u>Page No.</u></b>
<b><u>PART I</u></b>	
ITEM 1. <a href="#">Business</a>	
(a) <a href="#">General Development of Business</a>	1
(b) <a href="#">Available Information</a>	1
(c) <a href="#">Narrative Description of Business</a>	2
ITEM 1A. <a href="#">Risk Factors</a>	6
ITEM 1B. <a href="#">Unresolved Staff Comments</a>	12
ITEM 2. <a href="#">Properties</a>	12
ITEM 3. <a href="#">Legal Proceedings</a>	12
ITEM 4. <a href="#">Mine Safety Disclosures</a>	12
<b><u>PART II</u></b>	
ITEM 5. <a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	13
ITEM 6. <a href="#">Selected Financial Data</a>	15
ITEM 7. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	16
ITEM 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	36
ITEM 8. <a href="#">Consolidated Financial Statements</a>	F-1
ITEM 9. <a href="#">Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	38
ITEM 9A. <a href="#">Controls and Procedures</a>	38
ITEM 9B. <a href="#">Other Information</a>	40
<b><u>PART III</u></b>	
ITEM 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	40
ITEM 11. <a href="#">Executive Compensation</a>	40
ITEM 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	40
ITEM 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	40
ITEM 14. <a href="#">Principal Accountant Fees and Services</a>	40
<b><u>PART IV</u></b>	
ITEM 15. <a href="#">Exhibits and Financial Statement Schedules</a>	41
ITEM 16. <a href="#">Form 10-K Summary</a>	47
<b><u>SIGNATURES</u></b>	48

**PART I****Forward-Looking Statements**

Certain statements in this Annual Report on Form 10-K, as well as statements made by us in periodic press releases, oral statements made by our officials in the course of presentations about the Company and conference calls in connection with quarterly earnings releases, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operation, cash flows, strategies and prospects. These forward-looking statements may be identified by terminology such as “likely,” “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this Report are reasonable, we cannot guarantee future results. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be considered.

**Item 1. Business.****(a) General Development of Business**

M.D.C. Holdings, Inc. is a Delaware corporation. We refer to M.D.C. Holdings, Inc. as the “Company,” “MDC,” “we” or “our” in this Annual Report on Form 10-K, and these designations include our subsidiaries unless we state otherwise. We have two primary operations, homebuilding and financial services. Our homebuilding operations consist of wholly owned subsidiary companies that generally purchase finished lots or develop lots to the extent necessary for the construction and sale primarily of single-family detached homes to first-time and first-time move-up homebuyers under the name “Richmond American Homes.” Our homebuilding operations are comprised of various homebuilding divisions that we consider to be our operating segments. For financial reporting, we have aggregated our homebuilding operating segments into reportable segments as follows: (1) West (includes operating segments located in Arizona, California, Nevada, Washington and Oregon); (2) Mountain (includes operating segments located in Colorado and Utah); and (3) East (includes operating segments located in the mid-Atlantic, which includes Virginia and Maryland, and Florida).

Our financial services operations consist of (1) HomeAmerican Mortgage Corporation (“HomeAmerican”), which originates mortgage loans primarily for our homebuyers, (2) Allegiant Insurance Company, Inc., A Risk Retention Group (“Allegiant”), which provides insurance coverage primarily to our homebuilding subsidiaries on homes that have been delivered and most of our subcontractors for completed work on those delivered homes, (3) StarAmerican Insurance Ltd., which is a re-insurer of Allegiant claims, (4) American Home Insurance Agency, Inc., which offers third-party insurance products to our homebuyers, and (5) American Home Title and Escrow Company, which provides title agency services to our homebuilding subsidiaries and our customers in certain states. For financial reporting, we have aggregated our financial services operating segments into reportable segments as follows: (1) mortgage operations (represents HomeAmerican only) and (2) other (all remaining operating segments).

**(b) Available Information**

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on our website as soon as reasonably practicable after we file or furnish the materials electronically with the Securities and Exchange Commission (“SEC”). To obtain any of this information, go to our website, [www.mdcholdings.com](http://www.mdcholdings.com), and select “SEC Filings” from the “Financial Reports” menu. Our website includes our: (1) Corporate Governance Guidelines; (2) Corporate Code of Conduct; (3) Rules for Senior Financial Officers; (4) Audit Committee Procedures for Handling Confidential Complaints; and (5) charters for the Audit, Compensation, Legal and Corporate Governance/Nominating Committees. These materials may be obtained, free of charge, at [www.mdcholdings.com](http://www.mdcholdings.com) (select “Governance”).

**Table of Contents****(c) Narrative Description of Business**

Our business consists of two primary operations, homebuilding and financial services. Our homebuilding subsidiaries build and sell primarily single-family detached homes that are designed and built to meet local customer preferences. Each homebuilding subsidiary is the general contractor for its projects and retains subcontractors for land development and home construction. Our homebuilding subsidiaries build a variety of home styles in each of their markets, targeting primarily first-time and first-time move-up homebuyers.

For 2019, the percentage of our home deliveries and home sale revenues by state were as follows:

	Percentage of Deliveries	Percentage of Home Sale Revenues
Arizona	19%	15%
California	15%	20%
Nevada	15%	14%
Oregon	1%	1%
Washington	5%	6%
West	55%	56%
Colorado	26%	30%
Utah	5%	5%
Mountain	31%	35%
Maryland	1%	0%
Virginia	2%	2%
Florida	11%	7%

East	14%	9%
Total	100%	100%

Our financial services operations include subsidiaries that provide mortgage financing, place title insurance and homeowner insurance for our homebuyers, and provide general liability insurance for our subsidiaries and most of our subcontractors.

## Homebuilding Operations

*Operating Divisions.* The primary functions of our homebuilding segments include land acquisition and development, home construction, sales and marketing, and customer service. Operating decisions are made by our local management teams under the oversight of our Chief Operating Decision Maker (“CODM”), or decision-making group, defined as two key executives - our Chief Executive Officer and Chief Operating Officer. Our organizational structure (i.e., the grouping and reporting of divisions) changes based upon the current needs of the Company. We had 15 active homebuilding operating divisions at the end of each year ended December 31, 2019, 2018 and 2017, respectively.

*Corporate Management.* Our homebuilding business is managed primarily through members of senior management in our Corporate segment and our Asset Management Committees (“AMCs”). Each AMC is comprised of the Chief Operating Officer, Chief Financial Officer and one of our other corporate officers. All real estate acquisition transactions are reviewed to confirm that the transaction is projected to achieve the objectives established by our decision-making group and must be approved by one of the AMCs. Generally, the role of our senior management team and/or AMC includes:

- review and approval of division business plans and budgets;
- oversight of land and home inventory levels;
- review of major personnel decisions; and
- review of capital allocation decisions.

## [Table of Contents](#)

Additionally, our corporate executives and corporate departments generally are responsible for establishing and monitoring compliance with our policies and procedures. Among other things, the corporate office has primary responsibility for:

- asset management and capital allocation;
- treasury;
- insurance and risk management;
- merchandising and marketing;
- national purchasing contracts;
- accounting, tax and internal audit functions;
- legal matters;
- human resources and payroll;
- information technology; and
- training and development.

*Housing.* Generally, our homebuilding subsidiaries build single-family detached homes in a number of standardized series, designed to provide variety in the size and style of homes for our potential homebuyers. In certain markets, our homebuilding subsidiaries build and sell attached townhomes. Within each series of our single-family detached homes, our homebuilding subsidiaries build several different floor plans offering standard and optional features (such as upgraded appliances, cabinetry, flooring, etc.). Differences in sales prices of similar models from market-to-market depend primarily upon homebuyer demand, home prices offered by our competitors, market conditions (such as home inventory supply levels), location, cost of land, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, area demographics and, in certain cases, the requirements of major land sellers and local municipalities. In general, our homebuilding subsidiaries focus on selling “to be built homes,” also referred to as “dirt sales,” and limit the number of homes started without a contract, also known as “spec homes.”

*Land Acquisition and Development.* Our homebuilding subsidiaries acquire lots with the intention of constructing and selling homes on the acquired land. Generally, we prefer to purchase finished lots using option contracts, in phases or in bulk for cash. However, because there often is significant competition for finished lots, approximately one-half of the lots we purchase require some level of development. In making land purchases, we consider a number of factors, including projected rates of return, estimated gross margins from home sales, sales prices of the homes to be built, mortgage loan limits within the respective county, population and employment growth patterns, proximity to developed areas, estimated cost and complexity of development including environmental and geological factors, quality of schools, estimated levels of competition and demographic trends.

In their option contracts, our homebuilding subsidiaries generally obtain the right to purchase lots in consideration for an option deposit in the form of cash or letters of credit. In the event they elect not to purchase the lots within a specified period of time, they may be required to forfeit the option deposit. Our option contracts do not contain provisions requiring our specific performance.

Our homebuilding subsidiaries may own or have the right under option contracts to acquire undeveloped parcels of real estate that they intend to develop into finished lots. They generally develop our land in phases in order to limit our risk in a particular subdivision and to efficiently employ available capital resources. Generally, building permits and utilities are available and zoning is suitable for the current intended use of substantially all of our undeveloped land. When developed, these lots generally will be used in our homebuilding activities. See “**Forward-Looking Statements**” above.

*Labor and Raw Materials.* Materials used in our homebuilding operations are mainly standard items carried by major suppliers. We generally contract for our materials and labor at a fixed price for the anticipated construction period of our homes. This allows us to mitigate the risks associated with increases in the cost of building materials and labor between the time construction begins on a home and the time it is closed. Increases in the cost of building materials and subcontracted labor may reduce gross margins from home sales to the extent that market conditions prevent the recovery of increased costs through higher home sales prices. From time to time and to varying degrees, we may experience shortages in the availability of building materials and/or labor in each of our markets. These shortages and delays may result in delays in the delivery of homes under construction, reduced gross margins from home sales, or both. See “**Forward-Looking Statements**” above.

**Warranty.** Our homebuilding subsidiaries sell their homes with limited third-party warranties that generally provide for ten years of structural coverage, two years of coverage for plumbing, electrical, heating, ventilation and air conditioning systems, and one year of coverage for workmanship and materials. Under our agreement with the issuer of the third-party warranties, our homebuilding subsidiaries perform all of the work for the first two years of the warranty coverage and pay for substantially all of the work required to be performed during years three through ten of the warranties.

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## [Table of Contents](#)

**Seasonal Nature of Business.** The homebuilding industry can experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. The seasonal nature of our business is described in more detail in our description of Risk Factors under the heading “*Because of the seasonal nature of our business, our quarterly operating results can fluctuate.*”

**Backlog.** At December 31, 2019 and 2018, homes under contract but not yet delivered (“backlog”) totaled 3,801 and 2,936, respectively, with an estimated sales value of \$1.75 billion and \$1.43 billion, respectively. We anticipate that homes in backlog at December 31, 2019 generally will close during 2020 under their existing home order contracts or through the replacement of an existing contract with a new home order contract. The estimated backlog sales value at December 31, 2019 may be impacted by, among other things, subsequent home order cancellations, incentives provided, and/or options and upgrades selected. See “**Forward-Looking Statements**” above.

**Customer Service and Quality Control.** Our homebuilding divisions are responsible for pre-closing quality control inspections and responding to customers’ post-closing needs. We have a product service and quality control program, focused on improving and/or maintaining the quality of our customers’ complete home buying and homeownership experience.

**Sales and Marketing.** Our sales and marketing programs are designed to attract homebuyers in a cost effective manner. We have a centralized in-house advertising and marketing department, including digital marketing, that oversees our efforts to communicate the inherent value of our homes to our prospective homebuyers and distinguish our Richmond American Homes brand from our competitors or other home buying opportunities. The main objective of this team is to generate homebuyer leads, which are actively pursued by our community sales associates. Our centralized in-house merchandising team furnishes our model homes and sales offices.

Another important part of our marketing presentation takes place in our design centers (also known as Home Galleries). Here, homebuyers are able to personalize their homes with a variety of options and upgrades. These locations also serve as an information center for prospective homebuyers and real estate agents who may opt to receive personalized attention from one of our new home specialists, resulting in a more focused and efficient home search across all of our Richmond American communities in a given market place. We believe that the services provided by our Home Galleries represent a key competitive advantage in attracting and retaining prospective homebuyers.

**Competition.** The homebuilding industry is fragmented and highly competitive. The competitive nature of our business is described in more detail in our description of Risk Factors.

**Regulation.** Our homebuilding operations are subject to compliance with applicable laws and regulations, which are described in more detail in our description of Risk Factors.

## **Financial Services Operations**

### *Mortgage Lending Operations*

**General.** HomeAmerican is a full-service mortgage lender and the principal originator of mortgage loans for our homebuyers. HomeAmerican has a centralized loan processing center where it originates mortgage loans, primarily for our homebuyers.

HomeAmerican is authorized to originate Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) (together “the government-sponsored enterprises”), Federal Housing Administration-insured (“FHA”), and Department of Veterans Affairs-guaranteed (“VA”) mortgages and is an authorized issuer of Government National Mortgage Association (“Ginnie Mae”) mortgage-backed securities. Furthermore, HomeAmerican also is an authorized loan servicer for Fannie Mae, Freddie Mac and Ginnie Mae and, as such, is subject to the rules and regulations of these entities.

HomeAmerican uses a mortgage repurchase facility, internally generated funds, and temporary financing provided by its parent, to finance the origination of mortgage loans until they are sold. HomeAmerican sells originated mortgage loans to third-party purchasers on either a bulk or flow basis. Mortgage loans sold on a bulk basis include the sale of a package of substantially similar originated mortgage loans, while sales of mortgage loans on a flow basis are completed as HomeAmerican originates each loan. Mortgage loans sold to third-party purchasers include HomeAmerican’s representations and warranties with respect to certain borrower payment defaults, credit quality issues and/or misrepresentations made by HomeAmerican or our homebuyers. Substantially all of the mortgage loans originated by HomeAmerican are sold to third-party purchasers, generally between 10 to 35 days of origination.

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## [Table of Contents](#)

**Pipeline.** HomeAmerican’s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed (the “locked pipeline”) at December 31, 2019 and 2018 had an aggregate principal balance of approximately \$104.5 million and \$101.1 million, respectively, and were under interest rate lock commitments at an average interest rate of 3.72% and 4.78% respectively.

**Forward Sales Commitments.** HomeAmerican is exposed to market risks related to fluctuations in interest rates. HomeAmerican creates certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (interest rate lock commitments or locked pipeline). HomeAmerican uses forward sales of mortgage-backed securities and commitments from third-parties to purchase loans to hedge the interest rate risk inherent with the locked pipeline, as well as its loan inventory held for sale. The market related risks in our business are described in more detail in our description of Risk Factors.

**Competition.** HomeAmerican has significant competition with other mortgage bankers to arrange financing for our homebuyers. However, in selling its originated mortgages to third parties, HomeAmerican has benefited from an increased number of smaller non-bank entities entering the third-party purchaser space, resulting in better prices and a potentially wider array of product options. The competitive nature of our mortgage business is described in more detail in our description of Risk Factors.

**Regulation.** Our mortgage lending operations are subject to compliance with applicable laws and regulations, which are described in more detail in our description of Risk Factors.

### *Insurance Operations*

**General.** Allegiant and StarAmerican were formed to provide insurance coverage of homebuilding risks for our homebuilding subsidiaries and most of our homebuilding subcontractors. Allegiant was organized as a risk retention group under the Federal Liability Risk Retention Act of 1981. Allegiant, which began operations in June of 2004, is licensed as a Class 3 Stock Insurance Company by the Division of Insurance of the State of Hawaii and is subject primarily to the regulations of its state of incorporation. StarAmerican is a single parent captive insurance company licensed by the Division of Insurance of the State of Hawaii. Pursuant to agreements executed on an annual basis since June of 2004, StarAmerican has re-insured Allegiant for all claims in excess of \$50,000 per occurrence up to \$3.0 million per occurrence, subject to various aggregate limits.

Allegiant generates premium revenue generally by providing to its customers, comprised of the Company's homebuilding subsidiaries and most subcontractors of the Company's homebuilding subsidiaries, general liability insurance on homes sold by our homebuilding subsidiaries and for work performed in completed subdivisions. Allegiant seeks to provide to its customers coverage and insurance rates that are competitive with other insurers. StarAmerican generates premium revenue by providing re-insurance coverage to Allegiant. Allegiant and StarAmerican incur expenses for actual losses and loss adjustment expenses and for reserves established based on actuarial studies including known facts, such as our experience with similar insurance cases and historical trends involving insurance claim payment patterns, pending levels of unpaid insurance claims, claim severity, claim frequency patterns and interpretations of circumstances including changing regulatory and legal environments.

**Regulation.** Allegiant and StarAmerican are licensed in the State of Hawaii and, therefore, are subject to regulation by the Hawaii Insurance Division. This regulation includes restrictions and oversight regarding: types of insurance provided; investment options; required capital and surplus; financial and information reporting; use of auditors, actuaries and other service providers; periodic examinations; and other operational items. Additionally, as a risk retention group, Allegiant is also registered in other states where certain MDC homebuilding subsidiaries do business.

### *Insurance Agency Operations*

American Home Insurance is an insurance agency that sells primarily homeowners' personal property and casualty insurance products in the same markets where our homebuilding subsidiaries operate and primarily to our homebuyers.

### *Title Operations*

American Home Title provides title agency services to the Company and its homebuyers in Colorado, Florida, Maryland, Nevada and Virginia.

## [Table of Contents](#)

### **Employees.**

The table below summarizes the approximate number of employees for our combined Homebuilding, combined Financial Services and Corporate segments at December 31, 2019 and 2018.

	December 31,	
	2019	2018
Homebuilding	1,264	1,184
Financial Services	155	152
Corporate	237	245
Total	1,656	1,581

### **Item 1A. Risk Factors.**

***Changes in general economic, real estate and other business conditions may have an adverse effect on the homebuilding and mortgage industries, which could have a negative impact on our business.***

The homebuilding industry is cyclical and is significantly affected by changes in industry conditions, the national political environment and general economic conditions such as:

- employment levels;
- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- wage growth;
- household formations;

- levels of new and existing homes for sale;
- cost of land, labor and construction materials;
- demographic trends; and
- housing demand.

These conditions may exist on a national level or may affect some of the regions or markets in which we operate more than others. When adverse conditions affect any of our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies.

Changes to monetary policy or other actions by the Federal Reserve could have an adverse effect on interest rates (including mortgage interest rates), equity markets and consumer confidence. Such effects could cause us to experience declines in the market value of our inventory and the demand for our homes, resulting in a negative impact to our financial position, results of operations and cash flows.

An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes, and rental properties, can also reduce our ability to sell new homes, depress new home prices and reduce our margins on the sale of new homes. High levels of foreclosures and short-sales not only contribute to additional inventory available for sale, but also can reduce appraisal valuations for new homes, potentially resulting in lower sales prices.

Terrorist attacks, acts of war, other acts of violence or threats to national security, and any corresponding response by the United States or others, or related domestic or international instability, may adversely affect general economic conditions or cause a slowdown of the economy.

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## [Table of Contents](#)

As a result of the foregoing matters, potential customers may be less willing or able to buy our homes. In the future, our pricing strategies may continue to be limited by market conditions. We may be unable to change the mix of our home offerings, reduce the costs of the homes we build or offer more affordable homes to maintain our gross margins or satisfactorily address changing market conditions in other ways. In addition, cancellations of home sales contracts in backlog may increase as homebuyers choose to not honor their contracts.

Additionally, the factors discussed above may increase our counterparty risk, which may include, among others, banks under our credit facilities and mortgage purchasers who may not be willing or able to perform on obligations to us. To the extent a third-party is unable or unwilling to meet its obligations, our financial position, results of operations and cash flows could be negatively impacted.

Our mortgage operations are closely related to our homebuilding business, as HomeAmerican originates mortgage loans principally to purchasers of the homes we build. Therefore, a decrease in the demand for our homes because of the preceding matters may also adversely affect the financial results of this segment of our business. Furthermore, any adverse changes in the economic conditions discussed previously could increase the default rate on the mortgages we originate, which may adversely affect our ability to sell the mortgages, the pricing we receive upon the sale of mortgages, or our potential exposure to recourse regarding mortgage loan sales.

These challenging conditions are complex and interrelated. We cannot predict their occurrence or severity, nor can we provide assurance that our responses would be successful.

### ***Increased competition levels in the homebuilding and mortgage lending industries could have a negative impact on our homebuilding and mortgage operations.***

The homebuilding industry is fragmented and highly competitive. Our homebuilding subsidiaries compete with numerous public and private homebuilders, including a number that are substantially larger than us and may have greater financial resources than we do. Our homebuilding subsidiaries also compete with subdivision developers and land development companies, some of which are themselves homebuilders or affiliates of homebuilders. Homebuilders compete for customers, land, building materials, subcontractor labor and desirable financing. Competition for home orders is based primarily on home sales price, location of property, home style, financing available to prospective homebuyers, quality of homes built, customer service and general reputation in the community, and may vary market-by-market and/or submarket-by-submarket. Additionally, competition within the homebuilding industry can be impacted by an excess supply of new and existing homes available for sale resulting from a number of factors, including, among other things, increases in the number of new home communities, increases in speculative homes available for sale and increases in home foreclosures. Increased competition can result in a decrease in our net new home orders, a decrease in our home sales prices and/or an increase in our home sales incentives in an effort to generate new home sales and maintain homes in backlog until they close. These competitive pressures may negatively impact our financial position, results of operations and cash flows.

Our mortgage lending subsidiary, HomeAmerican, experiences competition from numerous banks and other mortgage bankers and brokers, many of which are larger and may have greater financial resources. As a result, these competitors may be able to offer better pricing and/or mortgage loan terms, more relaxed underwriting criteria and a greater range of products, which could negatively impact the financial position, results of operations and cash flows of our mortgage operations.

### ***If land is not available at reasonable prices or terms, we could be required to scale back our operations in a given market and/or we may operate at lower levels of profitability.***

Our operations depend on our homebuilding subsidiaries' ability to obtain land for the development of our residential communities at reasonable prices and with terms that meet our underwriting criteria. Our ability to obtain land for new residential communities may be adversely affected by changes in the general availability of land, the willingness of land sellers to sell land at reasonable prices, competition for available land, availability of financing to acquire land, zoning, regulations that limit housing density, and other market conditions. If the supply of land, and especially finished lots, appropriate for development of residential communities is limited because of these factors, or for any other reason, the number of homes that our homebuilding subsidiaries build and sell may decline. To the extent that we are unable to purchase land timely or enter into new contracts for the purchase of land at reasonable prices,

due to the lag time between the time we acquire land and the time we begin selling homes, we may be required to scale back our operations in a given market and/or we may operate at lower levels of profitability. As a result, our financial position, results of operations and cash flows could be negatively impacted.

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[Table of Contents](#)

***Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.***

The residential construction industry experiences price fluctuations and shortages in labor and materials from time to time. Shortages in labor can be due to: work stoppages, labor disputes, shortages in qualified trades people, lack of availability of adequate utility infrastructure and services, or our need to rely on local subcontractors who may not be adequately capitalized or insured. Labor and material shortages can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Additionally, we could experience labor shortages as a result of subcontractors going out of business or leaving the residential construction market due to low levels of housing production and volumes. Pricing for labor and materials can be affected by the factors discussed above, changes in energy prices, and various other national, regional and local economic factors. Recalls of materials driven by manufacturing defects can drive shortages in materials and delay the delivery of homes. Any of these circumstances could give rise to delays in the start or completion of our residential communities, increase the cost of developing one or more of our residential communities and/or increase the construction cost of our homes.

We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts fix the price of the homes at the time the contracts are signed, which generally is in advance of the construction of the home. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, finished lots, building materials, and other resources, through higher selling prices, our financial position, cash flows and operating results, including our gross margin from home sales, could be negatively impacted.

***If mortgage interest rates rise, if down payment requirements are increased, if loan limits are decreased, or if mortgage financing otherwise becomes less available, it could adversely affect our business.***

Mortgage liquidity influenced by governmental entities like the FHA, VA, USDA and Ginnie Mae or government-sponsored enterprises (“GSEs”) like Fannie Mae and Freddie Mac continue to be an important factor in marketing our homes. Financial losses or other factors may limit, restrict or otherwise curtail their ability or willingness to insure mortgage loans, offer insurance at rates and on terms that are not prohibitive, or purchase mortgage loans. Should this occur, it may negatively impact the availability of mortgage financing and our sales of new homes.

We believe that the liquidity provided by Fannie Mae, Freddie Mac and Ginnie Mae to the mortgage industry has been very important to the housing market. The future of Fannie Mae and Freddie Mac are in question and any reduction in the availability of the liquidity provided by these institutions could adversely affect interest rates, mortgage availability and our sales of new homes and mortgage loans.

Loans sold to or insured by the GSEs are subject to various loan limits. Decreases in these loan limits may require homebuyers to make larger down payments or obtain more restrictive non-conforming or “jumbo” mortgages, which could adversely impact on our financial position, results of operations and cash flows.

Even if potential customers do not need financing, changes in the availability of mortgage products may make it harder for them to sell their current homes to potential buyers who need financing.

If interest rates increase, the costs of owning a home may be affected and could result in further reductions in the demand for our homes.

***Changes to tax laws, incentives or credits currently available to our customers may negatively impact our business.***

Many homeowners receive substantial tax benefits in the form of tax deductions against their personal taxable income for mortgage interest and property tax payments and the loss or reduction of these deductions could affect homeowners’ net cost of owning a home. Significant changes to existing tax laws, such as the ability to deduct mortgage interest and real property taxes, may result in an increase in the total cost of home ownership and may make the purchase of a home less attractive to buyers. This could adversely impact demand for and/or sales prices of new homes, which would have a negative impact on our business.

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[Table of Contents](#)

***A decline in the market value of our homes or carrying value of our land would have a negative impact on our business.***

Our homebuilding subsidiaries acquire land for the replacement of land inventory and/or expansion within our current markets and may, from time to time, purchase land for expansion into new markets. The fair value of our land and land under development inventory and housing completed or under construction inventory depends on market conditions. Factors that can impact our determination of the fair value of our inventory primarily include home sale prices, levels of home sale incentives and home construction and land costs. Our home sale prices and/or levels of home sale incentives can be impacted by, among other things, uncertainty in the homebuilding and mortgage industries or the United States/global economy overall, decreased demand for new homes, decreased home prices offered by our competitors, home foreclosure and short-sale levels, decreased ability of our homebuyers to obtain suitable mortgage loan financing and high levels of home order cancellations. Under such circumstances, we may be required to record impairments of our inventory. Any such inventory impairments would have a negative impact on our financial position and results of operations.

***Natural disasters could cause an increase in home construction costs, as well as delays, and could negatively impact our business.***

The climates and geology of many of the markets in which we operate present increased risks of natural disasters. To the extent that hurricanes, severe storms, earthquakes, droughts, floods, heavy or prolonged precipitation, wildfires or other natural disasters or similar events occur, the financial position, results of operations and cash flows of our business may be negatively impacted.

***Changes in energy prices or regulations may have an adverse effect on our cost of building homes.***

Some of the markets in which we operate are impacted by regulations related to energy, such as setbacks required from oil / gas drilling operations or restrictions on the use of land. To the extent that these regulations are modified, the value of land we already own or the availability of land we are looking to purchase may decline, which may adversely impact the financial position, results of operations and cash flows of our business. Furthermore, pricing offered by our suppliers and subcontractors can be adversely affected by increases in various energy costs resulting in a negative impact to our financial position, results of operations and cash flows of our business.

***We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and disruptions in these markets could have an adverse impact on the results of our business.***

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets. Our requirements for additional capital, whether to finance operations or to service or refinance our existing indebtedness, fluctuate as market conditions and our financial performance and operations change. We cannot provide assurance that we will maintain cash reserves and generate sufficient cash flow from operations in an amount to enable us to service our debt or to fund other liquidity needs.

The availability of additional capital, whether from private capital sources or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. Additionally, any reduction in our credit rankings and/or a weakening of our financial condition, could adversely affect our ability to obtain necessary funds. Even if financing is available, it could be costly or have other adverse consequences.

In addition, the sources and terms and conditions of our mortgage repurchase facility are subject to change. These changes may impact, among other things, availability of capital, cost of borrowings, collateral requirements and collateral advance rates.

***Our business is subject to numerous federal, state and local laws and regulations concerning land development, construction of homes, sales, mortgage lending, environmental and other aspects of our business. These laws and regulations could give rise to additional liabilities or expenditures, or restrictions on our business.***

Our operations are subject to continuing compliance requirements mandated by applicable federal, state and local statutes, ordinances, rules and regulations, including zoning and land use ordinances, building, plumbing and electrical codes, contractors' licensing laws, state insurance laws, federal and state human resources laws and regulations, and health and safety laws and regulations. Various localities in which we operate have imposed (or may impose in the future) fees on developers to fund schools, road improvements and low and moderate-income housing.

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## [Table of Contents](#)

Availability of and costs related to permit, water/sewer tap, and impact fees can impact our homebuilding operations. From time to time, various municipalities in which our homebuilding subsidiaries operate restrict or place moratoria on the availability of utilities, including water and sewer taps. Additionally, certain jurisdictions in which our homebuilding subsidiaries operate have proposed or enacted "slow growth" or "no growth" initiatives and other measures that may restrict the number of building permits available in any given year. These initiatives or other similar measures could reduce our ability to open new subdivisions and build and sell homes in the affected markets. The availability issues previously discussed and any increases in costs of these fees may negatively impact our financial position, results of operations and cash flows.

Our homebuilding operations also are affected by environmental laws and regulations pertaining to availability of water, municipal sewage treatment capacity, stormwater discharges, land use, hazardous waste disposal, dust controls, oil and gas operations, building materials, population density and preservation of endangered species, natural terrain and vegetation.

The particular environmental laws and regulations that apply to any given homebuilding project vary greatly according to a particular site's location, the site's environmental conditions and the present and former uses. These environmental laws may result in project delays, cause us to incur substantial compliance and other costs and/or prohibit or severely restrict homebuilding activity in certain environmentally sensitive locations. Environmental laws and regulations may also have a negative impact on the availability and price of certain raw materials, such as lumber.

We also are subject to rules and regulations with respect to originating, processing, selling and servicing mortgage loans, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities.

The regulatory environment for mortgage lending is complex and ever changing and has led to an increase in the number of audits and examinations in the industry. These examinations can include consumer lending practices, sales of mortgages to financial institutions and other investors and the practices in the financial services segments of homebuilding companies. New rules and regulations or revised interpretations of existing rules and regulations applicable to our mortgage lending operations could result in more stringent compliance standards, which may substantially increase costs of compliance.

***In the ordinary course of business, we are required to obtain surety bonds, the unavailability of which could adversely affect our business.***

As is customary in the homebuilding industry, we often are required to provide surety bonds to secure our performance under construction contracts, development agreements and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue surety bonds. If we are unable to obtain surety bonds when required, our financial position, results of operations and cash flows could be adversely impacted.

***Decreases in the market value of our investments in marketable securities could have an adverse impact on our business.***

Due to the nature of our insurance operations, we have a significant amount of investments in marketable securities, the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our financial position, results of operations and cash flows.

***Product liability litigation and warranty claims that arise in the ordinary course of business may be costly.***

As a homebuilder, we are subject to construction defect and home warranty claims, as well as claims associated with the sale and financing of our homes arising in the ordinary course of business. These types of claims can be costly. The costs of insuring against or directly paying for construction defect and product liability claims can be high and the amount of coverage offered by insurance companies may be limited. If we are not able to obtain adequate insurance against these claims, we may incur additional expenses that would have a negative impact on our results of operations in future reporting periods. Additionally, changes in the facts and circumstances of our pending litigation matters could have a material impact on our financial position, results of operations and cash flows.

10

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[Table of Contents](#)

***Repurchase requirements associated with HomeAmerican's sale of mortgage loans, could negatively impact our business.***

We are subject to risks associated with mortgage loans, including conventional mortgage loans, FHA and VA mortgage loans, second mortgage loans, high loan-to-value mortgage loans and jumbo mortgage loans (mortgage loans with principal balances that exceed various thresholds in our markets). These risks may include, among other things, compliance with mortgage loan underwriting criteria and the associated homebuyers' performance, which could require HomeAmerican to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and/or the settlement of claims associated with such loans could have a negative impact on HomeAmerican's financial position, results of operations and cash flows.

***Because of the seasonal nature of our business, our quarterly operating results can fluctuate.***

We may experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes delivered and the associated home sale revenues increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring and summer with deliveries scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets.

***We are dependent on the services of key employees, and the loss of their services could hurt our business.***

Although we believe that we have made provision for adequately staffing current operations, because of competition for experienced homebuilding industry personnel, retaining our skilled people is an important area of focus. Our future success depends, in part, on our ability to attract, train and retain skilled personnel. If we are unable to retain our key employees or attract, train and retain other skilled personnel in the future, it could have an adverse impact on our financial position, results of operations and cash flows.

***The interests of certain controlling shareholders may be adverse to other investors***

Larry A. Mizel and David D. Mandarich beneficially own, directly or indirectly through their affiliates, in the aggregate, approximately 25% of our common stock. To the extent they and their affiliates vote their shares in the same manner, their combined stock ownership may effectively give them the power to influence the election of members of our board of directors and other matters reserved for our shareholders.

***Information technology failures and data security breaches could harm our business.***

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. These information technology systems are dependent upon electronic systems and other aspects of the internet infrastructure. A material breach in the security of our information technology systems or other data security controls could result in third parties obtaining or corrupting customer, employee or company data. Such occurrences could have a material and adverse effect on our financial position, results of operations and cash flows.

11

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[Table of Contents](#)

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our corporate office is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease all 144,000 square feet of office space in the building. In many of our markets, our homebuilding divisions and other MDC subsidiaries lease additional office space. While we are currently satisfied with the suitability and capacity of our office locations to meet our current business needs, we continue to evaluate them in view of market conditions and the size of our operations.

**Item 3. Legal Proceedings.**

Because of the nature of the homebuilding business, we and certain of our subsidiaries and affiliates have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business, including product liability claims and claims associated with the sale and financing of our homes. In the opinion of management, the outcome of these ordinary course matters will not have a material adverse effect upon our financial condition, results of operations or cash flows.

**Item 4. Mine Safety Disclosures.**

Not applicable.

12

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

At December 31, 2019, we had 561 shareholders of record. The shares of our common stock are traded on the New York Stock Exchange under the trading symbol MDC. On January 28, 2019, the Company announced an 8% stock dividend that was distributed on February 28, 2019 to shareholders of record on February 14, 2019. On November 21, 2017, the Company announced an 8% stock dividend that was distributed on December 19, 2017 to shareholders of record on December 5, 2017. In accordance with Accounting Standards Codification Topic 260, "Earnings per Share", basic and diluted earnings per share amounts, weighted-average shares outstanding, and dividends declared per share have been restated for all periods presented to reflect the effect of these stock dividends.

The table below sets forth the cash dividends declared and paid in 2019, 2018 and 2017.

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
	(In thousands)			
<b>2019</b>				
First Quarter	01/28/19	02/27/19	\$ 0.28	\$ 17,019
Second Quarter	04/29/19	05/29/19	0.30	18,521
Third Quarter	07/22/19	08/21/19	0.30	18,700
Fourth Quarter	10/28/19	11/27/19	0.30	18,780
			<u>\$ 1.18</u>	<u>\$ 73,020</u>
<b>2018</b>				
First Quarter	01/22/18	02/21/18	\$ 0.28	\$ 16,865
Second Quarter	04/30/18	05/23/18	0.28	16,928
Third Quarter	07/23/18	08/22/18	0.28	16,940
Fourth Quarter	10/22/18	11/21/18	0.28	16,984
			<u>\$ 1.11</u>	<u>\$ 67,717</u>
<b>2017</b>				
First Quarter	01/23/17	02/22/17	\$ 0.21	\$ 12,897
Second Quarter	04/24/17	05/24/17	0.21	12,912
Third Quarter	07/24/17	08/23/17	0.21	12,984
Fourth Quarter	10/23/17	11/22/17	0.21	12,986
			<u>\$ 0.85</u>	<u>\$ 51,779</u>

On January 27, 2020, the Company declared a cash dividend of \$0.33 per share payable February 26, 2020 to shareholders of record on February 12, 2020.

The following table provides information about our repurchases of common stock during the three months ended December 31, 2019:

Period:	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program <sup>(2)</sup>	Maximum Number of Shares that may yet be Purchased under the Plan or Program <sup>(2)</sup>
October 1 to October 31, 2019	-	N/A	-	4,000,000
November 1 to November 30, 2019	-	N/A	-	4,000,000
December 1 to December 31, 2019	28,334	\$ 38.16	-	4,000,000

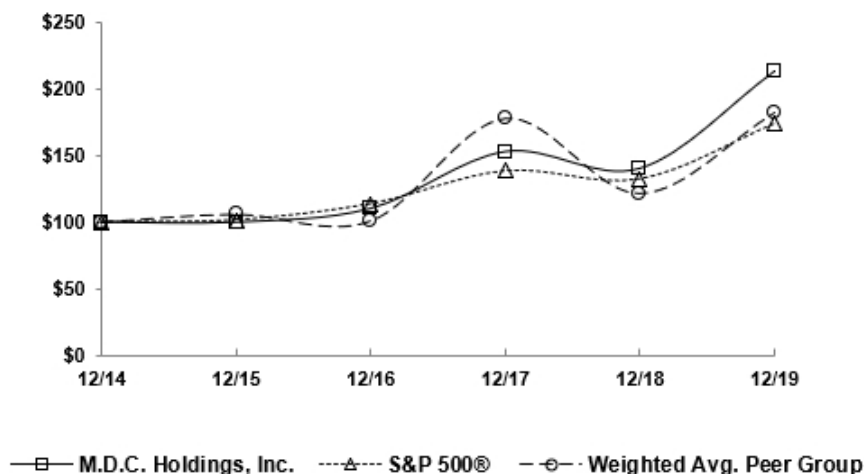
- (1) Represents shares of common stock withheld by us to cover withholding taxes due, at the election of certain holders of nonvested shares, with market value approximating the amount of withholding taxes due.
- (2) We are authorized to repurchase up to 4,000,000 shares of our common stock. There were no shares of MDC common stock repurchased under this repurchase program during the years ended December 31, 2019, 2018 or 2017. This repurchase authorization has no expiration.

### Performance Graph

Set forth below is a graph comparing the yearly change in the cumulative total return of MDC's common stock with the cumulative total return of the S&P 500® Stock Index and with that of a peer group of other homebuilders over the five-year period ended December 31, 2019, weighted as of the beginning of that period.

It is assumed in the graph that \$100 was invested (1) in our common stock; (2) in the stocks of the companies in the S&P 500® Stock Index; and (3) in the stocks of the peer group companies, just prior to the commencement of the period and that all dividends received within a quarter were reinvested in that quarter. The peer group index is composed of the following companies: Beazer Homes USA, Inc., D.R. Horton, Inc., Hovnanian Enterprises, Inc., KB Home, Lennar Corporation, M/I Homes, Inc., Meritage Homes Corporation, NVR, Inc., PulteGroup, Inc. and Toll Brothers, Inc.

The stock price performance shown on the following graph is not indicative of future price performance.



## [Table of Contents](#)

### **Item 6. Selected Financial Data.**

The data in these tables and related footnotes should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements.

(1)

	Year Ended December 31,				
	2019	2018	2017	2016	2015
(Dollars in thousands, except per share amounts)					
<b>Income Statement Data</b>					
Homebuilding revenues	\$ 3,205,248	\$ 2,981,811	\$ 2,503,242	\$ 2,262,853	\$ 1,860,226
Financial services revenues	88,005	83,405	74,372	63,991	48,810
Total revenues	<u>\$ 3,293,253</u>	<u>\$ 3,065,216</u>	<u>\$ 2,577,614</u>	<u>\$ 2,326,844</u>	<u>\$ 1,909,036</u>
Homebuilding pretax income <sup>(1)</sup>	\$ 244,762	\$ 217,494	\$ 185,939	\$ 115,378	\$ 70,441
Financial services pretax income	60,227	46,360	43,793	36,403	30,983
Total income before income taxes	<u>\$ 304,989</u>	<u>\$ 263,854</u>	<u>\$ 229,732</u>	<u>\$ 151,781</u>	<u>\$ 101,424</u>
Net income <sup>(1)</sup>	\$ 238,312	\$ 210,780	\$ 141,835	\$ 103,211	\$ 65,791
Basic earnings per share <sup>(3)</sup>	\$ 3.84	\$ 3.46	\$ 2.35	\$ 1.72	\$ 1.10
Diluted earnings per share <sup>(3)</sup>	\$ 3.72	\$ 3.39	\$ 2.30	\$ 1.71	\$ 1.09
Weighted Average Common Shares Outstanding:					
Basic <sup>(3)</sup>	61,616,988	60,571,123	60,117,021	59,821,090	59,722,731
Diluted <sup>(3)</sup>	63,702,666	61,830,761	61,453,578	60,007,954	59,971,132
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 459,933	\$ 463,776	\$ 505,428	\$ 282,909	\$ 180,988
Marketable securities	\$ 56,747	\$ 40,879	\$ 91,638	\$ 96,206	\$ 103,694
Total inventories	\$ 2,366,575	\$ 2,132,994	\$ 1,829,736	\$ 1,758,814	\$ 1,763,962
Total assets	<u>\$ 3,338,356</u>	<u>\$ 3,001,077</u>	<u>\$ 2,780,292</u>	<u>\$ 2,528,589</u>	<u>\$ 2,415,899</u>
Senior notes, net <sup>(2)</sup>	\$ 989,422	\$ 987,967	\$ 986,597	\$ 841,646	\$ 840,524
Mortgage repurchase facility	\$ 149,616	\$ 116,815	\$ 112,340	\$ 114,485	\$ 88,611
Stockholders' equity	\$ 1,782,485	\$ 1,576,000	\$ 1,407,287	\$ 1,320,070	\$ 1,256,292
Stockholders' equity per common share <sup>(3)</sup>	\$ 28.49	\$ 25.78	\$ 23.22	\$ 21.98	\$ 20.98
Cash dividends declared per share <sup>(3)</sup>	\$ 1.18	\$ 1.11	\$ 0.85	\$ 0.81	\$ 0.81
<b>Operational Data</b>					
Homes delivered (units)	6,974	6,197	5,541	5,054	4,390
Average selling price	\$ 460	\$ 481	\$ 451	\$ 447	\$ 421
Net new orders (units)	7,839	5,974	5,816	5,606	5,203
Homes in backlog at period end (units)	3,801	2,936	3,159	2,884	2,332
Estimated backlog sales value at period end	\$ 1,745,000	\$ 1,426,000	\$ 1,602,000	\$ 1,382,000	\$ 1,054,000
Estimated average selling price of homes in backlog	\$ 459	\$ 486	\$ 507	\$ 479	\$ 452
Active subdivisions at period-end	185	166	151	164	167

(2) During 2017, we realized a pretax gain of \$53.6 million on investment sales.

(3) During 2017, we issued an additional \$150.0 million of our 6.000% senior notes due January 2043 for net proceeds of \$146.5 million.

[Table of Contents](#)**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Item 1A, Risk Factors Relating to our Business." This section of this Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

	2019	2018	2017
	(Dollars in thousands, except per share amounts)		
<b>Homebuilding:</b>			
Home sale revenues	\$ 3,205,248	\$ 2,981,811	\$ 2,498,695
Land sale revenues	-	-	4,547
Total homebuilding revenues	3,205,248	2,981,811	2,503,242
Home cost of sales	(2,600,196)	(2,415,139)	(2,073,833)
Land cost of sales	-	-	(4,440)
Inventory impairments	(935)	(21,850)	(10,010)
Total cost of sales	(2,601,131)	(2,436,989)	(2,088,283)
Gross profit	604,117	544,822	414,959
Gross margin %	18.8%	18.3%	16.6%
Selling, general and administrative expenses	(362,790)	(329,801)	(287,488)
Interest and other income	9,070	7,718	61,336
Other expense	(5,635)	(5,245)	(2,868)
Homebuilding pretax income	244,762	217,494	185,939
<b>Financial Services:</b>			
Revenues	88,005	83,405	74,372
Expenses	(45,001)	(38,200)	(34,534)
Other income (expense), net	17,223	1,155	3,955
Financial services pretax income	60,227	46,360	43,793
Income before income taxes	304,989	263,854	229,732
Provision for income taxes	(66,677)	(53,074)	(87,897)
Net income	\$ 238,312	\$ 210,780	\$ 141,835
Earnings per share:			
Basic	\$ 3.84	\$ 3.46	\$ 2.35
Diluted	\$ 3.72	\$ 3.39	\$ 2.30
Weighted average common shares outstanding:			
Basic	61,616,988	60,571,123	60,117,021
Diluted	63,702,666	61,830,761	61,453,578
Cash dividends declared per share	\$ 1.18	\$ 1.11	\$ 0.85
Cash provided by (used in):			
Operating Activities	\$ 57,833	\$ (7,906)	\$ 70,506
Investing Activities	\$ (28,785)	\$ 20,214	\$ 57,790
Financing Activities	\$ (24,975)	\$ (56,409)	\$ 99,257

[Table of Contents](#)**EXECUTIVE SUMMARY****Overview***Results for the Twelve Months Ended December 31, 2019*

For the year ended December 31, 2019, we reported net income of \$238.3 million, or \$3.72 per diluted share, a 13% increase compared to net income of \$210.8 million, or \$3.39 per diluted share, for the prior year period. The increase was partly the result of a \$27.3 million increase in pretax income from homebuilding operations due to a 7% increase in home sale revenues and a 50 basis point improvement in gross margin from home sales. Additionally, net income benefited from investments in equity securities held by our insurance entities that resulted in an \$11.8 million net gain on equity securities in the current year as compared to a \$3.7 million net loss in the prior year. These increases were slightly offset by a higher effective tax rate in 2019 as our 2018 effective tax rate included a larger benefit from energy tax credits than 2019.

Home sale revenues increased from \$2.98 billion in 2018 to \$3.21 billion in 2019. The \$223.4 million increase was the result of a 13% increase in the number of homes delivered, which was slightly offset by a 4% decrease in the average selling price of those homes.

The dollar value of our net new home orders increased 26% from the prior year period, driven by a 31% increase in the number of net new orders. The increase in net new orders was the result of a 17% increase in the number of average active communities and a 13% increase in our monthly sales absorption pace. The increase in our monthly absorption rate was in part due to our more affordable product offerings, which accounted for 60% of our net new orders during 2019 compared to 49% a year ago.

#### Industry Conditions and Outlook for MDC\*

The homebuilding industry remained strong in 2019 as it benefited from solid economic fundamentals including low interest rates, strong consumer confidence and a low unemployment rate. The industry continued to see a shift in focus to more affordable homes following several years of above average home price appreciation and declining home inventories, which created home affordability concerns in many markets. We believe that the increased availability of more affordable home offerings will help drive growth for our industry as these homes meet the needs of the large and underserved populations of first-time and move-down homebuyers.

Strong order activity during the second half of 2019 resulted in a 22% year-over-year increase in the dollar value of our backlog to \$1.75 billion at the end of 2019. Additionally, the strong order activity allowed us to increase pricing in the majority of our communities, resulting in a year-over-year increase in the estimated average gross margin of our homes in backlog at December 31, 2019. The improvement to our backlog provides us with the opportunity for significant year-over-year increases in home sale revenues and pretax income in coming quarters.

We continue to invest in our more affordable product offerings as approximately 75% of the over 12,000 lots we approved during the year are planned for our more affordable offerings. We approved more than 4,700 lots in the fourth quarter alone, up over 200% from the same quarter in the prior year. As a result of this robust lot approval activity, our year-end supply of lots controlled exceeded 27,000, which was our highest level in more than a decade.

At the end of 2019, our financial position remained strong, as evidenced by total liquidity of \$1.51 billion and a year-over-year decrease in our debt-to-capital ratio. Already in 2020, we have focused on further improvement to our balance sheet through the issuance of \$300 million of 10-year senior notes at a rate of 3.850%, which is the lowest rate for any senior note issuance in our Company's history. With strong capital resources available, we remain focused on taking steps to drive the continued growth of our business, with a goal of driving our active community count higher for a third consecutive year in 2020.

\* See "Forward-Looking Statements" above.

## Table of Contents

### Homebuilding

#### Pretax Income (Loss)

	Year Ended December 31,						
	Change			Change			
	2019	Amount	%	2018	Amount	%	2017
	(Dollars in thousands)						
West	\$ 163,069	\$ 34,240	27%	\$ 128,829	\$ 49,110	62%	\$ 79,719
Mountain	136,313	1,603	1%	134,710	48,282	56%	86,428
East	9,857	(2,754)	(22)%	12,611	(1,807)	(13)%	14,418
Corporate	(64,477)	(5,821)	(10)%	(58,656)	(64,030)	N/M	5,374
Total homebuilding pretax income	\$ 244,762	\$ 27,268	13%	\$ 217,494	\$ 31,555	17%	\$ 185,939

N/M – Not meaningful

Homebuilding pretax income for 2019 was \$244.8 million, an increase of \$27.3 million from \$217.5 million for the year ended December 31, 2018. The increase was primarily attributable to a 7% increase in home sale revenues as well as a 50 basis point improvement in gross margin from home sales.

Our West Segment experienced a \$34.2 million year-over-year improvement in pretax income, primarily due to a 13% increase in home sale revenues and an improved gross margin. Our Mountain segment experienced a \$1.6 million increase in pretax income from the prior year, primarily due to a 5% increase in home sale revenues, which was partially offset by increased marketing expenses driven by a higher average active community count. Our East segment experienced a \$2.8 million decrease in pretax income from the prior year, mainly due to a 9% decrease in home sale revenues. Our Corporate segment experienced a \$5.8 million increase in pretax loss, due mostly to a year-over-year increase in stock-based compensation expense associated with performance-based equity awards that were granted in 2017 and 2018.

#### Assets

	December 31,		Change	
	2019	2018	Amount	%
	(Dollars in thousands)			
West	\$ 1,461,645	\$ 1,301,374	\$ 160,271	12%
Mountain	869,665	793,150	76,515	10%
East	194,592	169,485	25,107	15%
Corporate	505,507	484,193	21,314	4%
Total homebuilding assets	\$ 3,031,409	\$ 2,748,202	\$ 283,207	10%

Total homebuilding assets increased 10% from December 31, 2018 to December 31, 2019. Increases in each of our homebuilding segments were the result of increases in our inventory balances. These increases were driven by a greater number of lots acquired during 2019 than those delivered to homebuyers during the year as well as an increase in homes completed or under construction as of year-end. The increase in our Corporate segment was the

result of the adoption of Accounting Standards Update (“ASU”) 2016-02, *Leases* on January 1, 2019, which requires a lessee to recognize a right-of-use asset and a corresponding lease liability, primarily related to our corporate office.

## [Table of Contents](#)

### *New Home Deliveries & Home Sale Revenues:*

Changes in home sale revenues are impacted by changes in the number of new homes delivered and the average selling price of those delivered homes. Commentary for each of our segments on significant changes in these two metrics is provided below.

Year Ended December 31,									
2019				2018			% Change		
Homes	Dollar Value	Average Price		Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
(Dollars in thousands)									
West	3,763	\$ 1,771,061	\$ 470.7	3,244	\$ 1,567,141	\$ 483.1	16%	13%	(3)%
Mountain	2,242	1,131,568	504.7	2,118	1,080,475	510.1	6%	5%	(1)%
East	969	302,619	312.3	835	334,195	400.2	16%	(9)%	(22)%
Total	6,974	\$ 3,205,248	\$ 459.6	6,197	\$ 2,981,811	\$ 481.2	13%	7%	(4)%
Year Ended December 31,									
2018				2017			% Change		
Homes	Dollar Value	Average Price		Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
(Dollars in thousands)									
West	3,244	\$ 1,567,141	\$ 483.1	2,990	\$ 1,316,069	\$ 440.2	8%	19%	10%
Mountain	2,118	1,080,475	510.1	1,691	801,644	474.1	25%	35%	8%
East	835	334,195	400.2	860	380,982	443.0	(3)%	(12)%	(10)%
Total	6,197	\$ 2,981,811	\$ 481.2	5,541	\$ 2,498,695	\$ 450.9	12%	19%	7%

#### West Segment Commentary

For the year ended December 31, 2019, the increase in new home deliveries was the result of a 5% increase in the number of homes in backlog to begin the year along with a year-over-year increase in net new orders in all of our Western markets resulting in increased deliveries in the second half of 2019. The average selling price of homes delivered decreased as a result of a decline in the percentage of deliveries coming from our higher priced communities in Southern California. In addition, a greater percentage of closings within all of our Western markets during the current year were from our more affordable product offerings.

#### Mountain Segment Commentary

For the year ended December 31, 2019, new home deliveries increased 6% driven by improved backlog conversion rates in our Colorado markets and an increase in net new orders in each of our Mountain markets resulting in increased deliveries in the second half of 2019. Backlog conversion rates in Colorado benefited from cycle time improvements as a result of (1) an increase in the percentage of Seasons<sup>TM</sup> deliveries, which have some of the shortest cycle times of all of our product offerings and (2) improved cycle times across all of our product offerings in these markets. These improvements in net new orders and backlog conversion were partially offset by a 17% decrease in homes in backlog to begin the year.

#### East Segment Commentary

For the year ended December 31, 2019, the decrease in the average selling price of homes delivered in our East segment was due to a change in mix resulting from (1) a higher percentage of our deliveries coming from our Florida markets, which have a lower average selling price than our mid-Atlantic market and (2) a higher percentage of deliveries in this segment coming from communities that offer more affordable home plans. The increase in new home deliveries was driven by a year-over-year increase in net new orders in all of our East markets resulting in increased deliveries in the second half of 2019 as well as shorter cycle times as a higher percentage of our deliveries were from our more affordable product offerings. These improvements in backlog conversion and net new orders were partially offset by a 19% decrease in homes in backlog to begin the year.

## [Table of Contents](#)

### *Gross Margin*

Our gross margin from home sales for the year ended December 31, 2019 increased 50 basis points year-over-year from 18.3% to 18.8%. During the years ended December 31, 2019 and 2018, we recorded inventory impairments of \$0.9 million and \$21.9 million, respectively. The impairments recorded in 2018 negatively impacted gross margin by 70 basis points, while the impairments recorded in 2019 did not have a significant impact on gross margin. See below for further discussion of the inventory impairments.

### *Inventory Impairments*

During the year ended December 31, 2019, we recorded \$0.9 million of inventory impairments, of which \$0.4 million related to two projects in our East segment, \$0.4 million related to one project in our Mountain segment, and \$0.1 million related to one project in our West segment.

During the year ended December 31, 2018, we recorded \$21.9 million of inventory impairments, of which \$19.1 million related to seven projects in our West segment, \$1.4 million related to five projects in our East segment and \$1.4 million related to three projects in our Mountain segment.

The majority of the impairment for 2018 related to two communities. During the third quarter of 2018, a single community in one of our California markets accounted for \$10.8 million of the total impairment charge recorded during the period. This was a unique subdivision with homes at an above average price point as compared to the local market. During the fourth quarter of 2018, a single community in our Oregon market accounted for \$7.3 million

of the total impairment charge recorded during the period. This was our first community acquired and opened in our Oregon market, and it was negatively impacted by slower than expected sales at a higher than average price point as compared to the local market. Additionally, the subdivision incurred unexpected costs as we had not previously built homes in the Oregon market.

## [Table of Contents](#)

Inventory impairments recognized by segment for the years ended December 31, 2019, 2018 and 2017 are shown in the table below.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
<b>Housing Completed or Under Construction:</b>			
West	\$ 100	\$ 2,860	\$ 4,733
Mountain	-	417	390
East	435	1,227	2,720
Subtotal	535	4,504	7,843
<b>Land and Land Under Development:</b>			
West	-	16,198	1,252
Mountain	400	958	380
East	-	190	535
Subtotal	400	17,346	2,167
<b>Total Inventory Impairments</b>	<b>\$ 935</b>	<b>\$ 21,850</b>	<b>\$ 10,010</b>

The table below provides quantitative data, for the periods presented, used in determining the fair value of the impaired inventory.

Three Months Ended	Total Subdivisions Tested	Impairment Data			Quantitative Data	
		Inventory Impairments	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired	Discount Rate	
		(Dollars in thousands)				
March 31, 2019	16	\$ 610	\$ 10,476	2	N/A	
June 30, 2019	12	\$ -	-	0	N/A	
September 30, 2019	16	\$ -	-	0	N/A	
December 31, 2019	14	\$ 325	3,948	2	N/A	
Total		\$ 935				
March 31, 2018	24	\$ 550	\$ 5,223	2	12%	
June 30, 2018	17	\$ 200	\$ 767	1	12%	
September 30, 2018	17	\$ 11,098	\$ 29,874	2	12% - 18%	
December 31, 2018	20	\$ 10,002	\$ 32,248	10	12% - 18%	
Total		\$ 21,850				
March 31, 2017	33	\$ 4,850	\$ 19,952	2	12% - 18%	
June 30, 2017	35	\$ -	-	0	N/A	
September 30, 2017	33	\$ 4,540	\$ 52,190	9	10% - 15%	
December 31, 2017	23	\$ 620	\$ 14,245	2	10% - 12%	
Total		\$ 10,010				

## [Table of Contents](#)

### *Selling, General and Administrative Expenses*

	Year Ended December 31,				
	2019	Change	2018	Change	2017
	(Dollars in thousands)				
General and administrative expenses	\$ 175,027	\$ 13,348	\$ 161,679	\$ 24,005	\$ 137,674
General and administrative expenses as a percentage of home sale revenues	5.5%	10 bps	5.4%	(10) bps	5.5%
Marketing expenses	\$ 81,615	\$ 11,493	\$ 70,122	\$ 3,734	\$ 66,388
Marketing expenses as a percentage of home sale revenues	2.5%	10 bps	2.4%	(30) bps	2.7%
Commissions expenses	\$ 106,148	\$ 8,148	\$ 98,000	\$ 14,574	\$ 83,426
Commissions expenses as a percentage of home sale revenues	3.3%	0 bps	3.3%	0 bps	3.3%
Total selling, general and administrative expenses	\$ 362,790	\$ 32,989	\$ 329,801	\$ 42,313	\$ 287,488
Total selling, general and administrative expenses as a percentage of home sale revenues (SG&A Rate)	11.3%	20 bps	11.1%	(40) bps	11.5%

For the year ended December 31, 2019, the increase in our general and administrative expenses was due to increased compensation-related expenses driven by a \$12.0 million year-over-year increase in stock-based compensation expense, mainly due to performance-based equity awards that were granted in 2017 and 2018. These performance-based awards are earned based on achieving various levels of home sale revenues growth and maintaining a required gross margin over a three year performance period. Based on the 31% increase in net new orders for the year and the dollar value of homes in backlog at

December 31, 2019, a large portion of the expense associated with these awards was recognized during the year due to the increased probability of achieving the maximum revenue goals as provided in the respective awards.

For the year ended December 31, 2019, marketing expenses increased due to the following: 1) increased deferred selling amortization driven by increased home closings, 2) increased sales office expense and product advertising resulting from an increased number of average active subdivisions; and, 3) increased compensation expense as we have added sales personnel due to our growing community count.

## [Table of Contents](#)

### Other Homebuilding Operating Data

#### *Net New Orders and Active Subdivisions:*

Changes in the dollar value of net new orders are impacted by changes in the number of net new orders and the average selling price of those homes. Commentary for each of our segments on significant changes in these two metrics is provided below.

	Year Ended December 31,											
	2019				2018				% Change			
	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *
	(Dollars in thousands)											
West	4,263	\$ 1,963,489	\$ 460.6	3.91	3,316	\$ 1,535,438	\$ 463.0	3.71	29%	28%	(1)%	5%
Mountain	2,410	1,189,193	493.4	3.04	1,908	972,826	509.9	2.63	26%	22%	(3)%	15%
East	1,166	342,469	293.7	3.68	750	262,518	350.0	2.78	55%	30%	(16)%	32%
Total	<u>7,839</u>	<u>\$ 3,495,151</u>	<u>\$ 445.9</u>	<u>3.56</u>	<u>5,974</u>	<u>\$ 2,770,782</u>	<u>\$ 463.8</u>	<u>3.16</u>	<u>31%</u>	<u>26%</u>	<u>(4)%</u>	<u>13%</u>

	Year Ended December 31,											
	2018				2017				% Change			
	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *
	(Dollars in thousands)											
West	3,316	\$ 1,535,438	\$ 463.0	3.71	3,094	\$ 1,435,474	\$ 464.0	3.47	7%	7%	(0)%	7%
Mountain	1,908	972,826	509.9	2.63	1,876	919,875	490.3	3.05	2%	6%	4%	(14)%
East	750	262,518	350.0	2.78	846	343,148	405.6	2.37	(11)%	(23)%	(14)%	17%
Total	<u>5,974</u>	<u>\$ 2,770,782</u>	<u>\$ 463.8</u>	<u>3.16</u>	<u>5,816</u>	<u>\$ 2,698,497</u>	<u>\$ 464.0</u>	<u>3.12</u>	<u>3%</u>	<u>3%</u>	<u>(0)%</u>	<u>1%</u>

\* Calculated as total net new orders in period ÷ average active communities during period ÷ number of months in period

	Active Subdivisions			Average Active Subdivisions		
	December 31,			Year Ended December 31,		
	2019	% Change	2018	2019	% Change	2018
West	89	13%	79	90	20%	75
Mountain	65	(3)%	67	66	10%	60
East	31	55%	20	27	23%	22
Total	<u>185</u>	<u>11%</u>	<u>166</u>	<u>183</u>	<u>17%</u>	<u>157</u>

#### West Segment Commentary

For the year ended December 31, 2019, the increase in net new orders was driven by increases in the number of average active subdivisions as well as the monthly sales absorption rate. Average active subdivisions increased in all of our markets in this segment, with California, Nevada and Washington experiencing the largest increases. The increase in the monthly sales absorption pace was driven by the Phoenix market due to a shift in product mix to more affordable home offerings.

#### Mountain Segment Commentary

For the year ended December 31, 2019, the increase in net new orders was due to increases in both the monthly sales absorption rates and average active subdivisions. Our Colorado markets were the main driver for the year-over-year increase in sales pace as a result of the demand for our expanded offering of more affordable home plans. Both Utah and Colorado experienced a higher average active community count during 2019, with Utah contributing most significantly to the segment's increase. The decrease in average selling price is due to a shift in mix to lower priced communities, consistent with our ongoing focus on offering more affordable home plans.

## [Table of Contents](#)

#### East Segment Commentary

For the year ended December 31, 2019, the increase in net new orders was driven by increases in the monthly sales absorption rates and the number of average active subdivisions. The improved sales pace was primarily due to a shift in product mix to more affordable homes in our Florida markets, while we experienced an increase in average active subdivisions in both our Florida and mid-Atlantic markets. The decrease in the average selling price of net new orders is due to mix as a result of: (1) a higher percentage of our net new orders coming from an expanded offering of more affordable home plans, due to an increasing level of demand for these plans, and (2) a higher percentage of our net new orders coming from our Florida markets, which have a lower average selling price than our mid-Atlantic operations.

#### *Cancellation Rate:*

	Cancellations As a Percentage of Gross Sales					
	Year Ended December 31,					
	2019	Change	2018	Change	2017	
West	18%	(2)%	20%	2%	18%	
Mountain	24%	(3)%	27%	5%	22%	
East	24%	(8)%	32%	9%	23%	
Total	21%	(3)%	24%	4%	20%	

Our cancellations as a percentage of gross sales (“cancellation rate”) decreased from 24% for the year ended December 31, 2018 to 21% for the year ended December 31, 2019. Each of our segments experienced lower cancellation rates as compared to the prior year, with our East segment seeing the most significant decrease as it benefited from the implementation of additional underwriting procedures prior to the acceptance of new home contracts.

Consistent with our quarterly homebuilding operating data provided, we have also included below the cancellations as a percentage of homes in beginning backlog for each quarter during the years ended December 31, 2019 and 2018.

	Cancellations As a Percentage of Homes in Beginning Backlog							
	2019				2018			
	Three Months Ended							
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
West	11%	12%	13%	14%	11%	10%	10%	14%
Mountain	14%	16%	13%	14%	16%	12%	12%	11%
East	17%	22%	18%	11%	18%	20%	17%	23%
Total	13%	15%	14%	14%	14%	12%	12%	14%

24

## [Table of Contents](#)

### *Backlog:*

	At December 31,								
	2019			2018			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
(Dollars in thousands)									
West	2,023	\$ 960,057	\$ 474.6	1,523	\$ 756,335	\$ 496.6	33%	27%	(4)%
Mountain	1,211	624,672	515.8	1,043	550,329	527.6	16%	14%	(2)%
East	567	160,618	283.3	370	119,303	322.4	53%	35%	(12)%
Total	3,801	\$ 1,745,347	\$ 459.2	2,936	\$ 1,425,967	\$ 485.7	29%	22%	(5)%

At December 31, 2019, we had 3,801 homes in backlog with a total value of \$1.75 billion, representing respective increases of 29% and 22% from December 31, 2018. The increase in the number of homes in backlog is primarily a result of the year-over-year increase in net new orders in the second half of 2019, offset slightly by an increase in backlog conversion rates due to improved cycle times. The decrease in the average selling price of homes in backlog is due to a shift in mix to lower priced communities, consistent with our ongoing strategy of offering more affordable home plans, as well as a shift in geographical mix with an increased proportion of net new orders coming from our Arizona (West segment) and Florida (East segment) markets, which have the lowest average selling prices in our Company.

### *Homes Completed or Under Construction:*

	December 31,		% Change
	2019	2018	
Unsold:			
Completed	122	179	(32)%
Under construction	255	263	(3)%
Total unsold started homes	377	442	(15)%
Sold homes under construction or completed	2,779	2,219	25%
Model homes under construction or completed	473	407	16%
Total homes completed or under construction	3,629	3,068	18%

Both the increase in sold homes under construction or completed and the decrease in unsold started homes are due to the increased demand we have experienced as a result of our increased offering of more affordable home plans.

### *Lots Owned and Optioned (including homes completed or under construction):*

	December 31, 2019			December 31, 2018			Total % Change
	Lots Owned	Lots Optioned	Total	Lots Owned	Lots Optioned	Total	
West	9,538	2,805	12,343	8,093	3,004	11,097	11%
Mountain	6,654	3,879	10,533	6,305	2,477	8,782	20%
East	2,313	2,197	4,510	1,899	1,409	3,308	36%
Total	18,505	8,881	27,386	16,297	6,890	23,187	18%

Our total owned and optioned lots at December 31, 2019 were 27,386, up 18% from December 31, 2018, due to our land acquisition approval activity over the past year across nearly all of our markets. We believe that our total lot supply can support growth in future periods. See "**Forward-Looking Statements**" above.

[Table of Contents](#)
**Financial Services**

	Year Ended December 31,						
	2019	Change		2018	Change		2017
		Amount	%		Amount	%	
	(Dollars in thousands)						
Financial services revenues							
Mortgage operations	\$ 55,222	\$ 1,746	3%	\$ 53,476	\$ 4,635	9%	\$ 48,841
Other	32,783	2,854	10%	29,929	4,398	17%	25,531
Total financial services revenues	\$ 88,005	\$ 4,600	6%	\$ 83,405	\$ 9,033	12%	\$ 74,372
Financial services pretax income							
Mortgage operations	\$ 29,312	\$ (2,608)	(8)%	\$ 31,920	\$ 3,292	11%	\$ 28,628
Other	30,915	16,475	114%	14,440	(725)	(5)%	15,165
Total financial services pretax income	\$ 60,227	\$ 13,867	30%	\$ 46,360	\$ 2,567	6%	\$ 43,793

For the year ended December 31, 2019, our financial services pretax income increased \$14.0 million, or 30% from the same period in the prior year. This was primarily due to increases in the market value of investments in equity securities held by our insurance entities that resulted in an \$11.8 million net gain on equity securities in the current year as compared to a \$3.7 million net loss in the prior year. Pretax income for our mortgage segment decreased \$2.6 million year-over-year primarily due to the settlement of outstanding claims relating to loans originated by HomeAmerican prior to 2009.

The table below sets forth information for our mortgage operations relating to mortgage loans originated and capture rate.

	Year Ended December 31,				
		% or Percentage		% or Percentage	
	2019	Change	2018	Change	2017
(Dollars in thousands)					
Total Originations:					
Loans	4,361	15%	3,783	9%	3,475
Principal	\$ 1,585,487	15%	\$ 1,380,164	12%	\$ 1,227,073
Capture Rate Data:					
Capture rate as % of all homes delivered	62%	1%	61%	(1)%	62%
Capture rate as % of all homes delivered (excludes cash sales)	67%	1%	66%	0%	66%
Mortgage Loan Origination Product Mix:					
FHA loans	19%	4%	15%	(4)%	19%
Other government loans (VA & USDA)	20%	1%	19%	(1)%	20%
Total government loans	39%	5%	34%	(5)%	39%
Conventional loans	61%	(5)%	66%	5%	61%
	100%	0%	100%	0%	100%
Loan Type:					
Fixed rate	98%	1%	97%	0%	97%
ARM	2%	(1)%	3%	0%	3%
Credit Quality:					
Average FICO Score	738	(0)%	741	1%	735
Other Data:					
Average Combined LTV ratio	83%	2%	81%	(2)%	83%
Full documentation loans	100%	0%	100%	0%	100%
Loans Sold to Third Parties:					
Loans	4,217	13%	3,738	7%	3,502
Principal	\$ 1,532,214	12%	\$ 1,364,246	11%	\$ 1,228,710

[Table of Contents](#)
**Income Taxes**

We recorded income tax expense of \$66.7 million, \$53.1 million, and \$87.9 million for the years ended December 31, 2019, 2018 and 2017, respectively, resulting in effective income tax rates of 21.9%, 20.1%, and 38.3%, respectively.

The year-over-year change in our effective tax rate from 2018 to 2019 was impacted by the following items:

(1) Our effective tax rate in 2019 includes a \$2.8 million benefit from share based awards vested or exercised during the year compared to a \$0.4 million expense during the prior year.

(2) Our effective tax rate in 2019 includes a \$1.6 million benefit due to a decrease in our liability for uncertain tax positions, while our effective tax rate in 2018 included a \$4.7 million expense due to an increase in our liability for uncertain tax positions.

(3) Our effective tax rate in 2018 included a larger benefit from energy tax credits than 2019.

(4) Our effective tax rate in 2018 included the benefit of certain tax method changes that were implemented with the filing of our 2017 Federal tax return.

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[Table of Contents](#)

## LIQUIDITY AND CAPITAL RESOURCES

We use our liquidity and capital resources to (1) support our operations, including the purchase of land, land development and construction of homes; (2) provide working capital; and (3) provide mortgage loans for our homebuyers. Our liquidity includes our cash and cash equivalents, marketable securities, Revolving Credit Facility (as defined below) and Mortgage Repurchase Facility (as defined below). Additionally, we have an existing effective shelf registration statement that allows us to issue equity, debt or hybrid securities up to \$2.0 billion. Following the issuance of \$300 million of 3.850% senior notes on January 9, 2020 (see Note 24 for further discussion), \$1.70 billion remains on our effective shelf registration statement.

We have marketable equity securities that consist primarily of holdings in common stocks and exchange traded funds.

### Capital Resources

Our capital structure is primarily a combination of (1) permanent financing, represented by stockholders' equity; (2) long-term financing, represented by our 5.625% senior notes due 2020, 5.500% senior notes due 2024 and our 6.000% senior notes due 2043; (3) our Revolving Credit Facility and (4) our Mortgage Repurchase Facility. On January 9, 2020, we completed an offering of \$300 million of 3.850% senior notes due January 2030 (see Note 24, *Subsequent Events*, in the notes to the financial statements for further discussion). Because of our current balance of cash, cash equivalents, marketable securities, ability to access the capital markets, and available capacity under both our Revolving Credit Facility and Mortgage Repurchase Facility, we believe that our capital resources are adequate to satisfy our short and long-term capital requirements, including meeting future payments on our senior notes as they become due. See "**Forward-Looking Statements**" above.

We may from time to time seek to retire or purchase our outstanding senior notes through cash purchases, whether through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

### Senior Notes, Revolving Credit Facility and Mortgage Repurchase Facility

*Senior Notes.* Our senior notes are not secured and, while the senior note indentures contain some restrictions on secured debt and other transactions, they do not contain financial covenants. Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by most of our homebuilding segment subsidiaries. We believe that we are in compliance with the representations, warranties and covenants in the senior note indentures.

*Revolving Credit Facility.* We have an unsecured revolving credit agreement ("Revolving Credit Facility") with a group of lenders, which may be used for general corporate purposes. This agreement was amended on November 1, 2018 to (1) extend the Revolving Credit Facility maturity to December 18, 2023, (2) increase the aggregate commitment from \$700 million to \$1 billion (the "Commitment") and (3) provide that the aggregate amount of the commitments may increase to an amount not to exceed \$1.5 billion upon our request, subject to receipt of additional commitments from existing or additional lenders and, in the case of additional lenders, the consent of the co-administrative agents. As defined in the Revolving Credit Facility, interest rates on base rate borrowings are equal to the highest of (1) 0.0%, (2) a prime rate, (3) a federal funds effective rate plus 1.50%, and (4) a specified eurocurrency rate plus 1.00% and, in each case, plus a margin that is determined based on our credit ratings and leverage ratio. Interest rates on eurocurrency borrowings are equal to a specified eurocurrency rate plus a margin that is determined based on our credit ratings and leverage ratio. At any time at which our leverage ratio, as of the last day of the most recent calendar quarter, exceeds 55%, the aggregate principal amount of all consolidated senior debt borrowings outstanding may not exceed the borrowing base. There is no borrowing base requirement if our leverage ratio, as of the last day of the most recent calendar quarter, is 55% or less.

The Revolving Credit Facility is fully and unconditionally guaranteed, jointly and severally, by most of our homebuilding segment subsidiaries. The facility contains various representations, warranties and covenants that we believe are customary for agreements of this type. The financial covenants include a consolidated tangible net worth test and a leverage test, along with a consolidated tangible net worth covenant, all as defined in the Revolving Credit Facility. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a "term-out" of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) or a violation of anti-corruption or sanctions laws would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, a violation of anti-corruption or sanctions laws, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of December 31, 2019.

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[Table of Contents](#)

As of December 31, 2019, we had \$15.0 million in borrowings and \$23.5 million in letters of credit outstanding under the Revolving Credit Facility, leaving remaining borrowing capacity of \$961.5 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement (the "Mortgage Repurchase Facility") with U.S. Bank National Association ("USBNA"). Effective May 23, 2019, the Mortgage Repurchase Facility was amended to extend its termination date to May 21, 2020. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of up to an aggregate of \$75 million (subject to increase by up to \$75 million under certain conditions) of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement ("Custody Agreement"), dated as of November 12, 2008, by and between HomeAmerican and USBNA. In the event that an eligible mortgage loan becomes ineligible, as defined under the Mortgage Repurchase Facility, HomeAmerican may be required to repurchase the

ineligible mortgage loan immediately. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased on December 24, 2019 from \$75 million to \$150 million and was effective through January 22, 2020. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$75 million to \$130 million from December 27, 2018 through January 25, 2019. At December 31, 2019 and 2018, HomeAmerican had \$149.6 million and \$116.8 million, respectively, of mortgage loans that HomeAmerican was obligated to repurchase under the Mortgage Repurchase Facility. Mortgage loans that HomeAmerican is obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a price range that is based on a LIBOR rate or a successor benchmark rate.

The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth ratio, (iii) a minimum adjusted net income requirement, and (iv) a minimum Liquidity requirement. The foregoing capitalized terms are defined in the Mortgage Repurchase Facility. We believe HomeAmerican was in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of December 31, 2019.

## Dividends

In the years ended December 31, 2019 and 2018, we paid dividends of \$1.18 per share and \$1.11 per share, respectively. In addition to the cash dividends paid, the Company distributed a stock dividend of 8% during 2019.

## MDC Common Stock Repurchase Program

At December 31, 2019, we were authorized to repurchase up to 4,000,000 shares of our common stock. We did not repurchase any shares of our common stock under this repurchase program during the year ended December 31, 2019.

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## [Table of Contents](#)

### Consolidated Cash Flow

Our operating cash flows are primarily impacted by: (1) land purchases and construction of homes; (2) closing homes and the associated timing of collecting receivables from home closings; (3) sales of mortgage loans originated by HomeAmerican; (4) payments on accounts payables and accrued liabilities; and (5) funding for payroll. When we close on the sale of a house, our homebuilding subsidiaries will generally receive the proceeds from the sale of the homes within a few days of the home being closed. Therefore, our home sales receivable balance can increase or decrease from period to period based upon the timing of our home closings. Additionally, the amount of mortgage loans held-for-sale can be impacted period to period based upon the number of mortgage loans that were originated by HomeAmerican that have not been sold to third party purchasers and by the timing of fundings by third party mortgage purchasers. Accordingly, mortgage loans held-for-sale may increase if HomeAmerican originates more homes towards the end of one reporting period when compared with the same period in the previous year. HomeAmerican will generally sell mortgage loans it originates between 10 to 35 days after origination.

### Operating Cash Flow Activities

For the year ended December 31, 2019, net cash provided by operating activities was \$57.8 million compared with net cash used in operating activities of \$7.9 million in the prior year. Cash used to increase housing completed or under construction was \$83.5 million for the year ended December 31, 2019 as our homes in inventory increased by 561 homes year-over-year. Cash used to increase housing completed or under construction was only \$12.1 million in the prior year as homes in inventory remained relatively flat compared to December 31, 2017. During the year ended December 31, 2019, cash used to increase land and land under development was \$149.6 million compared to \$304.3 million in the prior year. The most significant source of cash provided by operating activities in all years was net income.

### Investing Flow Activities

For the year ended December 31, 2019, net cash used in investing activities was \$28.8 million compared to cash provided by investing activities of \$20.2 million in the prior year. The primary driver of this decrease in cash from investing activities relates to proceeds of \$50.0 million received in the prior year upon the maturity of investments in debt securities. Cash used to purchase property and equipment and net cash used to purchase marketable equity securities remained consistent year-over-year.

### Financing Cash Flow Activities

For the year ended December 31, 2019, net cash used in financing activities was \$25.0 million compared to \$56.4 million in the prior year. The primary driver of this decrease in cash used in financing activities is due to an increase in advances on the mortgage repurchase facility driven by the increase in mortgage loans held-for-sale as of December 31, 2019. Cash used to fund dividend payments increased slightly year-over year as a result of the 8% stock dividend issued in February 2019, but was offset by an increase in cash received from a greater number of stock-options exercised during the year.

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## [Table of Contents](#)

### Off-Balance Sheet Arrangements

*Lot Option Purchase Contracts.* In the ordinary course of business, we enter into lot option purchase contracts in order to procure lots for the construction of homes. Lot option contracts enable us to control lot positions with a minimal capital investment, which substantially reduces the risks associated with land ownership and development. At December 31, 2019, we had deposits of \$27.4 million in the form of cash and \$7.2 million in the form of letters of credit that secured option contracts to purchase 8,881 lots for a total estimated purchase price of \$670.3 million.

*Surety Bonds and Letters of Credit.* At December 31, 2019, we had outstanding surety bonds and letters of credit totaling \$264.0 million and \$98.7 million, respectively, including \$75.2 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds

and letters of credit were approximately \$136.1 million and \$64.7 million, respectively. We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

We have made no material guarantees with respect to third-party obligations.

## Contractual Obligations

The table below summarizes our known contractual obligations at December 31, 2019.

	Payments due by Period (in thousands)				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Senior notes	\$ 1,000,000	\$ 250,000	\$ -	\$ 250,000	\$ 500,000
Interest on senior notes	773,906	50,781	87,500	80,625	555,000
Operating leases	37,775	6,300	13,019	10,167	8,289
Total <sup>(1)</sup>	<u>\$ 1,811,681</u>	<u>\$ 307,081</u>	<u>\$ 100,519</u>	<u>\$ 340,792</u>	<u>\$ 1,063,289</u>

(1) The table above excludes \$149.6 million of mortgage loans that we are obligated to repurchase under our Mortgage Repurchase Facility since it is not long-term indebtedness. Additionally, there were outstanding performance bonds and letters of credit totaling approximately \$264.0 million and \$98.7 million, respectively, at December 31, 2019, which have been excluded from the table above due to the uncertainty as to whether any payments may be made.

## [Table of Contents](#)

### CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Management evaluates such estimates and judgments on an on-going basis and makes adjustments as deemed necessary. Actual results could differ from these estimates if conditions are significantly different in the future. See “**Forward-Looking Statements**” above.

Listed below are those estimates and policies that we believe are critical and require the use of complex judgment in their application. Our critical accounting estimates and policies are as follows and should be read in conjunction with the Notes to our Consolidated Financial Statements.

*Homebuilding Inventory Valuation.* Refer to Note 1, *Summary of Significant Accounting Policies*, in the notes to the financial statements for information on the composition of the inventory balances.

In accordance with Accounting Standards Codification (“ASC”) Topic 360, *Property, Plant, and Equipment* (“ASC 360”), homebuilding inventories, excluding those classified as held for sale, are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We evaluate inventories for impairment at each quarter end on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

- actual and trending “Operating Margin” (which is defined as home sale revenues less home cost of sales and all incremental costs associated directly with the subdivision, including sales commissions and marketing costs);
- estimated future undiscounted cash flows and Operating Margin;
- forecasted Operating Margin for homes in backlog;
- actual and trending net home orders;
- homes available for sale;
- market information for each sub-market, including competition levels, home foreclosure levels, the size and style of homes currently being offered for sale and lot size; and
- known or probable events indicating that the carrying value may not be recoverable.

If events or circumstances indicate that the carrying value of our inventory may not be recoverable, assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision (including capitalized interest) to its carrying value. We generally determine the estimated fair value of each subdivision by determining the present value of the estimated future cash flows at discount rates, which are Level 3 inputs (see Note 7, *Fair Value Measurements*, in the notes to the financial statements for definitions of fair value inputs), that are commensurate with the risk of the subdivision under evaluation. The evaluation for the recoverability of the carrying value of the assets for each individual subdivision can be impacted significantly by our estimates of future home sale revenues, home construction costs, and development costs per home, all of which are Level 3 inputs. These estimates of undiscounted future cash flows are dependent on specific market or sub-market conditions for each subdivision. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact these estimates for a subdivision include:

- historical subdivision results, and actual and trending Operating Margin, base selling prices and home sales incentives;
- forecasted Operating Margin for homes in backlog;
- the intensity of competition within a market or sub-market, including publicly available home sales prices and home sales incentives offered by our competitors;
- increased levels of home foreclosures;
- the current sales pace for active subdivisions;
- subdivision specific attributes, such as location, availability and size of lots in the sub-market, desirability and uniqueness of subdivision

- location and the size and style of homes currently being offered;
- potential for alternative home styles to respond to local market conditions;
- changes by management in the sales strategy of a given subdivision; and
- current local market economic and demographic conditions and related trends and forecasts.

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## [Table of Contents](#)

These and other local market-specific conditions that may be present are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each subdivision. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ among subdivisions, even within a given sub-market. For example, facts and circumstances in a given subdivision may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another subdivision may lead us to price our homes to minimize deterioration in our gross margins from home sales, even though this could result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one subdivision that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby subdivision. Changes in our key assumptions, including estimated construction and land development costs, absorption pace and selling strategies could materially impact future cash flow and fair value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted future cash flows of a subdivision are less than its carrying value, the carrying value of the subdivision is written down to its then estimated fair value. We determine the estimated fair value of each subdivision either: (1) by determining the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation; or (2) assessing the market value of the land in its current condition by considering the estimated price a willing buyer would pay for the land (other than in a forced liquidation), and recent land purchase transactions that we believe are indicators of fair value. The estimated future cash flows are the same for both our recoverability and fair value assessments. Factors we consider when determining the discount rate to be used for each subdivision include, among others:

- the number of lots in a given subdivision;
- the amount of future land development costs to be incurred;
- risks associated with the home construction process, including the stage of completion for the entire subdivision and the number of owned lots under construction; and
- the estimated remaining lifespan of the subdivision.

We allocate the impairments recorded between housing completed or under construction and land and land under development for each impaired subdivision based upon the status of construction of a home on each lot (i.e., if the lot is in housing completed or under construction, the impairment for that lot is recorded against housing completed or under construction). The allocation of impairment is the same with respect to each lot in a given subdivision. Changes in management's estimates, particularly the timing and amount of the estimated future cash inflows and outflows and forecasted average selling prices of homes to be sold and closed can materially affect any impairment calculation. Because our forecasted cash flows are impacted significantly by changes in market conditions, it is reasonably possible that actual results could differ significantly from those estimates. Please see the "Inventory Impairments" section for a detailed discussion and analysis of our asset impairments.

If land is classified as held for sale, we measure it at the lower of the carrying value or fair value less estimated costs to sell. In determining fair value, we primarily rely upon the most recent negotiated price. If a negotiated price is not available, we will consider several factors including, but not limited to, current market conditions, recent comparable sales transactions and market analysis studies. If the fair value less estimated costs to sell is lower than the current carrying value, the land is impaired down to its estimated fair value less costs to sell.

**Warranty Accrual.** Our homes are sold with limited third-party warranties. We record expenses and warranty accruals for general and structural warranty claims, as well as accruals for known, unusual warranty-related expenditures. A warranty accrual is recorded for each home closed based upon historical payment experience in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. The determination of the warranty accrual rate for closed homes and the evaluation of our warranty accrual balance at period end are based on an internally developed analysis that includes known facts and interpretations of circumstances, including, among other things, our trends in historical warranty payment levels and warranty payments for claims not considered to be normal and recurring. It is possible that changes in the warranty payment experience used in estimating our ultimate warranty losses could have a material impact on our warranty accrual balances.

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## [Table of Contents](#)

**Insurance Reserves.** The establishment of reserves for estimated losses associated with insurance policies issued by Allegiant and re-insurance agreements issued by StarAmerican are based on actuarial studies that include known facts and interpretations of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns depending on the business conducted, and changing regulatory and legal environments. It is possible that changes in the insurance payment experience used in estimating our ultimate insurance losses could have a material impact on our insurance reserves.

**Litigation Accruals.** In the normal course of business, we are a defendant in claims primarily relating to premises liability, product liability and personal injury claims. These claims seek relief from us under various theories, including breach of implied and express warranty, negligence, strict liability, misrepresentation and violation of consumer protection statutes. We have accrued for losses that may be incurred with respect to legal claims based upon information provided by our legal counsel, including counsel's on-going evaluation of the merits of the claims and defenses and the level of estimated insurance coverage. Due to uncertainties in the estimation process, actual results could vary from those accruals and could have a material impact on our results of operations.

**Revenue Recognition for Homebuilding Segments.** We recognize home sale revenues from home deliveries when we have satisfied the performance obligations within the sales agreement, which is generally when title to and possession of the home are transferred to the buyer at the home closing date. Revenue from a home delivery includes the base sales price and any purchased options and upgrades and is reduced for any sales price incentives.

We generally do not record the sale of a home or recognize the associated revenue if the following criteria are present: (1) HomeAmerican originates the mortgage loan and has not sold the mortgage loan, or loans, as of the end of the pertinent reporting period; and (2) the homebuyer does not meet certain collectability thresholds, based on the type of mortgage loan, related to their credit score, debt to income ratio and loan to value ratio. The deferral is subsequently recognized at the time HomeAmerican sells the respective loan to a third-party purchaser. In the event the gross margin is a loss, we recognize such loss at the time the home is closed.

In certain states where we build, we are not always able to complete certain outdoor features (such as landscaping or pools) prior to closing the home. To the extent these separate deliverables are not complete upon the closing of a home, we defer home sale revenues related to incomplete outdoor features, and recognize that revenue upon completion of the outdoor features.

*Revenue Recognition for HomeAmerican:* Revenues recorded by HomeAmerican primarily reflect (1) origination fees and (2) the corresponding sale, or expected future sale, of a loan, which will include the estimated earnings from either the release or retention of a loan's servicing rights. Origination fees are recognized when a loan is originated. When an interest rate lock commitment is made to a customer, we record the expected gain on sale of the mortgage, plus the estimated earnings from the expected sale of the associated servicing rights, adjusted for a pull-through percentage (which is defined as the likelihood that an interest rate lock commitment will be originated), as revenue. As the interest rate lock commitment gets closer to being originated, the expected gain on the sale of that loan plus its servicing rights is updated to reflect current market value and the increase or decrease in the fair value of that interest rate lock commitment is recorded through revenues. At the same time, the expected pull-through percentage of the interest rate lock commitment to be originated is updated (typically an increase as the interest lock commitment gets closer to origination) and, if there has been a change, revenues are adjusted as necessary. After origination, our mortgage loans, generally including their servicing rights, are sold to third-party purchasers in accordance with sale agreements entered into by us with a third-party purchaser of the loans. We make representations and warranties with respect to the status of loans transferred in the sale agreements. The sale agreements generally include statements acknowledging the transfer of the loans is intended by both parties to constitute a sale. Sale of a mortgage loan has occurred when the following criteria, among others, have been met: (1) fair consideration has been paid for transfer of the loan by a third party in an arms-length transaction, (2) all the usual risks and rewards of ownership that are in substance a sale have been transferred by us to the third party purchaser; and (3) we do not have a substantial continuing involvement with the mortgage loan.

We carry interest rate lock commitments and mortgage loans held-for-sale at fair value.

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## [Table of Contents](#)

*Home Cost of Sales.* Refer to the Note 1, *Summary of Significant Accounting Policies*, in the notes to the financial statements for information on the composition of home cost of sales. When a home is closed, we generally have not yet paid or incurred all costs necessary to complete the construction of the home and certain land development costs. At the time of a home closing, we compare the home construction budgets to actual recorded costs to determine the additional estimated costs remaining to be paid on each closed home. For amounts not incurred or paid as of the time of closing a home, we record an estimated accrual associated with certain home construction and land development costs. Generally, these accruals are established based upon contracted work which has yet to be paid, open work orders not paid at the time of home closing, as well as land completion costs more likely than not to be incurred, and represent estimates believed to be adequate to cover the expected remaining home construction and land development costs. We monitor the adequacy of these accruals on a house-by-house basis and in the aggregate on both a market-by-market and consolidated basis.

*Stock-Based Compensation.* ASC Topic 718, *Compensation—Stock Compensation* ("ASC 718") requires that share-based compensation expense be measured and recognized at an amount equal to the fair value of share-based payments granted under compensation arrangements. Determining the appropriate fair value model and calculating the fair value of stock option awards requires judgment, including estimating stock price volatility, annual forfeiture rates and the expected life of an award. For stock option awards granted with just service and/or performance conditions, we estimate the fair value using a Black-Scholes option pricing model. For any stock option awards granted that contain a market condition, we estimate the fair value using a Monte Carlo simulation model. Both the Black-Scholes option pricing model and Monte Carlo simulation utilize the following inputs to calculate the estimated fair value of stock options: (1) closing price of our common stock on the measurement date (generally the date of grant); (2) exercise price; (3) expected stock option life; (4) expected volatility; (5) risk-free interest rate; and (6) expected dividend yield rate. The expected life of employee stock options represents the period for which the stock options are expected to remain outstanding and is derived primarily from historical exercise patterns. The expected volatility is determined based on our review of the implied volatility that is derived from the price of exchange traded options of the Company. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of our employee stock options. The expected dividend yield assumption is based on our historical dividend payouts. We determine the estimated fair value of the stock option awards on the date they were granted. The fair values of previously granted stock option awards are not adjusted as subsequent changes in the foregoing assumptions occur; for example, an increase or decrease in the price of our common stock. However, changes in the foregoing inputs, particularly the price of our common stock, expected stock option life and expected volatility, significantly change the estimated fair value of future grants of stock options.

An annual forfeiture rate is estimated at the time of grant, and revised if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate.

## RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2 in our consolidated financial statements.

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## [Table of Contents](#)

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We have a cash and investment policy that enables us to achieve our strategy with an appropriate investment return while preserving principal and managing risk. Under this policy, our cash and cash equivalents may include U.S. government securities, commercial bank deposits, commercial paper, certificates of deposit, money market funds, and time deposits, with maturities of three months or less. Our marketable securities under this policy may include holdings in corporate U.S. government securities with a maturity of more than three months, equity securities and corporate debt securities.

The market value and/or income derived from our equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. The value of equity securities may also decline for a number of other reasons that directly relate to the issuer, such as management performance, financial leverage, the issuer's historical and prospective earnings, the value of its assets and reduced demand for its goods and services. Equity securities generally have greater price volatility than bonds and other debt securities.

As of December 31, 2019, our cash and cash equivalents included commercial bank deposits and money market funds, with maturities of three months or less. As of December 31, 2019, we had marketable securities, which consisted of holdings in common stock and exchange traded funds.

We are exposed to market risks related to fluctuations in interest rates on mortgage loans held-for-sale, mortgage interest rate lock commitments and debt. Derivative instruments utilized in the normal course of business by HomeAmerican include interest rate lock commitments and forward sales of mortgage-backed securities, which are used to manage the price risk on fluctuations in interest rates on our mortgage loans in inventory and interest rate lock commitments to originate mortgage loans. Such contracts are the only significant financial derivative instruments utilized by MDC. HomeAmerican's mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed at December 31, 2019 had an aggregate principal balance of \$104.5 million, all of which were under interest rate lock commitments at an average interest rate of 3.72%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of \$191.3 million at December 31, 2019, of which \$58.5 million had not yet been committed to a mortgage purchaser and had an average interest rate of 3.66%. In order to hedge the changes in fair value of interest rate lock commitments and mortgage loans held-for-sale which had not yet been committed to a mortgage purchaser, HomeAmerican had forward sales of securities totaling \$108.5 million and \$65.5 million at December 31, 2019 and 2018, respectively.

HomeAmerican provides mortgage loans that generally are sold forward and subsequently delivered to a third-party purchaser between 10 and 35 days. Forward commitments are used for non-trading purposes to sell mortgage loans and hedge price risk due to fluctuations in interest rates on rate-locked mortgage loans in process that have not closed. Due to this economic hedging philosophy, the market risk associated with these mortgages is limited. For forward sales commitments, as well as commitments to originate mortgage loans that are still outstanding at the end of a reporting period, we record the fair value of the derivatives in the consolidated statements of operations and comprehensive income with an offset to either derivative assets or liabilities, depending on the nature of the change.

We utilize our Revolving Credit Facility, our Mortgage Repurchase Facility and senior notes in our financing strategy. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but do not affect our earnings or cash flows. We do not have an obligation to prepay our senior notes prior to maturity and, as a result, interest rate risk and changes in fair value do not have an impact on our financial position, results of operations or cash flows. For variable rate debt such as our Revolving Credit Facility and Mortgage Repurchase Facility, changes in interest rates generally do not affect the fair value of the outstanding borrowing on the debt facilities, but does affect our earnings and cash flows. See "Forward-Looking Statements" above.

36

## [Table of Contents](#)

At December 31, 2019, we had \$149.6 million of mortgage loans that HomeAmerican is obligated to repurchase under the Mortgage Repurchase Facility. Mortgage loans that HomeAmerican is obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported under Mortgage Repurchase Facility in the consolidated balance sheets. The following table provides the maturities, average interest rate and estimated fair value of significant financial instruments that are sensitive to changes in interest rates at December 31, 2019.

	Maturities through December 31,										Estimated			
	2020	2021	2022	2023	2024	Thereafter	Total				Fair Value			
	(Dollars in thousands)													
<b>Assets:</b>														
Mortgage loans held for sale <sup>(1)</sup>														
Fixed Rate	\$	185,941	\$	-	\$	-	\$	-	\$	-	\$	185,941	\$	191,634
Average interest rate		3.75%										3.75%		
Variable Interest Rate		5,327	\$	-	\$	-	\$	-	\$	-	\$	5,327	\$	5,387
Average interest rate		3.39%										3.39%		
<b>Liabilities:</b>														
Fixed rate debt	\$	250,000	\$	-	\$	-	\$	250,000	\$	500,000	\$	1,000,000	\$	1,051,025
Average interest rate		5.63%						5.50%		6.00%		5.78%		
Mortgage facility	\$	149,616	\$	-	\$	-	\$	-	\$	-	\$	149,616	\$	149,616
Average interest rate		3.63%										3.63%		
<b>Derivative Financial Instruments:</b>														
Commitments to originate mortgage loans														
Notional amount	\$	104,491	\$	-	\$	-	\$	-	\$	-	\$	104,491	\$	220
Average interest rate		3.72%										3.72%		
Forward sales of mortgage backed securities														
Notional amount	\$	108,500	\$	-	\$	-	\$	-	\$	-	\$	108,500	\$	(131)
Average interest rate		3.01%										3.01%		

(1) All the amounts in this line reflect the expected 2020 disposition of these loans rather than the actual scheduled maturity dates of these mortgages.

**Item 8. Consolidated Financial Statements.**

**M.D.C. HOLDINGS, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
Consolidated Financial Statements	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets at December 31, 2019 and December 31, 2018</a>	F-4
<a href="#">Consolidated Statements of Operations and Comprehensive Income for each of the Three Years in the Period Ended December 31, 2019</a>	F-5
<a href="#">Consolidated Statements of Stockholders' Equity for each of the Three Years in the Period Ended December 31, 2019</a>	F-6
<a href="#">Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 2019</a>	F-7
<a href="#">Notes to Consolidated Financial Statements</a>	F-8

[Table of Contents](#)**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of  
M.D.C. Holdings, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of M.D.C. Holdings, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated January 30, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

<i>Description of the Matter</i>	<i>Evaluation of Inventories for Impairment</i> For the year ended December 31, 2019, impairment expense of \$0.94 million was recorded compared to total inventories of \$2.4 billion. As more fully described in Note 1 to the consolidated financial statements, management evaluates inventories for impairment at each quarter end on a subdivision level basis and this includes, among other things, reviewing estimated future undiscounted cash flows.
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Auditing the Company's evaluation of inventories for impairment involved subjective auditor judgment to evaluate management's estimate of the home sales assumption included in the estimated future undiscounted cash flows. The estimated future home sales revenue assumption is highly judgmental as it is a forward-looking assumption that can be significantly affected by sub-market information including competition, customer demand for size and style of homes, and pricing trends in home sale orders. This assumption can have a significant impact on the results of the analysis of subdivisions for impairment.

## [Table of Contents](#)

<i>How We Addressed the Matter in Our Audit</i>	<p>We tested the Company's internal controls over the inventory impairment process. Among other procedures, this included testing controls over management's review of the future home sales revenue significant assumption and their comparison of the forecasted revenue amounts to the historical average sales price and sales price trends and analysis of this information.</p> <p>Our testing of the Company's impairment analysis included, among other procedures, evaluating the significant assumptions and operating data used to estimate the future undiscounted cash flows. To test the home sales revenue assumption included in the estimated future undiscounted cash flows we compared the home sales revenue assumption to historical subdivision operating trends, performed sensitivity analyses over the home sales revenue assumption and evaluated sub-market industry data.</p>
<i>Description of the Matter</i>	<p><i>Evaluation of Insurance Reserves</i></p> <p>At December 31, 2019, the insurance reserves totaled \$52.2 million for the estimated incurred cost of construction defect claims. As more fully described in Note 1 to the consolidated financial statements, the Company establishes the reserves for estimated losses based on actuarial studies that include known facts and interpretations of circumstances.</p> <p>Auditing the Company's estimate of the reserves is especially challenging because the estimate is based on actuarial projections of future claims derived from historical claims data. There is significant uncertainty in the actuarial projections as the potential claim payments will be made over a long period of time, they assume that historical claims are a reasonable proxy of future claims, and the claim amounts can be significantly impacted by changes in product mix, quality of construction, units sold, and geographic location of sold units.</p>
<i>How We Addressed the Matter in Our Audit</i>	<p>We tested the Company's internal controls over the estimation of the reserves. For example, we tested controls over the appropriateness of management's review of the actuary's analysis, including the underlying data used by the actuary and the consideration by management over whether historical claim information requires adjustment.</p> <p>To test the estimate of reserves, our audit procedures included, among others, utilizing an internal actuarial specialist to evaluate the actuarial study utilized by management and to perform independent calculations to determine a range of reasonable reserves and to compare this range to the recorded insurance reserves. Additionally, we tested the completeness and accuracy of the underlying claims data provided to management's actuarial specialist, evaluated the change in the reserves from the prior year based upon current year trends in claims data, and performed hindsight reviews of past estimates compared to actual claim payments.</p>

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2000

Denver, Colorado

January 30, 2020

F-3

## [Table of Contents](#)

### M.D.C. HOLDINGS, INC. Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
	(Dollars in thousands, except per share amounts)	
<b>ASSETS</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$ 424,186	\$ 414,724
Restricted cash	14,279	6,363
Trade and other receivables	65,829	52,982
Inventories:		
Housing completed or under construction	1,036,191	952,436
Land and land under development	1,330,384	1,180,558
Total inventories	2,366,575	2,132,994
Property and equipment, net	60,414	58,167
Deferred tax assets, net	21,768	37,178
Prepaid and other assets	78,358	45,794
Total homebuilding assets	3,031,409	2,748,202
<b>Financial Services:</b>		
Cash and cash equivalents	35,747	49,052
Marketable securities	56,747	40,879
Mortgage loans held-for-sale, net	197,021	149,211
Other assets	17,432	13,733
Total financial services assets	306,947	252,875
Total Assets	\$ 3,338,356	\$ 3,001,077
<b>LIABILITIES AND EQUITY</b>		
<b>Homebuilding:</b>		

Accounts payable	\$ 87,364	\$ 50,505
Accrued and other liabilities	245,940	196,247
Revolving credit facility	15,000	15,000
Senior notes, net	989,422	987,967
Total homebuilding liabilities	1,337,726	1,249,719
<b>Financial Services:</b>		
Accounts payable and accrued liabilities	68,529	58,543
Mortgage repurchase facility	149,616	116,815
Total financial services liabilities	218,145	175,358
Total Liabilities	1,555,871	1,425,077
<b>Stockholders' Equity</b>		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$0.01 par value; 250,000,000 shares authorized; 62,574,961 and 56,615,352 issued and outstanding at December 31, 2019 and December 31, 2018, respectively	626	566
Additional paid-in-capital	1,348,733	1,168,442
Retained earnings	433,126	406,992
Total Stockholders' Equity	1,782,485	1,576,000
Total Liabilities and Stockholders' Equity	\$ 3,338,356	\$ 3,001,077

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-4

## [Table of Contents](#)

### **M.D.C. HOLDINGS, INC.** **Consolidated Statements of Operations and Comprehensive Income**

	Year Ended December 31,		
	2019	2018	2017
(Dollars in thousands, except per share amounts)			
<b>Homebuilding:</b>			
Home sale revenues	\$ 3,205,248	\$ 2,981,811	\$ 2,498,695
Land sale revenues	-	-	4,547
Total homebuilding revenues	3,205,248	2,981,811	2,503,242
Home cost of sales	(2,600,196)	(2,415,139)	(2,073,833)
Land cost of sales	-	-	(4,440)
Inventory impairments	(935)	(21,850)	(10,010)
Total cost of sales	(2,601,131)	(2,436,989)	(2,088,283)
Gross margin	604,117	544,822	414,959
Selling, general and administrative expenses	(362,790)	(329,801)	(287,488)
Interest and other income	9,070	7,718	61,336
Other expense	(5,635)	(5,245)	(2,868)
Homebuilding pretax income	244,762	217,494	185,939
<b>Financial Services:</b>			
Revenues	88,005	83,405	74,372
Expenses	(45,001)	(38,200)	(34,534)
Other income (expense), net	17,223	1,155	3,955
Financial services pretax income	60,227	46,360	43,793
Income before income taxes	304,989	263,854	229,732
Provision for income taxes	(66,677)	(53,074)	(87,897)
Net income	\$ 238,312	\$ 210,780	\$ 141,835
Other comprehensive loss related to available-for-sale securities, net of tax	-	-	(18,079)
Comprehensive income	\$ 238,312	\$ 210,780	\$ 123,756
<b>Earnings per share:</b>			
Basic	\$ 3.84	\$ 3.46	\$ 2.35
Diluted	\$ 3.72	\$ 3.39	\$ 2.30
<b>Weighted average common shares outstanding</b>			
Basic	61,616,988	60,571,123	60,117,021
Diluted	63,702,666	61,830,761	61,453,578

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-5

## [Table of Contents](#)

### **M.D.C. HOLDINGS, INC.** **Consolidated Statements of Stockholders' Equity** **(Dollars in thousands, except share amounts)**

	Common Stock		Additional		Accumulated	
	Shares	Amount	Paid-in	Retained	Other	Total
			Capital	Earnings	Comprehensive	
					Income	
Balance at December 31, 2016	51,485,090	\$ 515	\$ 983,532	\$ 313,952	\$ 22,071	\$ 1,320,070
Net Income	-	-	-	141,835	-	141,835
Other comprehensive loss, net of tax	-	-	-	-	(18,079)	(18,079)
Total comprehensive income						123,756
Shares issued under stock-based compensation programs, net	492,408	5	9,496	-	-	9,501
Cash dividends declared	-	-	-	(51,779)	-	(51,779)
Stock dividend declared	4,151,722	41	145,685	(145,844)	-	(118)
Stock-based compensation expense	-	-	5,857	-	-	5,857
Forfeiture of restricted stock	(5,992)	-	-	-	-	-
Balance at December 31, 2017	56,123,228	\$ 561	\$ 1,144,570	\$ 258,164	\$ 3,992	\$ 1,407,287
Cumulative effect of newly adopted accounting standards (Note 2)	-	-	-	5,766	(3,992)	1,774
Balance at January 1, 2018	56,123,228	\$ 561	\$ 1,144,570	\$ 263,930	\$ -	\$ 1,409,061
Net Income	-	-	-	210,780	-	210,780
Shares issued under stock-based compensation programs, net	497,024	5	9,855	-	-	9,860
Cash dividends declared	-	-	-	(67,718)	-	(67,718)
Stock-based compensation expense	-	-	14,017	-	-	14,017
Forfeiture of restricted stock	(4,900)	-	-	-	-	-
Balance at December 31, 2018	56,615,352	\$ 566	\$ 1,168,442	\$ 406,992	\$ -	\$ 1,576,000
Cumulative effect of newly adopted accounting standards (Note 2)	-	-	-	(67)	-	(67)
Balance at January 1, 2019	56,615,352	\$ 566	\$ 1,168,442	\$ 406,925	\$ -	\$ 1,575,933
Net Income	-	-	-	238,312	-	238,312
Shares issued under stock-based compensation programs, net	1,429,993	15	15,326	-	-	15,341
Cash dividends declared	-	-	-	(73,020)	-	(73,020)
Stock dividend declared	4,534,908	45	138,949	(139,091)	-	(97)
Stock-based compensation expense	-	-	26,016	-	-	26,016
Forfeiture of restricted stock	(5,292)	-	-	-	-	-
Balance at December 31, 2019	62,574,961	\$ 626	\$ 1,348,733	\$ 433,126	\$ -	\$ 1,782,485

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-6

## [Table of Contents](#)

### **M.D.C. HOLDINGS, INC.** **Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
<b>Operating Activities:</b>			
Net income	\$ 238,312	\$ 210,780	\$ 141,835
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Stock-based compensation expense	26,016	14,017	5,857
Depreciation and amortization	23,054	21,326	5,321
Inventory impairments	935	21,850	10,010
Other-than-temporary impairment of marketable securities	-	-	286
Net gain on sale of available-for-sale marketable securities	-	-	(18,122)
Net (gain) loss on marketable equity securities	(11,797)	3,745	-
Gain on sale of metropolitan district bond securities (related party)	-	-	(35,847)
Amortization of discount / premiums on marketable debt securities	-	(366)	-
Deferred income tax expense	13,670	3,729	44,787
Net changes in assets and liabilities:			
Trade and other receivables	(12,997)	(4,638)	(13,763)
Mortgage loans held-for-sale	(47,810)	(11,097)	660
Housing completed or under construction	(83,484)	(12,082)	(69,548)
Land and land under development	(149,577)	(304,250)	(10,169)
Prepaid expenses and other assets	(4,694)	(245)	(13,121)
Accounts payable and accrued liabilities	66,205	49,325	22,320
Net cash provided by (used in) operating activities	57,833	(7,906)	70,506
<b>Investing Activities:</b>			
Purchases of marketable securities	(11,708)	(18,850)	(67,239)
Maturities of marketable securities	-	50,000	-
Sales of marketable securities	7,637	16,230	83,315
Proceeds from sale of metropolitan district bond securities (related party)	-	-	44,253
Purchases of property and equipment	(24,714)	(27,166)	(2,539)
Net cash provided by (used in) investing activities	(28,785)	20,214	57,790

**Financing Activities:**

Advances (payments) on mortgage repurchase facility, net	32,801	4,475	(2,145)
Proceeds from issuance of senior notes	-	-	146,463
Dividend payments	(73,117)	(67,718)	(51,897)
Payments of deferred financing costs	-	(3,026)	(2,665)
Issuance of shares under stock-based compensation programs, net	15,341	9,860	9,501
Net cash provided by (used in) financing activities	(24,975)	(56,409)	99,257
Net increase (decrease) in cash, cash equivalents and restricted cash	4,073	(44,101)	227,553
Cash, cash equivalents and restricted cash:			
Beginning of year	470,139	514,240	286,687
End of year	<u>\$ 474,212</u>	<u>\$ 470,139</u>	<u>\$ 514,240</u>
Reconciliation of cash, cash equivalents and restricted cash:			
Homebuilding:			
Cash and cash equivalents	\$ 424,186	\$ 414,724	\$ 472,957
Restricted cash	14,279	6,363	8,812
Financial Services:			
Cash and cash equivalents	35,747	49,052	32,471
Total cash, cash equivalents and restricted cash	<u>\$ 474,212</u>	<u>\$ 470,139</u>	<u>\$ 514,240</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-7

## [Table of Contents](#)

### 1. [Summary of Significant Accounting Policies](#)

**Principles of Consolidation.** The Consolidated Financial Statements of M.D.C. Holdings, Inc. ("MDC," "the Company," "we," "us," or "our" which refers to M.D.C. Holdings, Inc. and its subsidiaries) include the accounts of MDC and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year's presentation.

**Description of Business.** We have homebuilding operations in Arizona, California, Colorado, Florida, Maryland, Nevada, Oregon, Utah, Virginia and Washington. The primary functions of our homebuilding operations include land acquisition and development, home construction, purchasing, marketing, merchandising, sales and customer service. We build and sell primarily single-family detached homes, which are designed and built to meet local customer preferences. We are the general contractor for all of our projects and retain subcontractors for site development and home construction.

Our financial services operations consist of HomeAmerican Mortgage Corporation ("HomeAmerican"), which originates mortgage loans, primarily for our homebuyers, American Home Insurance Agency, Inc. ("American Home Insurance"), which offers third-party insurance products to our homebuyers, and American Home Title and Escrow Company ("American Home Title"), which provides title agency services to the Company and our homebuyers in Colorado, Florida, Maryland, Nevada and Virginia. The financial services operations also include Allegiant Insurance Company, Inc., A Risk Retention Group ("Allegiant"), which provides insurance coverage primarily to our homebuilding subsidiaries on homes that have been delivered and most of our subcontractors for completed work on those delivered homes, and StarAmerican Insurance Ltd. ("StarAmerican"), a wholly owned subsidiary of MDC, which is a re-insurer of Allegiant claims.

**Presentation.** Our balance sheet presentation is unclassified due to the fact that certain assets and liabilities have both short and long-term characteristics.

**Use of Accounting Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents.** The Company periodically invests funds in highly liquid investments with an original maturity of three months or less, such as U.S. government securities, commercial bank deposits, commercial paper, certificates of deposit, money market funds and time deposits, which are included in cash and cash equivalents in the consolidated balance sheets and consolidated statements of cash flows.

**Equity securities.** Our equity securities consist of holdings in common stock and exchange traded funds and are recorded at fair value with all changes in fair value recorded to other income / (expense), net in the financial services section of our consolidated statements of operations and comprehensive income. On January 1, 2018, we adopted ASU 2016-01 using a modified retrospective transition method. Prior to this amendment, our equity investments with readily determinable fair values were classified as available for sale with changes in fair value initially recorded through other comprehensive income, subject to an assessment to determine if any unrealized loss, if applicable, was other-than-temporary. See Note 2 for further discussion of adoption of new accounting standards.

**Debt securities.** Our debt securities consist of U.S. government securities and are treated as available-for-sale investments and, as such, are recorded at fair value with all changes in fair value initially recorded through other comprehensive income, subject to an assessment to determine if any unrealized loss, if applicable, is other-than-temporary.

**Restricted Cash.** We receive cash earnest money deposits from our customers who enter into home sale contracts. In certain states we are restricted from using such deposits for general purposes, unless we take measures to release state imposed restrictions on such deposits received from homebuyers, which may include posting blanket surety bonds. We had \$14.3 million and \$6.4 million in restricted cash related to homebuyer deposits at December 31, 2019 and 2018, respectively.

**Trade and Other Receivables.** Trade and other receivables primarily includes home sale receivables, which reflects cash to be received from title companies or outside brokers associated with closed homes. Generally, we will receive cash from title companies and outside brokers within a few days of the

home being closed. At December 31, 2019 and 2018, receivables from contracts with customers were \$46.6 million and \$34.8 million, respectively, and are included in trade and other receivables on the accompanying consolidated balance sheets.

*Mortgage Loans Held-for-Sale, net.* Mortgage loans held-for-sale are recorded at fair value based on quoted market prices and estimated market prices received from a third-party. Using fair value allows an offset of the changes in fair values of the mortgage loans and the derivative instruments used to hedge them without having to comply with the requirements for hedge accounting.

*Inventories.* Our inventories are primarily associated with communities where we intend to construct and sell homes, including models and unsold homes. Costs capitalized to land and land under development primarily include: (1) land costs; (2) land development costs; (3) entitlement costs; (4) capitalized interest; (5) engineering fees; and (6) title insurance, real property taxes and closing costs directly related to the purchase of the land parcel. Components of housing completed or under construction primarily include: (1) land costs transferred from land and land under development; (2) direct construction costs associated with a house; (3) real property taxes, engineering fees, permits and other fees; (4) capitalized interest; and (5) indirect construction costs, which include field construction management salaries and benefits, utilities and other construction related costs. Land costs are transferred from land and land under development to housing completed or under construction at the point in time that construction of a home on an owned lot begins.

In accordance with Accounting Standards Codification (“ASC”) Topic 360, *Property, Plant, and Equipment* (“ASC 360”), homebuilding inventories, excluding those classified as held for sale, are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We evaluate inventories for impairment at each quarter end on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

- actual and trending “Operating Margin” (which is defined as home sale revenues less home cost of sales and all incremental costs associated directly with the subdivision, including sales commissions and marketing costs);
- estimated future undiscounted cash flows and Operating Margin;
- forecasted Operating Margin for homes in backlog;
- actual and trending net home orders;
- homes available for sale;
- market information for each sub-market, including competition levels, home foreclosure levels, the size and style of homes currently being offered for sale and lot size; and
- known or probable events indicating that the carrying value may not be recoverable.

If events or circumstances indicate that the carrying value of our inventory may not be recoverable, assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision (including capitalized interest) to its carrying value. If the undiscounted future cash flows are less than the subdivision’s carrying value, the carrying value of the subdivision is written down to its then estimated fair value. We generally determine the estimated fair value of each subdivision by determining the present value of the estimated future cash flows at discount rates, which are Level 3 inputs (see Note 7, *Fair Value Measurements*, in the notes to the financial statements for definitions of fair value inputs), that are commensurate with the risk of the subdivision under evaluation. The evaluation for the recoverability of the carrying value of the assets for each individual subdivision can be impacted significantly by our estimates of future home sale revenues, home construction costs, and development costs per home, all of which are Level 3 inputs.

If land is classified as held for sale, in accordance with ASC 360, we measure it at the lower of the carrying value or fair value less estimated costs to sell. In determining fair value, we primarily rely upon the most recent negotiated price which is a Level 2 input (see Note 7, *Fair Value Measurements*, for definitions of fair value inputs). If a negotiated price is not available, we will consider several factors including, but not limited to, current market conditions, recent comparable sales transactions and market analysis studies. If the fair value less estimated costs to sell is lower than the current carrying value, the land is impaired down to its estimated fair value less costs to sell.

*Costs Related to Sales Facilities.* Subsequent to the adoption of ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, on January 1, 2018, certain marketing costs related to model homes or on-site sales facilities are either recorded as inventory, capitalized as property and equipment, or expensed as incurred. See Note 2 for further discussion of adoption of new accounting standards. Costs related to interior and exterior upgrades to the home that will be sold as part of the home, such as wall treatments and additional upgraded landscaping, are recorded as housing completed or under construction. Costs to furnish and ready the model home or on-site sales facility that will not be sold as part of the model home, such as furniture, construction of the sales facility parking lot or construction of the sales center, are capitalized as property and equipment, net. Other costs incurred related to the marketing of the community and readying the model home for sale are expensed as incurred.

*Property and Equipment, net.* Property and equipment is carried at cost less accumulated depreciation. For property and equipment related to on-site sales facilities, depreciation is recorded using the units of production method as homes are delivered. For all other property and equipment, depreciation is recorded using a straight-line method over the estimated useful lives of the related assets, which range from 2 to 29 years. Depreciation and amortization expense for property and equipment was \$22.8 million, \$20.5 million and \$4.5 million for the years ended December 31, 2019, 2018 and 2017, respectively which is recorded in selling, general and administrative expenses in the homebuilding or financial services sections of our consolidated statements of operations and comprehensive income.

The following table sets forth the cost and carrying value of our homebuilding property and equipment by major asset category.

	Cost	Accumulated Depreciation and Amortization	Carrying Value
December 31, 2019:		(Dollars in thousands)	
Sales facilities	\$ 60,964	\$ (25,802)	\$ 35,162
Airplane	31,230	(10,145)	21,085
Computer software and equipment	22,660	(20,730)	1,930
Leasehold improvements	7,339	(5,817)	1,522
Other	2,056	(1,341)	715
Total	<u>\$ 124,249</u>	<u>\$ (63,835)</u>	<u>\$ 60,414</u>
December 31, 2018:			
Sales facilities	\$ 59,374	\$ (26,920)	\$ 32,454
Airplane	31,013	(9,488)	21,525
Computer software and equipment	21,507	(19,374)	2,133
Leasehold improvements	6,827	(5,188)	1,639
Other	1,577	(1,161)	416
Total	<u>\$ 120,298</u>	<u>\$ (62,131)</u>	<u>\$ 58,167</u>

*Deferred Tax Assets, net.* Deferred income taxes reflect the net tax effects of temporary differences between (1) the carrying amounts of the assets and liabilities for financial reporting purposes and (2) the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized.

*Variable Interest Entities.* In accordance with ASC Topic 810, *Consolidation* (“ASC 810”), we analyze our land option contracts and other contractual arrangements to determine whether the corresponding land sellers are variable interest entities (“VIEs”) and, if so, whether we are the primary beneficiary. Although we do not have legal title to the optioned land, ASC 810 requires a company to consolidate a VIE if the company is determined to be the primary beneficiary. In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact VIE’s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. We have concluded that, as of December 31, 2019 and 2018, we were not the primary beneficiary of any VIEs from which we are purchasing land under land option contracts.

*Goodwill.* In accordance with ASC Topic 350, *Intangibles–Goodwill and Other* (“ASC 350”), we evaluate goodwill for possible impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use a three-step process to assess the realizability of goodwill. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there are indicators of a significant decline in the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will proceed to the third step where the fair value of the reporting unit will be allocated to assets and liabilities as they would in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in the third step.

Based on our analysis, we have concluded that as of December 31, 2019 and 2018, our goodwill was not impaired.

*Liability for Unrecognized Tax Benefits.* ASC Topic 740, *Income Taxes*, regarding liabilities for unrecognized tax benefits provides guidance for the recognition and measurement in financial statements of uncertain tax positions taken or expected to be taken in a tax return.

The evaluation of a tax position is a two-step process, the first step being recognition. We determine whether it is more-likely-than-not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority. Once the gross unrecognized tax benefit is determined, we also accrue for any interest and penalties, as well as any offsets expected from resultant amendments to federal or state tax returns. We record the aggregate effect of these items in income tax expense in the consolidated statements of operations and comprehensive income. To the extent this tax position would be offset against a similar deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed, the liability is treated as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. Otherwise, we record the corresponding liability in accrued liabilities in our consolidated balance sheets.

*Warranty Accrual.* Our homes are sold with limited third-party warranties. Under our agreement with the issuer of the third-party warranties, we are responsible for performing all of the work for the first two years of the warranty coverage and paying for substantially all of the work required to be performed during years three through ten of the warranties. We record accruals for general and structural warranty claims, as well as accruals for known, unusual warranty-related expenditures. Our warranty accrual is recorded based upon historical payment experience in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. The determination of the warranty accrual rate for closed homes and the evaluation of our warranty accrual balance at period end are based on an internally developed analysis that includes known facts and interpretations of circumstances, including, among other things, our trends in historical warranty payment levels and warranty payments for claims not considered to be normal and recurring.

Warranty payments are recorded against the warranty accrual. Additional reserves may be established for known, unusual warranty-related expenditures not covered through the independent warranty accrual analysis performed by us. Warranty payments incurred for an individual house may differ from the related reserve established for the home at the time it was closed. The actual disbursements for warranty claims are evaluated in the aggregate to determine if an adjustment to the historical warranty accrual should be recorded.

We assess the reasonableness and adequacy of the reserve and the per-unit reserve amount originally included in home cost of sales, as well as the timing of the reversal of any excess reserve on a quarterly basis, using historical payment data and other relevant information. Our warranty accrual is included in accrued and other liabilities in the homebuilding section of our consolidated balance sheets and adjustments to our warranty accrual are recorded as an increase or reduction to home cost of sales in the homebuilding section of our consolidated statements of operations and comprehensive income.

*Insurance Reserves.* The establishment of reserves for estimated losses associated with insurance policies issued by Allegiant and re-insurance agreements issued by StarAmerican are based on actuarial studies that include known facts and interpretations of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns depending on the business conducted, and changing regulatory and legal environments. It is possible that changes in the insurance payment experience used in estimating our ultimate insurance losses could have a material impact on our insurance reserves. See Note 14 to the Consolidated Financial Statements.

*Reserves for Construction Defect Claims.* The establishment of reserves for estimated losses to be incurred by our homebuilding subsidiaries associated with (1) the self-insured retention (“SIR”) portion of construction defect claims that are expected to be covered under insurance policies with Allegiant and (2) the entire cost of any construction defect claims that are not expected to be covered by insurance policies with Allegiant are based on actuarial studies that include known facts similar to those established for our insurance reserves. It is possible that changes in the payment experience used in estimating our ultimate losses for construction defect claims could have a material impact on our reserves. See Note 14 to the Consolidated Financial Statements.

*Litigation Reserves.* We and certain of our subsidiaries have been named as defendants in various cases. We reserve for estimated exposure with respect to these cases based upon currently available information on each case. See Note 18 to the Consolidated Financial Statements.

*Derivative Financial Instruments.* The derivative instruments we utilize in the normal course of business are interest rate lock commitments and forward sales of mortgage-backed securities, both of which typically are short-term in nature. Forward sales of mortgage-backed securities are utilized to hedge changes in fair value of our interest rate lock commitments as well as mortgage loans held-for-sale that are not under commitments to sell. For forward sales of mortgage-backed securities, as well as interest rate lock commitments that are still outstanding at the end of a reporting period, we record the changes in fair value of the derivatives in revenues in the financial services section of our consolidated statements of operations and comprehensive income with an offset to other assets or accounts payable and accrued liabilities in the financial services section of our consolidated balance sheets, depending on the nature of the change.

At December 31, 2019 and 2018, we had interest rate lock commitments with aggregate principal balances of \$104.5 million and \$101.1 million, respectively, at average interest rates of 3.72% and 4.78% respectively. In addition, we had \$58.5 million and \$17.8 million of mortgage loans held-for-sale at December 31, 2019 and 2018, respectively, that had not yet been committed to a mortgage purchaser. In order to economically hedge the changes in fair value of our interest rate lock commitments and mortgage loans held-for-sale which had not yet been committed to a mortgage purchaser, we had forward sales of securities totaling \$108.5 million and \$65.5 million at December 31, 2019 and 2018, respectively.

For the years ended December 31, 2019, 2018 and 2017, we recorded net gains (losses) on our derivatives of \$0.3 million, \$0.4 million and (\$1.7) million, respectively. For further discussion of our policies regarding interest rate lock commitments, see our “Revenue Recognition for HomeAmerican” accounting policy section below.

*Revenue Recognition for Homebuilding Segments.* We recognize home sale revenues from home deliveries when we have satisfied the performance obligations within the sales agreement, which is generally when title to and possession of the home are transferred to the buyer at the home closing date. Revenue from a home delivery includes the base sales price and any purchased options and upgrades and is reduced for any sales price incentives.

We generally do not record the sale of a home or recognize the associated revenue if all of the following criteria are present: (1) HomeAmerican originates the mortgage loan and has not sold the mortgage loan, or loans, as of the end of the pertinent reporting period; and (2) the homebuyer does not meet certain collectability thresholds, based on the type of mortgage loan, related to their credit score, debt to income ratio and loan to value ratio. The deferral is subsequently recognized at the time HomeAmerican sells the respective loan to a third-party purchaser. In the event the gross margin is a loss, we recognize such loss at the time the home is closed.

In certain states where we build, we are not always able to complete certain outdoor features (such as landscaping or pools) prior to closing the home. To the extent these separate deliverables are not complete upon the closing of a home, we defer home sale revenues related to incomplete outdoor features, and recognize that revenue upon completion of the outdoor features.

Revenue expected to be recognized in any future year related to remaining performance obligations (if any) and contract liabilities expected to be recognized as revenue, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material.

*Revenue Recognition for HomeAmerican.* Revenues recorded by HomeAmerican primarily reflect (1) origination fees and (2) the corresponding sale, or expected future sale, of a loan, which will include the estimated earnings from either the release or retention of a loan's servicing rights. Origination fees are recognized when a loan is originated. When an interest rate lock commitment is made to a customer, we record the expected gain on sale of the mortgage, plus the estimated earnings from the expected sale of the associated servicing rights, adjusted for a pull-through percentage (which is defined as the likelihood that an interest rate lock commitment will be originated), as revenue. As the interest rate lock commitment gets closer to being originated, the expected gain on the sale of that loan plus its servicing rights is updated to reflect current market value and the increase or decrease in the fair value of that interest rate lock commitment is recorded through revenues. At the same time, the expected pull-through percentage of the interest rate lock commitment to be originated is updated (typically an increase as the interest lock commitment gets closer to origination) and, if there has been a change, revenues are adjusted as necessary. After origination, our mortgage loans, generally including their servicing rights, are sold to third-party purchasers in accordance with sale agreements entered into by us with a third-party purchaser of the loans. We make representations and warranties with respect to the status of loans transferred in the sale agreements. The sale agreements generally include statements acknowledging the transfer of the loans is intended by both parties to constitute a sale. Sale of a mortgage loan has occurred when the following criteria, among others, have been met: (1) fair consideration has been paid for transfer of the loan by a third party in an arms-length transaction, (2) all the usual risks and rewards of ownership that are in substance a sale have been transferred by us to the third party purchaser; and (3) we do not have a substantial continuing involvement with the mortgage loan.

We measure mortgage loans held-for-sale at fair value with the changes in fair value being reported in earnings at each reporting date. The impact of recording changes in fair value to earnings did not have a material impact on our financial position, results of operations or cash flows during the years ended December 31, 2019, 2018 or 2017. Our net gains on the sale of mortgage loans were \$55.3 million, \$41.6 million and \$39.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, and are included as a component of revenues in the financial services section of the consolidated statements of operations and comprehensive income.

*Home Cost of Sales.* Home cost of sales includes the specific construction costs of each home and all applicable land acquisition, land development and related costs, warranty costs and finance and closing costs, including closing cost incentives. We use the specific identification method for the purpose of accumulating home construction costs and allocate costs to each lot within a subdivision associated with land acquisition and land development based upon relative fair value of the lots prior to home construction. Lots within a subdivision typically have comparable fair values, and, as such, we generally allocate costs equally to each lot within a subdivision. We record all home cost of sales when a home is closed and performance obligations have been completed on a house-by-house basis.

When a home is closed, we may not have paid for all costs necessary to complete the construction of the home. This includes (1) construction that has been completed on a house but has not yet been billed or (2) work still to be performed on a home (such as limited punch-list items or certain outdoor features). For each of these items, we create an estimate of the total expected costs to be incurred and, with the exclusion of outdoor features, the estimated total costs for those items, less any amounts paid to date, are included in home cost of sales. Actual results could differ from such estimates. For incomplete outdoor features, we will defer the revenue and any cost of sales on this separate stand-alone deliverable until complete.

**Stock-Based Compensation Expense.** In accordance with ASC Topic 718, *Compensation—Stock Compensation* (“ASC 718”), stock-based compensation expense for all share-based payment awards is based on the grant date fair value. For stock option awards granted with just service and/or performance conditions, we estimate the fair value using a Black-Scholes option pricing model. For any stock option awards granted that contain a market condition, we estimate the fair value using a Monte Carlo simulation model. We recognize expense for share-based payment awards based on their varying vesting conditions as follows:

- Awards with service-based vesting conditions only – Expense is recognized on a straight-line basis over the requisite service period of the award.
- Awards with performance-based vesting conditions – Expense is not recognized until it is determined that it is probable the performance-based conditions will be met. When achievement of a performance-based condition is probable, a catch-up of expense will be recorded as if the award had been vesting on a straight-line basis from the award date. The award will continue to be expensed on a straight-line basis until the probability of achieving the performance-based condition changes, if applicable.
- Awards with market-based vesting conditions (“Market-Based”) – Expense is recognized on a straight-line basis over the requisite service period, which is the lesser of the derived service period or the explicit service period, if one is present. However, if the market condition is satisfied prior to the end of the requisite service period, we will accelerate all remaining expense to be recognized.

An annual forfeiture rate is estimated at the time of grant for all share-based payment awards that contain service and/or performance conditions. That rate is revised, if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate.

**Earnings (Loss) Per Common Share.** For purposes of calculating earnings (loss) per share (“EPS”), a company that has participating security holders (for example, holders of unvested restricted stock that have non-forfeitable dividend rights) is required to utilize the two-class method for calculating earnings per share unless the treasury stock method results in lower EPS. The two-class method is an allocation of earnings/(loss) between the holders of common stock and a company’s participating security holders. Under the two-class method, earnings/(loss) for the reporting period are allocated between common shareholders and other security holders based on their respective rights to receive distributed earnings (i.e., dividends) and undistributed earnings (i.e., net income/(loss)). Our common shares outstanding are comprised of shareholder owned common stock and shares of unvested restricted stock held by participating security holders. Basic EPS is calculated by dividing income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding, excluding participating shares in accordance with ASC 260. To calculate diluted EPS, basic EPS is further adjusted to include the effect of potentially dilutive stock options outstanding.

## **2. Recently Issued Accounting Standards**

### **Adoption of New Accounting Standards**

ASU 2016-02, *Leases* (“ASU 2016-02”) is codified in ASC 842, *Leases* (“ASC 842”). ASC 842 supersedes current lease guidance in ASC 840 and requires a lessee to recognize a right-of-use asset and a corresponding lease liability for substantially all leases. The lease liability is equal to the present value of the remaining lease payments while the right-of-use asset is similarly calculated and then adjusted for initial direct costs. In addition, ASC 842 expands the disclosure requirements to increase the transparency and comparability of the amount, timing and uncertainty of cash flows arising from leases. On January 1, 2019, we adopted ASC 842 using the modified retrospective transition method. We elected available practical expedients permitted under the transition guidance within the new standard, which among other items, allowed the Company to carry forward its historical lease classification and not reassess existing leases under the new definition of a lease in ASC 842. In addition, we will account for lease and non-lease components as a single lease component.

The adoption of ASC 842 resulted in the recording of additional net lease assets and lease liabilities of \$34.2 million and \$34.3 million, respectively, as of January 1, 2019. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as an adjustment to retained earnings. The operating lease right-of-use asset and lease liability is included as a component of prepaid and other assets and accrued and other liabilities, respectively, in the homebuilding section and other assets and accounts payable and accrued liabilities, respectively, in the financial services section of our consolidated balance sheet. The standard did not materially impact our consolidated statements of operations and comprehensive income or consolidated cash flows.

ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)* (“ASU 2018-02”). ASU 2018-02 allows for a reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act that was signed into law in December of 2017 (the “Act”). ASU 2018-02 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be applied either (a) at the beginning of the period of adoption or (b) retrospectively to each period in which the income tax effects of the Act related to items remaining in accumulated other comprehensive income are recognized. On January 1, 2018, we adopted ASU 2018-02 by recognizing an adjustment to the opening balance of retained earnings for certain tax effects related to net unrealized gains on equity investments. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period. Please see the table below for a summary of all transition adjustments from adoption of new accounting guidance.

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force (“ASU 2016-18”). ASU 2016-18 amends ASC 830, *Statement of Cash Flows* and requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the statements of cash flows. In certain states, we are restricted from using deposits received from our customers who enter into home sale contracts for general purposes unless we take measures to release state imposed restrictions on such deposits received from homebuyers, which may include posting blanket surety bonds. As a result, cash deposits with such restrictions are classified as restricted cash. On January 1, 2018, we adopted ASU 2016-18 using the retrospective transition method. The comparative information in our statements of cash flows has been restated and the impact from adoption of this guidance was not material to our statements of cash flows.

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (a consensus of the Emerging Issues Task Force) (“ASU 2016-15”). ASU 2016-15 amends ASC 830, *Statement of Cash Flows* and clarifies guidance on the classification of certain cash receipts and payments in the statements of cash flows. On January 1, 2018, we adopted ASU 2016-15 using the retrospective transition method. There were no items in our comparative statements of cash flows that required restatement as a result of the adoption of ASU 2016-15 and the impact from adoption of this guidance was not material to our statements of cash flows.

ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). On January 1, 2018, we adopted ASU 2016-01 using a modified retrospective transition method. Prior to this amendment, our equity investments with readily determinable fair values were classified as available for sale with changes in fair value being reported through other comprehensive income. Under the amended standard, any changes in fair value of equity investments with readily determinable fair values are now recognized in net income. We adopted the changes from ASU 2016-01 by recognizing an adjustment to beginning retained earnings for our net unrealized gains/losses on equity investments with readily determinable fair values. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period. Please see the table below for a summary of all transition adjustments from adoption of new accounting guidance. The effect of the change on income before income taxes for the year ended December 31, 2018 was a decrease of approximately \$1.6 million.

ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). In May 2014, ASU 2014-09 was issued which created ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) and is a comprehensive new revenue recognition model. In addition, ASU 2014-09 amended ASC 340, *Other Assets and Deferred Costs*, by adding ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers* (“ASC 340-40”). On January 1, 2018, we adopted ASC 606 and ASC 340-40 using the modified retrospective transition method applied to contracts that were not completed as of January 1, 2018. We recognized the cumulative effect of initially applying ASC 606 and ASC 340-40 as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period. Please see the table below for a summary of all transition adjustments from adoption of the new accounting guidance. As a result of adopting ASC 606 and ASC 340-40, there was not a material impact to our consolidated balance sheets or consolidated statements of operations and comprehensive income.

## Table of Contents

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2018-02, ASU 2016-01 and ASU 2014-09 were as follows:

	Balance at December 31, 2017	Adjustments due to ASU 2018-02	Adjustments due to ASU 2016-01	Adjustments due to ASU 2014-09	Balance at January 1, 2018
<b>Balance Sheet</b>					
(Dollars in thousands)					
<b>Assets:</b>					
Homebuilding:					
Housing completed or under construction	\$ 936,685	\$ -	\$ -	\$ 7,406	\$ 944,091
Property and equipment, net	26,439	-	-	25,270	51,709
Prepaid and other assets	75,666	-	-	(34,227)	41,439
Deferred tax asset, net	41,480	-	-	(573)	40,907
Financial Services:					
Other assets	9,617	-	-	3,898	13,515
<b>Stockholders' Equity:</b>					
Retained earnings	258,164	(860)	4,852	1,774	263,930
Accumulated other comprehensive income	3,992	860	(4,852)	-	-

### Accounting Standards Issued But Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires measurement and recognition of expected credit losses for financial assets held. The amendments in ASU 2016-13 eliminate the probable threshold for initial recognition of a credit loss in current GAAP and reflect an entity’s current estimate of all expected credit losses. ASU 2016-13 is effective for our interim and annual reporting periods beginning January 1, 2020, and is to be applied using a modified retrospective transition method. We are still assessing the potential impact that ASU 2016-13 will have on our financial statements and disclosures, but expect the cumulative effect adjustment to the opening balance of retained earnings to result in a decrease of approximately \$0.1 million. The actual impact may differ from our estimate. We do not expect there will be a material impact to our consolidated statements of operations and comprehensive income or consolidated cash flows as a result of adoption of this new guidance.

### 3. Supplemental Income Statement and Cash Flow Disclosure

The table below details homebuilding interest and other income and financial services other income (expense), net:

	Year Ended December 31,		
	2019	2018	2017
<b>Homebuilding</b>			
Interest and other income			
Interest income	\$ 7,797	\$ 6,376	\$ 3,896
Dividend income	-	-	1,160
Net realized gains from the sales of marketable securities	-	-	17,775
Realized gain from the sale of metropolitan district bond securities (related party)	-	-	35,847
Other income	1,273	1,342	2,658
Total	<u>\$ 9,070</u>	<u>\$ 7,718</u>	<u>\$ 61,336</u>
<b>Financial Services</b>			
Other income (expense), net			
Interest income	\$ 4,404	\$ 4,031	\$ 2,924
Dividend income	1,022	869	1,031
Gain (loss) on marketable equity securities, net	11,797	(3,745)	-
Total	<u>\$ 17,223</u>	<u>\$ 1,155</u>	<u>\$ 3,955</u>

The table below sets forth supplemental disclosures of cash flow information and non-cash investing and financing activities.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Cash paid for:			
Interest, net of interest capitalized	\$ 685	\$ 726	\$ 637
Income taxes	\$ 56,476	\$ 30,157	\$ 49,830

#### 4. Segment Reporting

An operating segment is defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the Chief Operating Decision Maker (“CODM”), or decision-making group, to evaluate performance and make operating decisions. We have identified our CODM as two key executives—the Chief Executive Officer (“CEO”) and the Chief Operating Officer (“COO”).

We have identified each homebuilding division as an operating segment. Our homebuilding operating segments have been aggregated into the reportable segments noted below because they are similar in the following regards: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) methods used to construct and sell homes. Our homebuilding reportable segments are as follows:

- West (Arizona, California, Nevada, Washington and Oregon)
- Mountain (Colorado and Utah)
- East (mid-Atlantic, which includes Virginia and Maryland, and Florida)

Our financial services business consists of the following operating segments: (1) HomeAmerican; (2) Allegiant; (3) StarAmerican; (4) American Home Insurance; and (5) American Home Title. Due to its contributions to consolidated pretax income we consider HomeAmerican to be a reportable segment (“mortgage operations”). The remaining operating segments have been aggregated into one reportable segment (“other”) because they do not individually exceed 10 percent of (1) consolidated revenue; (2) the greater of (a) combined reported profit of all operating segments that did not report a loss or (b) the positive value of the combined reported loss of all operating segments that reported losses; or (3) consolidated assets.

Corporate is a non-operating segment that develops and implements strategic initiatives and supports our operating divisions by centralizing key administrative functions such as finance, treasury, information technology, insurance, risk management, litigation and human resources. Corporate also provides the necessary administrative functions to support MDC as a publicly traded company. A portion of the expenses incurred by Corporate are allocated to the homebuilding operating segments based on their respective percentages of assets, and to a lesser degree, a portion of Corporate expenses are allocated to the financial services segments. A majority of Corporate’s personnel and resources are primarily dedicated to activities relating to the homebuilding segments, and, therefore, the balance of any unallocated Corporate expenses is included in the homebuilding operations section of our consolidated statements of operations and comprehensive income.

The following tables present revenue and pretax income relating to our homebuilding and financial services operations:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
<b>Homebuilding</b>			
West	\$ 1,771,060	\$ 1,567,141	\$ 1,316,069
Mountain	1,131,568	1,080,475	805,669
East	302,620	334,195	381,504
Total homebuilding revenues	<u>\$ 3,205,248</u>	<u>\$ 2,981,811</u>	<u>\$ 2,503,242</u>
<b>Financial Services</b>			
Mortgage operations	\$ 55,222	\$ 53,476	\$ 48,841
Other	32,783	29,929	25,531
Total financial services revenues	<u>\$ 88,005</u>	<u>\$ 83,405</u>	<u>\$ 74,372</u>
Total revenues	<u>\$ 3,293,253</u>	<u>\$ 3,065,216</u>	<u>\$ 2,577,614</u>

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
<b>Homebuilding</b>			
West	\$ 163,069	\$ 128,829	\$ 79,719
Mountain	136,313	134,710	86,428
East	9,857	12,611	14,418
Corporate <sup>1</sup>	(64,477)	(58,656)	5,374
Total homebuilding pretax income	<u>\$ 244,762</u>	<u>\$ 217,494</u>	<u>\$ 185,939</u>
<b>Financial Services</b>			
Mortgage operations	\$ 29,312	\$ 31,920	\$ 28,628
Other	30,915	14,440	15,165
Total financial services pretax income	<u>\$ 60,227</u>	<u>\$ 46,360</u>	<u>\$ 43,793</u>
Total pretax income	<u>\$ 304,989</u>	<u>\$ 263,854</u>	<u>\$ 229,732</u>

<sup>1</sup> The pretax gain for the year ended December 31, 2017 was driven by \$53.6 million in realized gains due to the sale of investments.

The following table summarizes total assets for our homebuilding and financial services operations. The assets in our West, Mountain and East segments consist primarily of inventory while the assets in our Corporate segment primarily include cash and cash equivalents, marketable securities, and our deferred tax assets. The assets in our financial services operations consist mostly of cash and cash equivalents, marketable securities and mortgage loans held-for-sale.

	December 31,	
	2019	2018
	(Dollars in thousands)	
<b>Homebuilding Assets</b>		
West	\$ 1,461,645	\$ 1,301,374
Mountain	869,665	793,150
East	194,592	169,485
Corporate	505,507	484,193
Total homebuilding assets	<u>\$ 3,031,409</u>	<u>\$ 2,748,202</u>
<b>Financial Services</b>		
Mortgage operations	\$ 209,946	\$ 159,677
Other	97,001	93,198
Total financial services assets	<u>\$ 306,947</u>	<u>\$ 252,875</u>
Total assets	<u>\$ 3,338,356</u>	<u>\$ 3,001,077</u>

## 5. Earnings Per Share

On January 28, 2019, MDC's board of directors approved an 8% stock dividend that was distributed on February 28, 2019 to shareholders of record on February 14, 2019. Additionally, on November 20, 2017, MDC's board of directors approved an 8% stock dividend that was distributed on December 19, 2017 to shareholders of record on December 5, 2017. In accordance with ASC 260, basic and diluted earnings per share amounts, weighted-average shares outstanding, and dividends declared per share have been restated for all appropriate periods presented to reflect the effect of these stock dividends. The following table shows our basic and diluted EPS calculations:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands, except per share amounts)		
<b>Numerator</b>			
Net income	\$ 238,312	\$ 210,780	\$ 141,835
Less: distributed earnings allocated to participating securities	(466)	(413)	(257)
Less: undistributed earnings allocated to participating securities	(1,020)	(846)	(441)
Net income attributable to common stockholders (numerator for basic earnings per share)	236,826	209,521	141,137
Add back: undistributed earnings allocated to participating securities	1,020	846	441
Less: undistributed earnings reallocated to participating securities	(992)	(833)	(431)
Numerator for diluted earnings per share under two class method	<u>\$ 236,854</u>	<u>\$ 209,534</u>	<u>\$ 141,147</u>
<b>Denominator</b>			
Weighted-average common shares outstanding	61,616,988	60,571,123	60,117,021
Add: dilutive effect of stock options	1,737,945	984,076	1,336,557
Add: dilutive effect of performance share units	347,733	275,562	-
Denominator for diluted earnings per share under two class method	<u>63,702,666</u>	<u>61,830,761</u>	<u>61,453,578</u>
Basic Earnings Per Common Share	\$ 3.84	\$ 3.46	\$ 2.35
Diluted Earnings Per Common Share	\$ 3.72	\$ 3.39	\$ 2.30

Diluted EPS for the years ended December 31, 2019, 2018 and 2017 excluded options to purchase approximately 0.4 million, 0.7 million, 0.8 million shares, respectively, of common stock because the effect of their inclusion would be anti-dilutive.

## 6. Accumulated Other Comprehensive Income

The following table sets forth our changes in accumulated other comprehensive income:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Unrealized gains (losses) on available-for-sale marketable securities <sup>(1)</sup> :			
Beginning balance	\$ -	\$ 3,992	\$ 7,730
Adoption of accounting standards (Note 2)	-	(3,992)	-
Other comprehensive income (loss) before reclassifications	-	-	7,320
Amounts reclassified from AOCI <sup>(2)</sup>	-	-	(11,058)
Ending balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,992</u>
Unrealized gains on available-for-sale metropolitan district bond securities <sup>(1)</sup> :			
Beginning balance	\$ -	\$ -	\$ 14,341
Other comprehensive income before reclassifications	-	-	7,884
Amounts reclassified from AOCI	-	-	(22,225)
Ending balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total ending AOCI	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,992</u>

(1) All amounts net-of-tax.

(2) See separate table below for details about these reclassifications.

During the first quarter of 2018, an election was made to reclassify the income tax effects of the Tax Cuts and Jobs Act related to net unrealized gains on equity investments from accumulated other comprehensive income to retained earnings. See Note 2 for further discussion of adoption of new accounting standards.

The Metropolitan District Limited Tax General Obligation Capital Appreciation Bonds Series 2007 (the “Metro Bonds”) were acquired from a quasi-municipal corporation in the state of Colorado, which was formed to help fund and maintain the infrastructure associated with a master-planned community developed by our Company. During the 2017 third quarter, we sold the Metro Bonds for net proceeds of \$44.3 million. With a cost basis of \$8.5 million, we recorded a realized gain of \$35.8 million, which is included in interest and other income in the homebuilding section of our consolidated statements of operations and comprehensive income for the year ended December 31, 2017.

The following table sets forth the activity related to reclassifications out of accumulated other comprehensive income (loss) related to available for sale securities:

Affected Line Item in the Statements of Operations	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Homebuilding: Net realized gains (losses) from the sales of marketable securities	\$ -	\$ -	\$ 17,775
Homebuilding: Realized gain from the sale of metropolitan district bond securities (related party)	-	-	35,847
Homebuilding: Other-than-temporary impairment of marketable securities	-	-	(51)
Financial services: Interest and other income	-	-	347
Financial services: Other-than-temporary impairment of marketable securities	-	-	(235)
Income before income taxes	-	-	53,683
Provision for income taxes	-	-	(20,400)
Net income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,283</u>

## 7. Fair Value Measurements

ASC Topic 820, *Fair Value Measurements* (“ASC 820”), defines fair value, establishes guidelines for measuring fair value and requires disclosures regarding fair value measurements. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs, other than quoted prices in active markets, that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table sets forth the fair values and methods used for measuring the fair values of financial instruments on a recurring basis:

Financial Instrument	Hierarchy	Fair Value	
		December 31, 2019	December 31, 2018
(Dollars in thousands)			
Cash and cash equivalents			
Debt securities (available-for-sale)	Level 1	\$ -	\$ 34,866
Marketable securities			
Equity securities	Level 1	\$ 56,747	\$ 40,879
Mortgage loans held-for-sale, net	Level 2	\$ 197,021	\$ 149,211

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of December 31, 2019 and 2018.

*Cash and cash equivalents (excluding debt securities with an original maturity of three months or less), restricted cash, trade and other receivables, prepaid and other assets, accounts payable, accrued and other liabilities and borrowings on our revolving credit facility.* Fair value approximates carrying value.

*Equity securities.* Our equity securities consist of holdings in common stock and exchange traded funds and are recorded at fair value as with all changes in fair value recorded to other income / (expense), net in the financial services section of our consolidated statements of operations and comprehensive income. On January 1, 2018, we adopted ASU 2016-01 using a modified retrospective transition method. Prior to this amendment, our equity investments with readily determinable fair values were classified as available for sale with changes in fair value initially recorded through other comprehensive income, subject to an assessment to determine if any unrealized loss, if applicable, was other-than-temporary.

*Debt securities.* Our debt securities consist of U.S. government securities and are treated as available-for-sale investments and, as such, are recorded at fair value with all changes in fair value initially recorded through other comprehensive income, subject to an assessment to determine if any unrealized loss, if applicable, is other-than-temporary.

Each quarter we assess all of our securities in an unrealized loss position (excluding marketable equity securities subsequent to the adoption of ASU 2016-01 – see Note 2 for further discussion of adoption of new accounting standards) for a potential other-than-temporary impairment (“OTTI”). If the unrealized loss is determined to be other-than-temporary, an OTTI is recorded in other-than-temporary impairment of marketable securities in the homebuilding or financial services sections of our consolidated statements of operations and comprehensive income. For the year ended December 31, 2017, we recorded pretax OTTIs of \$0.3 million for certain marketable securities that were in an unrealized loss position as of period end. No OTTIs were recorded during the years ended December 31, 2019 or 2018.

The following tables set forth the amortized cost and estimated fair value of our available-for-sale debt securities.

	December 31, 2018			
	Amortized Cost	OTTI	Net Amortized Cost	Fair Value
<b>Financial Services</b>				
Cash and cash equivalents				
Debt securities	\$ 34,866	\$ -	\$ 34,866	\$ 34,866

The following table reconciles the net gain (loss) recognized during the year ended December 31, 2019 and 2018 on equity securities to the unrealized gain (loss) recognized during the period on equity securities still held at the reporting date.

	Year Ended December 31,	
	2019	2018
	(Dollars in thousands)	
Net gain (loss) recognized during the period on equity securities	\$ 11,797	\$ (3,745)
Less: Net gain (loss) recognized during the period on equity securities sold during the period	647	(534)
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 11,150</u>	<u>\$ (3,211)</u>

**Mortgage Loans Held-for-Sale, Net.** Our mortgage loans held-for-sale, which are measured at fair value on a recurring basis include (1) mortgage loans held-for-sale that are under commitments to sell and (2) mortgage loans held-for-sale that were not under commitments to sell. At December 31, 2019 and 2018, we had \$136.8 million and \$130.8 million, respectively, of mortgage loans held-for-sale that were under commitments to sell. The fair value for those loans was based on quoted market prices for those mortgage loans, which are Level 2 fair value inputs. At December 31, 2019 and 2018, we had \$60.2 million and \$18.5 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party, which is a Level 2 fair value input. The unpaid principal balances of all mortgage loans held for sale at December 31, 2019 and 2018 were \$191.3 million and \$143.9 million, respectively.

**Mortgage Repurchase Facility.** The debt associated with our Mortgage Repurchase Facility (see Note 17 for further discussion) is at floating rates that approximate current market rates and have relatively short-term maturities, generally within 30 days. The fair value approximates carrying value and is based on Level 2 inputs.

**Senior Notes.** The estimated values of the senior notes in the following table are based on Level 2 inputs, which primarily reflect estimated prices for our senior notes which were provided by multiple sources.

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
\$250 Million 5.625% senior notes due February 2020, net	\$ 249,909	\$ 250,400	\$ 248,850	\$ 253,413
\$250 Million 5.500% senior notes due January 2024, net	249,005	272,083	248,789	242,983
\$500 Million 6.000% senior notes due January 2043, net	490,508	528,542	490,328	386,552
Total	<u>\$ 989,422</u>	<u>\$ 1,051,025</u>	<u>\$ 987,967</u>	<u>\$ 882,948</u>

## 8. Inventories

The table below sets forth, by reportable segment, information relating to our homebuilding inventories.

	December 31, 2019	December 31, 2018
	(Dollars in thousands)	
Housing Completed or Under Construction:		
West	\$ 589,040	\$ 521,960
Mountain	358,370	347,738
East	88,781	82,738
Subtotal	1,036,191	952,436
Land and Land Under Development:		
West	772,189	705,591
Mountain	468,718	402,657
East	89,477	72,310
Subtotal	1,330,384	1,180,558
Total Inventories	\$ 2,366,575	\$ 2,132,994

Inventory impairments recognized by segment for the years ended December 31, 2019, 2018 and 2017 are shown in the table below.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Housing Completed or Under Construction:			
West	\$ 100	\$ 2,860	\$ 4,733
Mountain	-	417	390
East	435	1,227	2,720
Subtotal	535	4,504	7,843
Land and Land Under Development:			
West	-	16,198	1,252
Mountain	400	958	380
East	-	190	535
Subtotal	400	17,346	2,167
Total Inventory Impairments	\$ 935	\$ 21,850	\$ 10,010

During the year ended December 31, 2019, we recorded \$0.9 million of inventory impairments, of which \$0.4 million related to two projects in our East segment, \$0.4 million related to one project in our Mountain segment, and \$0.1 million related to one project in our West segment.

During the year ended December 31, 2018, we recorded \$21.9 million of inventory impairments, of which \$19.1 million related to seven projects in our West segment, \$1.4 million related to five projects in our East segment and \$1.4 million related to three projects in our Mountain segment.

The table below provides quantitative data, for the periods presented, used in determining the fair value of the impaired inventory.

Three Months Ended	Impairment Data				Quantitative Data	
	Total Subdivisions Tested	Inventory Impairments	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired	Discount Rate	
		(Dollars in thousands)				
March 31, 2019	16	\$ 610	\$ 10,476	2	N/A	
June 30, 2019	12	-	-	0	N/A	
September 30, 2019	16	-	-	0	N/A	
December 31, 2019	14	325	3,948	2	N/A	
Total		<u>\$ 935</u>				
March 31, 2018	24	\$ 550	\$ 5,223	2	12%	
June 30, 2018	17	200	767	1	12%	
September 30, 2018	17	11,098	29,874	2	12%	- 18%
December 31, 2018	20	10,002	32,248	10	12%	- 18%
Total		<u>\$ 21,850</u>				
March 31, 2017	33	\$ 4,850	\$ 19,952	2	12%	- 18%
June 30, 2017	35	-	-	0	N/A	
September 30, 2017	33	4,540	52,190	9	10%	- 15%
December 31, 2017	23	620	14,245	2	10%	- 12%
Total		<u>\$ 10,010</u>				

## 9. Capitalization of Interest

We capitalize interest to inventories during the period of development in accordance with ASC Topic 835, *Interest* (“ASC 835”). Homebuilding interest capitalized as a cost of inventories is included in cost of sales during the period that related units or lots are delivered. To the extent our homebuilding debt exceeds our qualified assets as defined in ASC 835, we expense a portion of the interest incurred. Qualified homebuilding assets consist of all lots and homes, excluding finished unsold homes or finished models, within projects that are actively selling or under development. The table set forth below summarizes homebuilding interest activity. For all periods presented below, our qualified assets exceeded our homebuilding debt and as such, all interest incurred has been capitalized.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Homebuilding interest incurred	\$ 63,635	\$ 62,631	\$ 55,170
Less: Interest capitalized	(63,635)	(62,631)	(55,170)
Homebuilding interest expensed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest capitalized, beginning of period	\$ 54,845	\$ 57,541	\$ 68,085
Plus: Interest capitalized during period	63,635	62,631	55,170
Less: Previously capitalized interest included in home and land cost of sales	(63,170)	(65,327)	(65,714)
Interest capitalized, end of period	<u>\$ 55,310</u>	<u>\$ 54,845</u>	<u>\$ 57,541</u>

## 10. Homebuilding Prepaid and Other Assets

The following table sets forth the components of homebuilding prepaid and other assets.

	December 31,	
	2019	2018
	(Dollars in thousands)	
Operating lease right-of-use asset (Note 2 and Note 11)	\$ 30,277	\$ -
Land option deposits	27,361	23,805
Prepaid expenses	7,294	7,324
Goodwill	6,008	6,008
Deferred debt issuance costs on revolving credit facility, net	6,130	7,662
Other	1,288	995
Total	<u>\$ 78,358</u>	<u>\$ 45,794</u>

## 11. Leases

We lease certain property, land and equipment, the majority of which comprise property related leases to provide office space where we operate our business. Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

Our property related leases typically have terms of between three and five years, with the exception of the lease governing the Company's headquarters, and are all classified as operating leases. These leases do not contain any residual value guarantees or restrictive covenants and no variable lease payments, except for common area maintenance and real estate taxes. Many of our property related leases give us the option to extend the lease term for a period of time, generally consistent with the initial lease term. These options are excluded from our calculation of the right-of-use asset and lease liability until such time as we determine it is reasonably certain that the option will be exercised.

The property related lease for the Company's headquarters in Denver, Colorado is ten years in length with an expiration date of October 31, 2026 and contains a ten year option to extend the term of the lease through 2036. This option has been excluded from our calculation of the right-of-use asset and lease liability as it is not currently considered reasonably certain that the option will be exercised.

Operating lease expense is included as a component of selling, general and administrative expenses and expenses in the homebuilding and financial services sections of our consolidated statements of operations and comprehensive income, respectively.

Components of operating lease expense were as follows:

	Year Ended December 31, 2019
	(Dollars in thousands)
Operating lease cost <sup>1</sup>	\$ 7,690
Sublease income (Note 16)	(150)
Net lease cost	<u>\$ 7,540</u>

<sup>1</sup> Includes variable lease costs, which are immaterial.

Rent expense under cancellable and non-cancellable operating leases totaled \$7.4 million and \$7.1 million in 2018 and 2017, respectively.

Supplemental cash flow information related to leases was as follows:

	Year Ended December 31, 2019
	(Dollars in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 7,255
Leased assets obtained in exchange for new operating lease liabilities	\$ 3,255

Supplemental cash flow information related to non-cash transactions also includes the recognition of operating lease right-of-use assets of \$33.5 million and operating lease liabilities of \$34.3 million upon adoption of ASC 842.

Weighted-average remaining lease term and discount rate for operating leases were as follows:

	December 31, 2019
Weighted-average remaining lease term (years)	6.1
Weighted-average discount rate	5.5%

Maturities of operating lease liabilities were as follows:

	Year Ended December 31,
2020	\$ 6,300
2021	6,705
2022	6,314
2023	5,294
2024	4,873
Thereafter	8,289
Total operating lease payments <sup>1</sup>	\$ 37,775
Less: Interest	5,605
Present value of operating lease liabilities <sup>2</sup>	\$ 32,170

<sup>1</sup> Operating lease payments exclude \$3.7 million of legally binding lease payments for leases signed but not yet commenced.

<sup>2</sup> Homebuilding and financial services operating lease liabilities of \$30.8 million and \$1.4 million, respectively, are included as a component of accrued and other liabilities and accrued liabilities, respectively, in the homebuilding and financial services section of our consolidated balance sheet at December 31, 2019.

## 12. Homebuilding Accrued and Other Liabilities and Financial Services Accounts Payable and Accrued Liabilities

The following table sets forth information relating to homebuilding accrued and other liabilities.

	December 31,	
	2019	2018
	(Dollars in thousands)	
Accrued compensation and related expenses	\$ 45,003	\$ 39,459
Customer and escrow deposits	39,001	34,463
Warranty accrual	31,386	28,262
Lease liability (Note 2 and Note 11)	30,830	-
Accrued interest	27,734	27,734
Construction defect claim reserves	8,196	8,464
Land development and home construction accruals	9,750	8,683
Other accrued liabilities	54,040	49,182
Total accrued and other liabilities	\$ 245,940	\$ 196,247

The following table sets forth information relating to financial services accounts payable and accrued liabilities.

	December 31,	
	2019	2018
	(Dollars in thousands)	
Insurance reserves	\$ 52,219	\$ 46,844
Accounts payable and other accrued liabilities	16,310	11,699
Total accounts payable and accrued liabilities	\$ 68,529	\$ 58,543

### 13. Warranty Accrual

The table set forth below summarizes accrual, adjustment and payment activity related to our warranty accrual for the years ended December 31, 2019, 2018 and 2017. During 2019, 2018 and 2017, we recorded \$0.1 million, \$3.4 million and \$1.3 million, respectively, in adjustments to increase our warranty accrual. The adjustments in 2018 and 2017 were due to higher than expected general warranty related expenditures. From time to time, we change our warranty accrual rates based on payment trends. Any changes made to those rates did not materially affect our warranty expense or gross margin from home sales for the years ended December 31, 2019, 2018 and 2017.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Balance at beginning of period	\$ 28,262	\$ 21,909	\$ 20,678
Expense provisions	15,525	14,513	10,769
Cash payments	(12,466)	(11,573)	(10,879)
Adjustments	65	3,413	1,341
Balance at end of period	<u>\$ 31,386</u>	<u>\$ 28,262</u>	<u>\$ 21,909</u>

### 14. Insurance and Construction Defect Claim Reserves

The following table summarizes our insurance and defect claim reserves activity for the years ended December 31, 2019, 2018 and 2017. These reserves are included as a component of accounts payable and accrued liabilities and accrued and other liabilities in either the financial services or homebuilding sections of the consolidated balance sheets, respectively.

	December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Balance at beginning of period	\$ 55,308	\$ 52,686	\$ 50,954
Expense provisions	12,650	11,213	9,697
Cash payments, net of recoveries	(8,493)	(8,591)	(9,215)
Adjustments	950	-	1,250
Balance at end of period	<u>\$ 60,415</u>	<u>\$ 55,308</u>	<u>\$ 52,686</u>

We recorded a \$1.0 million and \$1.3 million adjustment to increase our insurance and construction defect claim reserves in 2019 and 2017, respectively. The adjustments were related to greater than expected expenditures by our homebuilding subsidiaries. No such adjustments were required for the year ended December 31, 2018.

In the ordinary course of business, we make payments from our insurance and construction defect claim reserves to settle litigation claims arising primarily from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments, net of recoveries shown for the years ended December 31, 2019, 2018 and 2017, are not necessarily indicative of what future cash payments will be for subsequent periods.

## 15. Income Taxes

Our provision for (benefit from) income taxes for the years ended December 31, 2019, 2018 and 2017 consisted of the following:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Current tax provision:			
Federal	\$ 50,870	\$ 47,547	\$ 41,737
State	2,137	1,798	1,374
Total current	53,007	49,345	43,111
Deferred tax provision:			
Federal	5,175	(2,755)	37,398
State	8,495	6,484	7,388
Total deferred	13,670	3,729	44,786
Provision for income taxes	\$ 66,677	\$ 53,074	\$ 87,897

The provision for (benefit from) income taxes differs from the amount that would be computed by applying the statutory federal income tax rate of 21% in 2019 and 2018 and 35% in 2017 to income before income taxes as a result of the following:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Tax expense computed at federal statutory rate	\$ 64,048	\$ 55,409	\$ 80,406
State income tax expense, net of federal benefit	9,810	9,661	6,432
Other permanent differences	265	(31)	(748)
Domestic manufacturing deduction	-	-	(5,387)
Limitation on executive compensation	4,463	2,912	-
Rate change effect of tax method changes	-	(5,661)	-
Tax expense (benefit) related to an increase (decrease) in unrecognized tax benefits	(1,571)	4,680	75
Stock based compensation (windfall)/shortfall	(2,828)	415	2,832
Federal energy credits	(7,649)	(12,446)	-
Rate changes	190	(78)	10,018
Change in valuation allowance	121	(885)	(8,978)
Other	(172)	(902)	3,247
Provision for income taxes	\$ 66,677	\$ 53,074	\$ 87,897
Effective tax rate	21.9%	20.1%	38.3%

The year-over-year change in our effective tax rate from 2018 to 2019 was impacted by the following items:

(1) Our effective tax rate in 2019 includes a \$2.8 million benefit from share based awards vested or exercised during the year compared to a \$0.4 million expense during the prior year.

(2) Our effective tax rate in 2019 includes a \$1.6 million benefit due to a decrease in our liability for uncertain tax positions, while our effective tax rate in 2018 included a \$4.7 million expense due to an increase in our liability for uncertain tax positions.

(3) Our effective tax rate in 2018 included a larger benefit from energy tax credits than 2019.

(4) Our effective tax rate in 2018 included the benefit of certain tax method changes that were implemented with the filing of our 2017 Federal tax return.

The year-over-year change in our effective tax rate from 2017 to 2018 was impacted by the following items:

(1) The net impact from the enactment of the Tax Cuts and Jobs Act, which reduced the Federal corporate tax rate from 35% to 21% but also reduced the deductibility of certain executive based compensation and eliminated the domestic manufacturing deduction beginning in 2018 and resulted in a \$10.0 million adjustment in the fourth quarter of 2017 to reduce the carrying value of our net deferred tax assets due to the reduction in the Federal tax rate.

(2) Our effective tax rate in 2018 included a benefit from energy tax credits, the majority of which relate to homes closed during 2017, which were not included in our 2017 effective tax rate because the credit was retroactively extended after December 31, 2017.

(3) Our effective tax rate in 2018 included the benefit of certain tax method changes that were implemented with the filing of our 2017 Federal tax return.

(4) Our effective tax rate in 2018 included an increase in our liability for uncertain tax positions.

(5) Our effective tax rate in 2017 included the release of a valuation allowance related to our metropolitan district bond securities that were sold in 2017.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant temporary differences that give rise to the net deferred tax asset are as follows:

	December 31,	
	2019	2018
	(Dollars in thousands)	
Deferred tax assets:		
State net operating loss carryforwards	\$ 10,123	\$ 18,045
Stock-based compensation expense	10,493	11,767
Warranty, litigation and other reserves	12,784	12,844
Accrued compensation	2,592	2,622
Asset impairment charges	3,526	5,848
Inventory, additional costs capitalized for tax purposes	7,228	5,863
Other, net	910	1,680
Total deferred tax assets	47,656	58,669
Valuation allowance	(6,498)	(7,598)
Total deferred tax assets, net of valuation allowance	41,158	51,071
Deferred tax liabilities:		
Property, equipment and other assets	9,551	8,440
Deferral of profit on home sales	3,359	1,817
Unrealized gain on marketable securities	2,716	375
Other, net	3,764	3,261
Total deferred tax liabilities	19,390	13,893
Net deferred tax asset	\$ 21,768	\$ 37,178

At December 31, 2019, we had no federal net operating loss or alternative minimum tax carryforwards. However, we had \$10.1 million in tax-effected state net operating loss carryforwards. The state operating loss carryforwards, if unused, will begin to expire in 2020.

At December 31, 2019 we had a valuation allowance of \$6.5 million, a decrease of \$1.1 million from the prior year. The valuation allowance is related to various state net operating loss carryforwards where realization is uncertain at this time due to the limited carryforward periods coupled with minimal activity that exists in certain states.

At December 31, 2019 and 2018, our total liability for uncertain tax positions was \$8.9 million and \$10.4 million, respectively, a portion of which has been offset against our state net operating loss carryforward deferred tax asset. The following table summarizes activity for the gross unrecognized tax benefit component of our total liability for uncertain tax positions for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Gross unrecognized tax benefits at beginning of year	\$ 8,579	\$ 547	\$ 577
Increases related to prior year tax positions	75	8,190	94
Decreases related to prior year tax positions	-	-	-
Lapse of applicable statute of limitations	(139)	(158)	(124)
Gross unrecognized tax benefits at end of year	<u>\$ 8,515</u>	<u>\$ 8,579</u>	<u>\$ 547</u>

At December 31, 2019 and 2018, there was \$3.3 million and \$3.5 million, respectively, of unrecognized tax benefits that if recognized, would reduce our effective tax rate.

The net expense for interest and penalties for the years ended December 31, 2019, 2018 and 2017 was (\$1.5) million, \$1.9 million and \$0.0 million, respectively, and are included in provision for income taxes in the consolidated statements of operations and comprehensive income.

We have taken positions in certain taxing jurisdictions for which it is reasonably possible that the total amounts of unrecognized tax benefits may decrease within the next twelve months. The possible decrease could result from the expiration of various statutes of limitation and the finalization of various state income tax matters. The estimated range of the reasonably possible decrease is \$0.0 million to \$0.2 million.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are subject to U.S. federal income tax examination for calendar tax years ending 2016 through 2019. Additionally, we are subject to various state income tax examinations for the 2015 through 2019 calendar tax years.

## 16. Related Party Transactions

The Company has a sublease agreement with CVentures, Inc. Larry A. Mizel, the Chief Executive Officer of the Company, is the President of CVentures, Inc. The sublease is for office space that CVentures, Inc. has continuously leased from the Company as disclosed in the Form 8-K filed July 27, 2005 and the Form 8-K filed March 28, 2006. The sublease term commenced November 1, 2016 and will continue through October 31, 2021, with an option to extend to October 31, 2026. The sublease agreement is for approximately 5,437 rentable square feet at a base rent that increases over the initial term from \$26.50 to \$28.68 per rentable square foot per year, and increasing over the extension term from \$29.26 to \$31.67 per rentable square foot per year. The sublease rent is an allocation of the rent under the master lease agreement based on the sublease square footage.

We previously entered into a transaction (the “Transaction”) with The Villages at Castle Rock Metropolitan District No. 6 (the “District”). The District is a quasi-municipal corporation and political subdivision of the State of Colorado. The Board of Directors of the District currently is comprised of employees of the Company. The District was formed to provide funding for certain land development costs associated with the construction of homes in our Cobblestone subdivision. Pursuant to the terms of the Transaction, the District sold to the Company approximately \$22.5 million in Metro Bonds and a \$1.6 million Limited Tax General Obligation Subordinate Bond (the “Subordinate Bond”) in exchange for title to approximately \$28.6 million in land development improvements to the District. In addition, over the prior years, the Company has provided certain advances to the District to help fund the infrastructure of the District (the “Developer Advances”). As discussed in Note 6, we sold the Metro Bonds during the 2017 third quarter. While the Company still legally has a receivable from the District related to the Subordinate Bond and Developer Advances, these have no value for US GAAP or income tax purposes.

During the year ended December 31, 2017, we recorded \$1.7 million in interest income related to the Metro District. The interest income is included in interest and other income in the homebuilding section of our consolidated statements of operations and comprehensive income. No interest income related to the Metro District was recorded during the years ended December 31, 2019 or 2018.

We contributed \$1.0 million, \$1.0 million and \$3.0 million in cash to the MDC/Richmond American Homes Foundation (the “Foundation”) for each of the years ended December 31, 2019, 2018 and 2017, respectively. The Foundation is a Delaware non-profit corporation that was incorporated on September 30, 1999.

The Foundation is a non-profit organization operated exclusively for charitable, educational and other purposes beneficial to social welfare within the meaning of Section 501(c)(3) of the Internal Revenue Code. The following Directors and/or officers of the Company served as directors of the Foundation at December 31, 2019, all of whom serve without compensation.

Name	MDC Title
Larry A. Mizel	Chairman and CEO
David D. Mandarich	President and COO

Three other individuals, who are independent of the Company, also serve as directors of the Foundation. All directors of the Foundation serve without compensation.

## 17. Lines of Credit and Total Debt Obligations

*Revolving Credit Facility.* We have an unsecured revolving credit agreement (“Revolving Credit Facility”) with a group of lenders, which may be used for general corporate purposes. This agreement was amended on November 1, 2018 to (1) extend the Revolving Credit Facility maturity to December 18, 2023, (2) increase the aggregate commitment from \$700 million to \$1 billion (the “Commitment”) and (3) provide that the aggregate amount of the commitments may increase to an amount not to exceed \$1.5 billion upon our request, subject to receipt of additional commitments from existing or additional lenders and, in the case of additional lenders, the consent of the co-administrative agents. As defined in the Revolving Credit Facility, interest rates on base rate borrowings are equal to the highest of (1) 0.0%, (2) a prime rate, (3) a federal funds effective rate plus 1.50%, and (4) a specified eurocurrency rate plus 1.00% and, in each case, plus a margin that is determined based on our credit ratings and leverage ratio. Interest rates on eurocurrency borrowings are equal to a specified eurocurrency rate plus a margin that is determined based on our credit ratings and leverage ratio. At any time at which our leverage ratio, as of the last day of the most recent calendar quarter, exceeds 55%, the aggregate principal amount of all consolidated senior debt borrowings outstanding may not exceed the borrowing base. There is no borrowing base requirement if our leverage ratio, as of the last day of the most recent calendar quarter, is 55% or less.

The Revolving Credit Facility is fully and unconditionally guaranteed, jointly and severally, by most of our homebuilding segment subsidiaries. The facility contains various representations, warranties and covenants that we believe are customary for agreements of this type. The financial covenants include a consolidated tangible net worth test and a leverage test, along with a consolidated tangible net worth covenant, all as defined in the Revolving Credit Facility. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a “term-out” of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) or a violation of anti-corruption or sanctions laws would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, a violation of anti-corruption or sanctions laws, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of December 31, 2019.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At December 31, 2019 and 2018, there were \$23.5 million and \$27.8 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. We had \$15.0 million outstanding under the Revolving Credit Facility as of December 31, 2019 and 2018. As of December 31, 2019, availability under the Revolving Credit Facility was approximately \$961.5 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). Effective May 23, 2019, the Mortgage Repurchase Facility was amended to extend its termination date to May 21, 2020. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of up to an aggregate of \$75 million (subject to increase by up to \$75 million under certain conditions) of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement (“Custody Agreement”), dated as of November 12, 2008, by and between HomeAmerican and USBNA. In the event that an eligible mortgage loan becomes ineligible, as defined under the Mortgage Repurchase Facility, HomeAmerican may be required to repurchase the ineligible mortgage loan immediately. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased on December 24, 2019 from \$75 million to \$150 million and was effective through January 22, 2020. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$75 million to \$130 million from December 27, 2018 through January 25, 2019. At December 31, 2019 and 2018, HomeAmerican had \$149.6 million and \$116.8 million, respectively, of mortgage loans that HomeAmerican was obligated to repurchase under the Mortgage Repurchase Facility. Mortgage loans that HomeAmerican is obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a price range that is based on a LIBOR rate or successor benchmark rate.

The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth ratio, (iii) a minimum adjusted net income requirement, and (iv) a minimum Liquidity requirement. The foregoing capitalized terms are defined in the Mortgage Repurchase Facility. We believe HomeAmerican was in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of December 31, 2019.

*Senior Notes.* Our senior notes are not secured and, while the senior note indentures contain some restrictions on secured debt and other transactions, they do not contain financial covenants. Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by most of our homebuilding segment subsidiaries. We believe that we are in compliance with the representations, warranties and covenants in the senior note indentures.

Our debt obligations at December 31, 2019 and 2018, net of any unamortized debt issuance costs or discount, were as follows:

	December 31,	
	2019	2018
	(Dollars in thousands)	
\$250 Million 5.625% senior notes due February 2020, net	\$ 249,909	\$ 248,850
\$250 Million 5.500% senior notes due January 2024, net	249,005	248,789
\$500 Million 6.000% senior notes due January 2043, net	490,508	490,328
Total	<u>\$ 989,422</u>	<u>\$ 987,967</u>

On January 9, 2020, we completed an offering of \$300 million of 3.850% senior notes due January 2030 (see Note 24 for further discussion).

## 18. Commitments and Contingencies

*Surety Bonds and Letters of Credit.* We are required to obtain surety bonds and letters of credit in support of our obligations for land development and subdivision improvements, homeowner association dues, warranty work, contractor license fees and earnest money deposits. At December 31, 2019, we had outstanding surety bonds and letters of credit totaling \$264.0 million and \$98.7 million, respectively, including \$75.2 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$136.1 million and \$64.7 million, respectively. All letters of credit as of December 31, 2019, excluding those issued by HomeAmerican, were issued under our unsecured Revolving Credit Facility (see Note 17 for further discussion of the Revolving Credit Facility). We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

We have made no material guarantees with respect to third-party obligations.

*Litigation Reserves.* Because of the nature of the homebuilding business, we have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business, including product liability claims and claims associated with the sale and financing of homes. In the opinion of management, the outcome of these ordinary course matters will not have a material adverse effect upon our financial condition, results of operations or cash flows. At both December 31, 2019 and 2018, we had \$1.6 million of legal accruals.

**Loan Origination Liabilities.** HomeAmerican sold to financial institutions certain loans originated prior to 2009 that were subsequently included by such financial institutions in residential mortgage-backed securities offerings or other securitizations issued by those financial institutions. In connection with such sales, we were put on notice by one institution of a claim for indemnification or breach of contract relating to certain loans that were included in securitizations. The claim related to alleged misrepresentations by borrowers on certain residential mortgage loans originated by HomeAmerican and/or alleged lack of conformity of certain loans to applicable underwriting guidelines promulgated by the financial institution. This matter was settled as of December 31, 2019 and did not have a material impact on our results of operations, financial position, or cash flows.

**Lot Option Contracts.** In the ordinary course of business, we enter into lot option purchase contracts (“Option Contracts”), generally through a deposit of cash or a letter of credit, for the right to purchase land or lots at a future point in time with predetermined terms. The use of such land option and other contracts generally allow us to reduce the risks associated with direct land ownership and development, reduces our capital and financial commitments, and minimizes the amount of land inventories on our consolidated balance sheets. In certain cases, these contracts will be settled shortly following the end of the period. Our obligation with respect to Option Contracts is generally limited to forfeiture of the related deposits. At December 31, 2019, we had cash deposits and letters of credit totaling \$23.2 million and \$6.2 million, respectively, at risk associated with options to purchase 8,881 lots.

## 19. Concentration of Third-Party Mortgage Purchasers

The following table sets forth the percent of mortgage loans sold by HomeAmerican to its primary third party purchasers during 2019, 2018 and 2017. No other third parties purchased greater than 10 percent of our mortgage loans during 2019, 2018 or 2017.

	Year Ended December 31,		
	2019	2018	2017
PennyMac Loan Services, LLC	41%	23%	17%
Wells Fargo Funding, Inc.	16%	9%	13%
Fannie Mae	7%	11%	11%
U.S. Bancorp	6%	11%	9%
SunTrust Mortgage, Inc.	4%	11%	8%
Ginnie Mae	4%	5%	11%
Flagstar Bancorp, Inc.	3%	11%	6%

## 20. Stockholders' Equity

**Cash Dividends.** In each of the years ended December 31, 2019, 2018 and 2017, we paid dividends of \$1.18 per share, \$1.11 per share and \$0.85 per share, respectively

**Stock Dividends.** On January 28, 2019, MDC’s board of directors approved an 8% stock dividend that was distributed on February 28, 2019 to shareholders of record on February 14, 2019. On November 20, 2017, MDC’s board of directors approved an 8% stock dividend that was distributed on December 19, 2017 to shareholders of record on December 5, 2017.

**Common Stock Repurchase Program.** At December 31, 2019, we were authorized to repurchase up to 4,000,000 shares of our common stock. We did not repurchase any shares of our common stock under this repurchase program during the years ended December 31, 2019, 2018 or 2017. We did not hold any treasury stock at December 31, 2019.

## 21. Equity Incentive and Employee Benefit Plans

A summary of our equity incentive plans, restated as applicable for stock dividends, follows.

**Employee Equity Incentive Plans.** Effective March 2001, we adopted the M.D.C. Holdings, Inc. 2001 Equity Incentive Plan (the “2001 Equity Incentive Plan”). Non-qualified option awards previously granted generally vested over periods of up to seven years and expire ten years after the date of grant. Restricted stock awards generally were granted with vesting terms of up to five years. On March 26, 2011, the 2001 Equity Incentive Plan terminated and all stock option grants and restricted stock awards outstanding at the time of the plan termination may continue to be exercised, or become free of restrictions, in accordance with their terms. A total of 0.4 million shares of MDC common stock were reserved for issuance under the 2001 Equity Incentive Plan as of December 31, 2019.

On April 27, 2011, our shareholders approved the M.D.C Holdings, Inc. 2011 Equity Incentive Plan (the “2011 Equity Incentive Plan”), which provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other equity awards to employees of the Company. Stock options granted under the 2011 Equity Incentive Plan have an exercise price that is at least equal to the fair market value of our common stock on the date the stock option is granted, generally vest in periods up to five years and expire ten years after the date of grant. At December 31, 2019, a total of 8.6 million shares of MDC common stock were reserved for issuance under the 2011 Equity Incentive Plan, of which 1.8 million shares remained available for grant under this plan as of December 31, 2019.

*Director Equity Incentive Plans.* Effective March 2001, we adopted the M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors (the “2001 Director Stock Option Plan”). Each option granted under the Director Stock Option Plan vested immediately and expires ten years from the date of grant. The 2001 Director Stock Option Plan terminated on May 21, 2012 and stock options outstanding at the time of plan termination may continue to be exercised in accordance with their terms. A total of 26 thousand shares of MDC common stock were reserved for issuance under the 2001 Director Stock Option Plan as of December 31, 2019.

Effective April 27, 2011, our shareholders approved the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors (the “2011 Director Stock Option Plan”), which provides for the grant of non-qualified stock options to non-employee directors of the Company. Effective March 29, 2016, our shareholders approved an amendment to the 2011 Director Stock Option Plan to provide the non-employee directors with an alternative to elect to receive an award of restricted stock in lieu of a stock option. Pursuant to the 2011 Director Stock Option Plan as amended, on August 1 of each year, each non-employee director is granted either (1) an option to purchase 25,000 shares of MDC common stock or (2) shares of restricted stock having an expense to the Company that is equivalent to the stock option. Each option granted under the 2011 Director Stock Option Plan vests immediately, becomes exercisable six months after grant, and expires ten years from the date of grant. The option exercise price must be equal to the fair market value (as defined in the plan) of our common stock on the date of grant of the option. Each restricted stock award granted under the 2011 Director Stock Option Plan vests seven months after the grant date. At December 31, 2019, a total of 0.8 million shares of MDC common stock were reserved for issuance under the 2011 Director Stock Option Plan and 0.5 million shares remained available for grant under this plan as of December 31, 2019.

*Employee Benefit Plan.* We have a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code where each employee may elect to make before-tax contributions up to the current tax limits. Effective for 2018 and thereafter, we match employee contributions at a rate of 50% of the first 6% of compensation and, as of December 31, 2019, we had accrued \$2.6 million related to the match that is to be contributed in the first quarter of 2020 for 2019 activity. At December 31, 2018, we had accrued \$2.4 million related to the match that was contributed in the first quarter of 2019 for 2018 activity. At December 31, 2017, we had accrued \$2.1 million related to the match that was contributed during the first quarter of 2018 for 2017 activity.

## 22. Stock Based Compensation

All share and per share amounts have been adjusted for the stock dividends distributed during 2019 and 2017, as applicable.

*Determining Fair Value of Share-Based Option Awards.* Most options that we grant contain only a service condition (“Service-Based” option) and therefore vest over a specified number of years as long as the employee is employed by the Company. For Service-Based options, we use the Black-Scholes option pricing model to determine the grant date fair value.

The fair values for Service-Based options granted for the years ended December 31, 2019 and 2018 were estimated using the Black-Scholes option pricing model with the below weighted-average assumptions. For the year ended December 31, 2017, there were no options granted.

	Year Ended December 31,		
	2019	2018	2017
Expected lives of options (years)	9.5	9.1	N/A
Expected volatility	29.9%	29.7%	N/A
Risk free interest rate	1.7%	3.0%	N/A
Dividend yield rate	3.4%	3.9%	N/A

Based on calculations using the Black-Scholes option pricing model, the weighted-average grant date fair values of stock options granted during 2019 and 2018 were \$7.88 and \$6.32, respectively. The expected life of options in the table above represents the weighted-average period for which the options are expected to remain outstanding and are derived primarily from historical exercise patterns. The expected volatility is determined based on our review of the implied volatility that is derived from the price of exchange traded options of the Company. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of our employee stock options. The dividend yield assumption is based on our history of dividend payouts.

*Stock Option Award Activity.* Stock option activity under our option plans, restated as applicable for stock dividends, for the years ended December 31, 2019, 2018 and 2017 were as follows.

	Year Ended December 31,					
	2019		2018		2017	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
<b>Outstanding Stock Option Activity</b>						
Outstanding, beginning of year	5,974,433	\$ 23.50	6,094,033	\$ 23.35	7,175,816	\$ 24.20
Granted	412,247	35.55	486,000	28.45	-	N/A
Exercised	(987,496)	25.65	(393,571)	25.06	(411,249)	23.00
Forfeited	-	N/A	(9,950)	20.46	-	N/A
Cancelled	-	N/A	(202,079)	27.94	(670,534)	32.63
Outstanding, end of year	<u>5,399,184</u>	<u>\$ 24.00</u>	<u>5,974,433</u>	<u>\$ 23.50</u>	<u>6,094,033</u>	<u>\$ 23.35</u>

	Year Ended December 31,					
	2019		2018		2017	
	Number of Shares	Weighted- Average Fair Value	Number of Shares	Weighted- Average Fair Value	Number of Shares	Weighted- Average Fair Value
<b>Unvested Stock Option Activity</b>						
Outstanding, beginning of year	483,542	\$ 6.26	135,481	\$ 5.76	2,670,744	\$ 4.72
Granted	412,247	7.88	486,000	6.32	-	N/A
Vested	(195,541)	5.93	(127,989)	6.18	(2,535,263)	4.66
Forfeited	-	N/A	(9,950)	3.90	-	N/A
Unvested, end of year	<u>700,248</u>	\$ 7.20	<u>483,542</u>	\$ 6.26	<u>135,481</u>	\$ 5.76

The total intrinsic value of options (difference between price per share as of the exercise date and the exercise price, times the number of options outstanding) exercised during the years ended December 31, 2019, 2018 and 2017 was \$8.2 million, \$1.9 million and \$2.5 million, respectively.

The following table provides data for our stock options that are vested or expected to vest as of December 31, 2019.

<b>Exercisable or expected to vest</b>	
Number outstanding	5,397,398
Weighted-average exercise price	\$ 24.00
Aggregate intrinsic value (in thousands)	\$ 76,431
Weighted-average remaining contractual term (years)	4.75
<b>Exercisable</b>	
Number outstanding	4,698,936
Weighted-average exercise price	\$ 22.75
Aggregate intrinsic value (in thousands)	\$ 72,411
Weighted-average remaining contractual term (years)	4.12

The aggregate intrinsic values in the tables above represent the total pretax intrinsic values (the difference between the closing price of MDC's common stock on the last trading day of fiscal 2019 and the exercise price, multiplied by the number of in-the-money stock option shares) that would have been received by the option holders had all in-the-money outstanding stock options been exercised on December 31, 2019.

The following table summarizes information associated with outstanding and exercisable stock options at December 31, 2019.

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted- Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price
\$ 15.01 - \$ 20.00	1,269,604	2.26	\$ 19.89	1,260,418	2.24	\$ 19.90
\$ 20.01 - \$ 25.00	2,894,522	4.97	23.17	2,891,460	4.96	23.17
\$ 25.01 - \$ 30.00	804,440	5.58	27.40	516,440	4.01	26.78
\$ 30.01 - \$ 35.00	30,618	3.08	32.37	30,618	3.08	32.37
\$ 35.01 - \$ 40.00	400,000	9.59	35.55	-	NA	N/A
Total	<u>5,399,184</u>	4.75	\$ 24.00	<u>4,698,936</u>	4.12	\$ 22.75

Total compensation expense relating to stock options was \$1.5 million, \$1.2 million and \$0.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Our recognized tax benefit from this expense for the years ended December 31, 2019, 2018 and 2017 was \$0.0 million, \$0.2 million and \$0.2 million, respectively.

As of December 31, 2019, \$4.0 million of total unrecognized compensation cost related to stock options was expected to be recognized as an expense by the Company in the future over a weighted-average period of approximately 2.2 years.

For the years ended December 31, 2019, 2018 and 2017 the company received cash from the exercise of stock option awards of \$25.3 million, \$9.9 million and \$9.5 million, respectively. Our realized tax benefit from stock options exercised for the years ended December 31, 2019, 2018 and 2017 was \$0.2 million, \$0.4 million and \$1.0 million, respectively.

*Restricted and Unrestricted Stock Award Activity.* Non-vested restricted stock awards, restated as applicable for stock dividends, at December 31, 2019, 2018 and 2017 and changes during those years were as follows:

	Year Ended December 31,					
	2019		2018		2017	
	Number of Shares	Weighted- Average Grant Date Fair Value	Number of Shares	Weighted- Average Grant Date Fair Value	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested, beginning of year	337,909	\$ 25.61	317,390	\$ 23.89	221,133	\$ 19.85
Granted	167,676	33.85	143,214	29.51	160,620	27.42
Vested	(156,235)	27.24	(117,404)	25.45	(57,375)	22.57
Forfeited	(5,292)	30.56	(5,292)	28.84	(6,988)	21.81
Unvested, end of year	<u>344,058</u>	<u>\$ 30.54</u>	<u>337,909</u>	<u>\$ 25.61</u>	<u>317,390</u>	<u>\$ 23.89</u>

Total compensation expense relating to restricted stock awards was \$4.8 million, \$3.6 million and \$2.6 million for the years ended December 31, 2019, 2018 and 2017, respectively. Our recognized tax benefit from this expense for the years ended December 31, 2019, 2018 and 2017 was \$0.7 million, \$0.8 million and \$1.0 million, respectively.

At December 31, 2019, there was \$4.6 million of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized as an expense by us in the future over a weighted-average period of approximately 1.6 years. The total intrinsic value of unvested restricted stock awards (the closing price of MDC's common stock on the last trading day of fiscal 2019 multiplied by the number of unvested awards) at December 31, 2019 was \$13.1 million. The total intrinsic value of restricted stock which vested during each of the years ended December 31, 2019, 2018 and 2017 was \$5.3 million, \$3.2 million and \$1.4 million, respectively.

*Performance Share Unit Awards.* On August 5, 2019, May 23, 2018, June 20, 2017 and July 25, 2016, the Company granted long term performance share unit awards (“PSUs”) to each of the CEO, the COO, and the Chief Financial Officer (“CFO”) under the Company’s 2011 Equity Incentive Plan. The PSUs are earned based upon the Company’s performance, over a three year period (the “Performance Period”), measured by increasing home sale revenues over a “Base Period.” Each award is conditioned upon the Company achieving an average gross margin from home sales (excluding impairments) of at least fifteen percent (15%) over the Performance Period. Target goals will be earned if the Company’s three year average home sale revenues over the Performance Period (“Performance Revenues”) exceed the home sale revenues over the Base Period (“Base Revenues”) by at least 10% but less than 20%. If Performance Revenues exceed the Base Revenues by at least 5% but less than 10%, 50% of the Target Goals will be earned (“Threshold Goals”). If Performance Revenues exceed the Base Revenues by at least 20%, 200% of the Target Goals will be earned (“Maximum Goals”). For the PSUs granted in 2017, 2018 and 2019, the number of PSUs earned shall be adjusted to be proportional to the partial performance between the Threshold Goals, Target Goals and Maximum Goals. Details for each defined term above for both grants have been provided in the table below.

Date of Award	Performance Period	Base Period	Base Period Revenues	Threshold Goal		Target Goal		Maximum Goal		Fair Value per Share	Maximum Potential Expense to be Recognized*	Maximum Remaining Expense to be Recognized*
				PSUs	Home Sale Revenues	PSUs	Home Sale Revenues	PSUs	Home Sale Revenues			
July 25, 2016	July 1, 2016 to June 30, 2019	July 1, 2015 to June 30, 2016	\$1.975 billion	137,781	\$2.074 billion	275,562	\$2.173 billion	551,124	\$2.370 billion	\$ 19.66	\$ 10,834	\$ -
June 20, 2017	April 1, 2017 to March 31, 2020	April 1, 2016 to March 31, 2017	\$2.426 billion	144,342	\$2.547 billion	288,684	\$2.669 billion	577,368	\$2.911 billion	\$ 27.83	\$ 16,070	\$ 1,446
May 23, 2018	April 1, 2018 to March 31, 2021	April 1, 2017 to March 31, 2018	\$2.543 billion	145,800	\$2.670 billion	291,600	\$2.797 billion	583,200	\$3.052 billion	\$ 25.57	\$ 14,915	\$ 8,623
August 5, 2019	January 1, 2019 to December 31, 2021	January 1, 2018 to December 31, 2018	\$2.982 billion	135,000	\$3.131 billion	270,000	\$3.280 billion	540,000	\$3.578 billion	\$ 32.60	\$ 17,604	\$ 17,604

\* Dollars in thousands

In accordance with ASC 718, the PSUs were valued on the date of grant at their fair value. The fair value of these grants was equal to the closing price of MDC stock on the date of grant less the discounted cash flows of expected future dividends over the respective vesting period (as these PSUs do not participate in dividends). The grant date fair value and maximum potential expense if the Maximum Goals were met for these awards has been provided in the table above. ASC 718 does not permit recognition of expense associated with performance-based stock awards until achievement of the performance targets are probable of occurring.

*2016 PSU Grants.* The 2016 PSU awards vested on August 7, 2019 at the Maximum Goals following the achievement of the Maximum Goals and certification by the Compensation Committee that the Maximum Goals had been achieved. For the years ended December 31, 2019, 2018 and 2017 the Company recorded share-based award expense of \$1.8 million, \$6.3 million and \$2.7 million, respectively, related to these awards.

*2017 PSU Grants.* As of December 31, 2019, the Company determined that achievement at the Maximum Goals for these awards was probable. For the years ended December 31, 2019 and 2018 the Company recorded share-based award expense of \$11.7 million and \$3.0 million, respectively. As of December 31, 2017, the Company concluded that achievement of any of the performance metrics had not met the level of probability required to record compensation expense and, as such, no expense related to these awards had been recognized as of December 31, 2017.

**2018 PSU Grants.** As of December 31, 2019, the Company determined that achievement between the Target and Maximum Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$6.3 million for the year ended December 31, 2019. As of December 31, 2018, the Company concluded that achievement of any of the performance metrics had not met the level of probability required to record compensation expense and as such, no expense related to these awards had been recognized as of December 31, 2018.

**2019 PSU Grants.** For the PSUs granted in August of 2019, the Company concluded that achievement of any of the performance metrics had not met the level of probability required to record compensation expense and, as such, no expense related to these awards has been recognized as of December 31, 2019.

Our employee equity incentive plans permit us to withhold from the total number of shares that otherwise would be released to a restricted stock or performance share unit award recipient upon distribution that number of shares having a fair value at the time of distribution equal to the applicable income tax withholdings due. For the year ended December 31, 2019, 270,720 shares were withheld resulting in \$10.0 million of income tax withholding being remitted on behalf of the employees. There were no shares withheld for the years ended December 31, 2018 and 2017.

## 23. Results of Quarterly Operations (Unaudited) (Restated for Stock Dividends)

	Quarter			
	First	Second	Third	Fourth
(Dollars in thousands, except per share amounts)				
<b>2019</b>				
Total revenue	\$ 664,682	\$ 751,441	\$ 772,662	\$ 1,104,468
Home sales revenue	\$ 647,278	\$ 732,844	\$ 750,274	\$ 1,074,852
Asset impairments	\$ (610)	\$ -	\$ -	\$ (325)
Gross margin from home sales (including impairments)	18.9%	19.5%	18.8%	18.5%
Homebuilding selling, general and administrative expenses	\$ 82,261	\$ 82,712	\$ 92,716	\$ 105,101
Income before income taxes	\$ 55,606	\$ 74,331	\$ 62,806	\$ 112,246
Net income	\$ 40,550	\$ 54,593	\$ 50,580	\$ 92,589
Earnings per share:				
Basic	\$ 0.66	\$ 0.88	\$ 0.81	\$ 1.48
Diluted	\$ 0.64	\$ 0.86	\$ 0.79	\$ 1.42
<b>2018</b>				
Total revenue	\$ 626,723	\$ 770,980	\$ 785,638	\$ 881,875
Home sales revenue	\$ 607,688	\$ 749,608	\$ 766,027	\$ 858,488
Asset impairments	\$ (550)	\$ (200)	\$ (11,098)	\$ (10,002)
Gross margin from home sales (including impairments)	18.2%	19.1%	17.7%	18.1%
Homebuilding selling, general and administrative expenses	\$ 71,341	\$ 81,571	\$ 83,523	\$ 93,366
Income before income taxes	\$ 50,532	\$ 76,616	\$ 67,420	\$ 69,286
Net income	\$ 38,764	\$ 63,899	\$ 53,392	\$ 54,725
Earnings per share:				
Basic	\$ 0.64	\$ 1.05	\$ 0.87	\$ 0.90
Diluted	\$ 0.63	\$ 1.03	\$ 0.86	\$ 0.88

## 24. Subsequent Events

On January 9, 2020, we completed an offering of \$300 million of 3.850% senior notes (3.850% Notes) due January 2030 at 100% of par. The 3.850% Notes, which pay interest semi-annually in arrears on January 15 and July 15 of each year, are general unsecured obligations of MDC and rank equally and ratably with our other general unsecured and unsubordinated indebtedness. We received proceeds of \$298.1 million, net of underwriting discount of \$1.9 million. We will use the proceeds of the offering for general corporate purposes, including repayment of debt.

## 25. Supplemental Guarantor Information

Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by the following subsidiaries (collectively, the "Guarantor Subsidiaries"), which are 100%-owned subsidiaries of the Company.

- M.D.C. Land Corporation
- RAH of Florida, Inc.
- Richmond American Construction, Inc.
- Richmond American Homes of Arizona, Inc.
- Richmond American Homes of Colorado, Inc.
- Richmond American Homes of Florida, LP
- Richmond American Homes of Illinois, Inc.
- Richmond American Homes of Maryland, Inc.
- Richmond American Homes of Nevada, Inc.
- Richmond American Homes of New Jersey, Inc.
- Richmond American Homes of Oregon, Inc.
- Richmond American Homes of Pennsylvania, Inc.
- Richmond American Homes of Utah, Inc.
- Richmond American Homes of Virginia, Inc.
- Richmond American Homes of Washington, Inc.

The senior note indentures do not provide for a suspension of the guarantees, but do provide that any Guarantor may be released from its guarantee so long as (1) no default or event of default exists or would result from release of such guarantee, (2) the Guarantor being released has consolidated net worth of less than 5% of the Company's consolidated net worth as of the end of the most recent fiscal quarter, (3) the Guarantors released from their guarantees in any year-end period comprise in the aggregate less than 10% (or 15% if and to the extent necessary to permit the cure of a default) of the Company's consolidated net worth as of the end of the most recent fiscal quarter, (4) such release would not have a material adverse effect on the homebuilding business of the Company and its subsidiaries and (5) the Guarantor is released from its guarantee(s) under all Specified Indebtedness (other than by reason of payment under its guarantee of Specified Indebtedness). Upon delivery of an officers' certificate and an opinion of counsel stating that all conditions precedent provided for in the indenture relating to such transactions have been complied with and the release is authorized, the guarantee will be automatically and unconditionally released. "Specified Indebtedness" means indebtedness under the senior notes, the Company's Indenture dated as of December 3, 2002, the Revolving Credit Facility, and any refinancing, extension, renewal or replacement of any of the foregoing.

We have determined that separate, full financial statements of the Guarantor Subsidiaries would not be material to investors and, accordingly, supplemental financial information for the Guarantor and Non-Guarantor Subsidiaries is presented below.

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Balance Sheet**

	December 31, 2019				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	Dollars in thousands				
ASSETS					
Homebuilding:					
Cash and cash equivalents	\$ 418,822	\$ 5,364	\$ -	\$ -	\$ 424,186
Marketable securities	-	-	-	-	-
Restricted cash	-	14,279	-	-	14,279
Trade and other receivables	624	65,205	-	-	65,829
Inventories:					
Housing completed or under construction	-	1,036,191	-	-	1,036,191
Land and land under development	-	1,330,384	-	-	1,330,384
Total inventories	-	2,366,575	-	-	2,366,575
Intercompany receivables	1,936,075	6,370	-	(1,942,445)	-
Investment in subsidiaries	488,993	-	-	(488,993)	-
Property and equipment, net	23,192	37,222	-	-	60,414
Deferred tax assets, net	22,508	-	-	(740)	21,768
Other assets	34,728	43,630	-	-	78,358
Total Homebuilding Assets	2,924,942	2,538,645	-	(2,432,178)	3,031,409
Financial Services:					
Cash and cash equivalents	-	-	35,747	-	35,747
Marketable securities	-	-	56,747	-	56,747
Intercompany receivables	-	-	47,753	(47,753)	-
Mortgage loans held-for-sale, net	-	-	197,021	-	197,021
Other assets	-	-	16,692	740	17,432
Total Financial Services Assets	-	-	353,960	(47,013)	306,947
Total Assets	\$ 2,924,942	\$ 2,538,645	\$ 353,960	\$ (2,479,191)	\$ 3,338,356
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$ 289	\$ 87,075	\$ -	\$ -	\$ 87,364
Accrued and other liabilities	84,088	156,652	-	5,200	245,940
Advances and notes payable to parent and subsidiaries	53,658	1,912,969	-	(1,966,627)	-
Revolving credit facility	15,000	-	-	-	15,000
Senior notes, net	989,422	-	-	-	989,422
Total Homebuilding Liabilities	1,142,457	2,156,696	-	(1,961,427)	1,337,726
Financial Services:					
Accounts payable and accrued liabilities	-	-	73,729	(5,200)	68,529
Advances and notes payable to parent and subsidiaries	-	-	23,571	(23,571)	-
Mortgage repurchase facility	-	-	149,616	-	149,616
Total Financial Services Liabilities	-	-	246,916	(28,771)	218,145
Total Liabilities	1,142,457	2,156,696	246,916	(1,990,198)	1,555,871
Equity:					
Total Stockholders' Equity	1,782,485	381,949	107,044	(488,993)	1,782,485
Total Liabilities and Stockholders' Equity	\$ 2,924,942	\$ 2,538,645	\$ 353,960	\$ (2,479,191)	\$ 3,338,356

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Balance Sheet**

	December 31, 2018				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and cash equivalents	\$ 410,127	\$ 4,597	\$ -	\$ -	\$ 414,724
Marketable securities	-	-	-	-	-
Restricted cash	-	6,363	-	-	6,363
Trade and other receivables	758	52,224	-	-	52,982
Inventories:					
Housing completed or under construction	-	952,436	-	-	952,436
Land and land under development	-	1,180,558	-	-	1,180,558
Total inventories	-	2,132,994	-	-	2,132,994
Intercompany receivables	1,735,342	7,369	-	(1,742,711)	-
Investment in subsidiaries	455,848	-	-	(455,848)	-
Property and equipment, net	23,896	34,271	-	-	58,167
Deferred tax assets, net	36,168	-	-	1,010	37,178
Other assets, net	12,234	33,560	-	-	45,794
Total Homebuilding Assets	2,674,373	2,271,378	-	(2,197,549)	2,748,202
Financial Services:					
Cash and cash equivalents	-	-	49,052	-	49,052
Marketable securities	-	-	40,879	-	40,879
Intercompany receivables	-	-	22,346	(22,346)	-
Mortgage loans held-for-sale, net	-	-	149,211	-	149,211
Other assets, net	-	-	14,743	(1,010)	13,733
Total Financial Services Assets	-	-	276,231	(23,356)	252,875
Total Assets	\$ 2,674,373	\$ 2,271,378	\$ 276,231	\$ (2,220,905)	\$ 3,001,077
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$ -	\$ 50,505	\$ -	\$ -	\$ 50,505
Accrued and other liabilities	65,691	125,387	-	5,169	196,247
Advances and notes payable to parent and subsidiaries	29,715	1,727,248	295	(1,757,258)	-
Revolving credit facility	15,000	-	-	-	15,000
Senior notes, net	987,967	-	-	-	987,967
Total Homebuilding Liabilities	1,098,373	1,903,140	295	(1,752,089)	1,249,719
Financial Services:					
Accounts payable and accrued liabilities	-	-	63,712	(5,169)	58,543
Advances and notes payable to parent and subsidiaries	-	-	7,799	(7,799)	-
Mortgage repurchase facility	-	-	116,815	-	116,815
Total Financial Services Liabilities	-	-	188,326	(12,968)	175,358
Total Liabilities	1,098,373	1,903,140	188,621	(1,765,057)	1,425,077
Equity:					
Total Stockholders' Equity	1,576,000	368,238	87,610	(455,848)	1,576,000
Total Liabilities and Stockholders' Equity	\$ 2,674,373	\$ 2,271,378	\$ 276,231	\$ (2,220,905)	\$ 3,001,077

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Statements of Operations and Comprehensive Income**

	Year Ended December 31, 2019				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
<b>Homebuilding:</b>					
Revenues	\$ -	\$ 3,205,248	\$ -	\$ -	\$ 3,205,248
Cost of Sales	-	(2,600,196)	-	-	(2,600,196)
Inventory impairments	-	(935)	-	-	(935)
Gross margin	-	604,117	-	-	604,117
Selling, general, and administrative expenses	(71,720)	(290,507)	-	(563)	(362,790)
Equity income of subsidiaries	286,606	-	-	(286,606)	-
Interest and other income	8,996	1,242	-	(1,168)	9,070
Other expense	30	(5,665)	-	-	(5,635)
Homebuilding pretax income (loss)	223,912	309,187	-	(288,337)	244,762
<b>Financial Services:</b>					
Financial services pretax income	-	-	58,496	1,731	60,227
Income before income taxes	223,912	309,187	58,496	(286,606)	304,989
Provision for income taxes	14,400	(67,595)	(13,482)	-	(66,677)
Net income	\$ 238,312	\$ 241,592	\$ 45,014	\$ (286,606)	\$ 238,312
Other comprehensive income related to available-for-sale securities, net of tax	-	-	-	-	-
Comprehensive income	\$ 238,312	\$ 241,592	\$ 45,014	\$ (286,606)	\$ 238,312

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Statements of Operations and Comprehensive Income**

	Year Ended December 31, 2018				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
<b>Homebuilding:</b>					
Revenues	\$ -	\$ 2,981,811	\$ -	\$ -	\$ 2,981,811
Cost of Sales	-	(2,415,139)	-	-	(2,415,139)
Inventory impairments	-	(21,850)	-	-	(21,850)
Gross margin	-	544,822	-	-	544,822
Selling, general, and administrative expenses	(64,824)	(264,475)	-	(502)	(329,801)
Equity income of subsidiaries	254,723	-	-	(254,723)	-
Interest and other income	7,843	1,029	4	(1,158)	7,718
Other expense	30	(5,275)	-	-	(5,245)
Homebuilding pretax income (loss)	197,772	276,101	4	(256,383)	217,494
<b>Financial Services:</b>					
Financial services pretax income	-	-	44,700	1,660	46,360
Income before income taxes	197,772	276,101	44,704	(254,723)	263,854
Provision for income taxes	13,008	(55,539)	(10,543)	-	(53,074)
Net income	\$ 210,780	\$ 220,562	\$ 34,161	\$ (254,723)	\$ 210,780
Other comprehensive income related to available-for-sale securities, net of tax	-	-	-	-	-
Comprehensive income	\$ 210,780	\$ 220,562	\$ 34,161	\$ (254,723)	\$ 210,780

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Statements of Operations and Comprehensive Income**

	Year Ended December 31, 2017				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
<b>Homebuilding:</b>					
Revenues	\$ -	\$ 2,503,242	\$ -	\$ -	\$ 2,503,242
Cost of Sales	-	(2,078,371)	98	-	(2,078,273)
Inventory impairments	-	(10,010)	-	-	(10,010)
Gross margin	-	414,861	98	-	414,959
Selling, general, and administrative expenses	(52,252)	(234,430)	-	(806)	(287,488)
Equity income of subsidiaries	144,190	-	-	(144,190)	-
Interest and other income	59,042	2,834	6	(546)	61,336
Other expense	(30)	(2,838)	-	-	(2,868)
Homebuilding pretax income (loss)	150,950	180,427	104	(145,542)	185,939
<b>Financial Services:</b>					
Financial services pretax income	-	-	42,441	1,352	43,793
Income before income taxes	150,950	180,427	42,545	(144,190)	229,732
Provision for income taxes	(9,115)	(64,051)	(14,731)	-	(87,897)
Net income	\$ 141,835	\$ 116,376	\$ 27,814	\$ (144,190)	\$ 141,835
Other comprehensive income related to available-for-sale securities, net of tax	(18,079)	-	3,382	(3,382)	(18,079)
Comprehensive income	\$ 123,756	\$ 116,376	\$ 31,196	\$ (147,572)	\$ 123,756

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Statement of Cash Flows**

	Year Ended December 31, 2019				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	\$ (9,997)	\$ 74,134	\$ (6,304)	\$ -	\$ 57,833
Net cash provided by (used in) investing activities	76,468	(23,833)	(4,149)	(77,271)	(28,785)
Financing activities:					
Payments from (advances to) subsidiaries	-	(41,618)	(35,653)	77,271	-
Advances on mortgage repurchase facility, net	-	-	32,801	-	32,801
Dividend payments	(73,117)	-	-	-	(73,117)
Issuance of shares under stock-based compensation programs, net	15,341	-	-	-	15,341
Net cash provided by (used in) financing activities	(57,776)	(41,618)	(2,852)	77,271	(24,975)
Net increase (decrease) in cash and cash equivalents	8,695	8,683	(13,305)	-	4,073
Cash and cash equivalents:					
Beginning of period	410,127	10,960	49,052	-	470,139
End of period	<u>\$ 418,822</u>	<u>\$ 19,643</u>	<u>\$ 35,747</u>	<u>\$ -</u>	<u>\$ 474,212</u>

	Year Ended December 31, 2018				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	\$ 10,925	\$ (47,132)	\$ 28,301	\$ -	\$ (7,906)
Net cash provided by (used in) investing activities	(8,632)	(25,415)	(2,639)	56,900	20,214
Financing activities:					
Payments from (advances to) subsidiaries	-	70,456	(13,556)	(56,900)	-
Advances on mortgage repurchase facility, net	-	-	4,475	-	4,475
Dividend payments	(67,718)	-	-	-	(67,718)
Payments of deferred financing costs	(3,026)	-	-	-	(3,026)
Issuance of shares under stock-based compensation programs, net	9,860	-	-	-	9,860
Net cash provided by (used in) financing activities	(60,884)	70,456	(9,081)	(56,900)	(56,409)
Net increase (decrease) in cash and cash equivalents	(58,591)	(2,091)	16,581	-	(44,101)
Cash and cash equivalents:					
Beginning of period	468,718	13,051	32,471	-	514,240
End of period	<u>\$ 410,127</u>	<u>\$ 10,960</u>	<u>\$ 49,052</u>	<u>\$ -</u>	<u>\$ 470,139</u>

**M.D.C. Holdings, Inc.**  
**Supplemental Condensed Combining Statement of Cash Flows**

	Year Ended December 31, 2017				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by operating activities	\$ 30,815	\$ 8,991	\$ 30,700	\$ -	\$ 70,506
Net cash provided by (used in) investing activities	80,822	(454)	(253)	(22,325)	57,790
Financing activities:					
Payments from (advances to) subsidiaries	-	(2,672)	(19,653)	22,325	-
Advances on mortgage repurchase facility, net	-	-	(2,145)	-	(2,145)
Proceeds from the issuance of senior notes	146,463	-	-	-	146,463
Dividend payments	(51,897)	-	-	-	(51,897)
Excess tax benefit from share-based awards	(2,665)	-	-	-	(2,665)
Issuance of shares under stock-based compensation programs, net	9,501	-	-	-	9,501
Net cash provided by (used in) financing activities	101,402	(2,672)	(21,798)	22,325	99,257
Net increase in cash and cash equivalents	213,039	5,865	8,649	-	227,553
Cash and cash equivalents:					
Beginning of period	255,679	7,186	23,822	-	286,687
End of period	\$ 468,718	\$ 13,051	\$ 32,471	\$ -	\$ 514,240

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed under the supervision, and with the participation, of our management, including the principal executive officer and the principal financial officer. Based on that evaluation, our management, including the principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *Internal Control—Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, management concluded that our internal control over financial reporting was effective at December 31, 2019.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report on Form 10-K, has issued an attestation report on our internal control over financial reporting, which is included herein.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of  
M.D.C. Holdings, Inc.

**Opinion on Internal Control Over Financial Reporting**

We have audited M.D.C. Holdings, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework),” (the COSO criteria). In our opinion, M.D.C. Holdings, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated January 30, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being

made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Denver, Colorado

January 30, 2020

39

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## [Table of Contents](#)

### **Item 9B. Other Information.**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

Information not disclosed below that is required by this Item is incorporated herein by reference, when filed, from our proxy statement (the "Proxy Statement") for the Annual Meeting of Shareholders to be held on or about April 20, 2020, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Exchange Act. Please see the Table of Contents to the Proxy Statement.

We will provide to any shareholders or other person without charge, upon request, a copy of our Corporate Code of Conduct, Corporate Governance Guidelines, code of ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (collectively "senior financial officers") and the charters for our Audit Committee, Compensation Committee, Legal Committee and Corporate Governance/Nominating Committee. You may obtain these documents on our website at [www.mdcholdings.com](http://www.mdcholdings.com), under our Investor Relations section or by contacting our Investor Relations department at 1-866-424-3395. Our intention is to post on our website any amendments to or waivers from our code of ethics applicable to our senior financial officers if such disclosure is required.

### **Item 11. Executive Compensation.**

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement. Please see the Table of Contents to the Proxy Statement.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement. Please see the Table of Contents to the Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement. Please see the Table of Contents to the Proxy Statement.

### **Item 14. Principal Accountant Fees and Services.**

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement. Please see the Table of Contents to the Proxy Statement.

40

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## [Table of Contents](#)

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

#### **(a)(1) Financial Statements.**

The following Consolidated Financial Statements of the Company and its subsidiaries are included in Part II, Item 8.

	<b><u>Page</u></b>
M.D.C. Holdings, Inc. and Subsidiaries	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets at December 31, 2019 and December 31, 2018</a>	F-4
<a href="#">Consolidated Statements of Operations and Comprehensive Income for each of the Three Years in the Period Ended December 31, 2019</a>	F-5

**(a)(2) Financial Statement Schedules.**

All schedules are omitted because they are not applicable, not material, not required or the required information is included in the applicable Consolidated Financial Statements or notes thereto.

**(a)(3) Exhibits.**

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Certificate of Amendment to the Certificate of Incorporation of M.D.C. Holdings, Inc. (hereinafter sometimes referred to as "MDC", the "Company" or the "Registrant"), filed with the Delaware Secretary of State on April 27, 2006, and Certificate of Incorporation, dated May 17, 1985, as amended (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q dated March 31, 2006). *</a>
3.2	<a href="#">Bylaws of MDC, as amended (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K dated December 31, 2017). *</a>
4.1	<a href="#">Indenture dated as of December 3, 2002, by and among MDC and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of the Company's Form S-3/A filed September 1, 2004). *</a>
4.2	<a href="#">Supplemental Indenture (5.625% Senior Notes due 2020), dated as of January 15, 2010, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed January 15, 2010). *</a>
4.3	<a href="#">Second Supplemental Indenture (5.625% Senior Notes due 2020), dated as of January 3, 2013, by and among the Company, U.S. Bank National Association, as Trustee, and Richmond American Homes of Washington, Inc., a wholly owned subsidiary of the Company, as Additional Guarantor, including the form of Guaranty signed by the Additional Guarantor (incorporated by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K dated December 31, 2012). *</a>
4.4	<a href="#">Supplemental Indenture (6.000% Senior Notes due 2043), dated as of January 10, 2013, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed January 10, 2013). *</a>

**[Table of Contents](#)**

4.5	<a href="#">Supplemental Indenture (5.500% Senior Notes due 2024), dated as of January 15, 2014, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed January 15, 2014). *</a>
4.6	<a href="#">Supplemental Indenture (3.850% Senior Notes due 2030), dated as of January 9, 2020, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed January 9, 2020). *</a>
4.7	<a href="#">Description of Registrant's Securities.</a>
10.1	<a href="#">Credit Agreement by and among M.D.C. Holding, Inc., U.S. Bank National Association, as designated agent and co-administrative agent, Citibank, N.A., as co-administrative agent, and the other Lenders identified therein, dated as of December 13, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed December 16, 2013). *</a>
10.2	<a href="#">First Amendment to Credit Agreement and Increasing Lenders Supplement among M.D.C. Holding, Inc., U.S. Bank National Association, as designated agent, and the other Lenders identified therein, dated as of December 17, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed December 17, 2014). *</a>
10.3	<a href="#">Second Amendment to Credit Agreement, dated as of December 18, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed December 21, 2015). *</a>
10.4	<a href="#">Third Amendment to Credit Agreement, dated as of September 29, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed October 4, 2017). *</a>
10.5	<a href="#">Fourth Amendment to Credit Agreement, dated as of November 1, 2018 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed November 1, 2018). *</a>
10.6	<a href="#">Amended and Restated Master Repurchase Agreement among HomeAmerican Mortgage Corporation and U.S. Bank National Association as Agent and a Buyer, dated as of September 16, 2016 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 19, 2016). *</a>
10.7	<a href="#">First Amendment to Master Repurchase Agreement between HomeAmerican Mortgage Corporation, as Seller, and U.S. Bank National</a>

[Association, as Agent and Buyer, dated as of August 10, 2017 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 11, 2017\). \\*](#)

- 10.8 [Second Amendment to Master Repurchase Agreement between HomeAmerican Mortgage Corporation, as Seller, and U.S. Bank National Association, as Agent and Buyer, dated as of August 9, 2018 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 9, 2018\). \\*](#)
- 10.9 [Third Amendment to Amended and Restated Master Repurchase Agreement between HomeAmerican Mortgage Corporation, as Seller, and U.S. Bank National Association, as Agent and Buyer, dated as of May 23, 2019 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 24, 2019\). \\*](#)
- 10.10 [Custody Agreement by and between HomeAmerican Mortgage Corporation and U.S. Bank National Association as Agent and Custodian, dated as of November 12, 2008 \(incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed November 17, 2008\). \\*](#)
- 10.11 [M.D.C. Holdings, Inc. 2001 Equity Incentive Plan Effective March 26, 2001 \(incorporated by reference to Exhibit B of the Company's Proxy Statement dated March 31, 2001 relating to the 2001 Annual Meeting of Stockholders\). \\*](#)
- 10.12 [First Amendment to M.D.C. Holdings, Inc. 2001 Equity Incentive Plan, effective April 28, 2003 \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated March 31, 2003\). \\*](#)
- 10.13 [Second Amendment to M.D.C. Holdings, Inc. 2001 Equity Incentive Plan, effective April 29, 2008 \(incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed May 1, 2008\). \\*](#)

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## Table of Contents

- 10.14 [Third Amendment to M.D.C. Holdings, Inc. 2001 Equity Incentive Plan, effective April 29, 2008 \(incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed May 1, 2008\). \\*](#)
- 10.15 [Fourth Amendment to M.D.C. Holdings, Inc. 2001 Equity Incentive Plan, dated December 31, 2008 \(incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K dated December 31, 2008\). \\*](#)
- 10.16 [Form of Non-Qualified Stock Option Certificate \(2001 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K dated December 31, 2004\). \\*](#)
- 10.17 [M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors Effective March 26, 2001 \(incorporated by reference to Exhibit C of the Company's Proxy Statement dated March 31, 2001 relating to the 2001 Annual Meeting of Stockholders\). \\*](#)
- 10.18 [First Amendment to M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors, October 20, 2003 \(incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K dated December 31, 2004\). \\*](#)
- 10.19 [Second Amendment to M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors, dated December 16, 2008 \(incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K dated December 31, 2008\). \\*](#)
- 10.20 [Form of Non-Qualified Stock Option Agreement \(Stock Option Plan for Non-Employee Directors\) \(incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K dated December 31, 2004\). \\*](#)
- 10.21 [M.D.C. Holdings, Inc. 2011 Equity Incentive Plan, effective April 27, 2011 \(incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed April 29, 2011\). \\*](#)
- 10.22 [First Amendment to the M.D.C. Holdings, Inc. 2011 Equity Incentive Plan \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed March 19, 2013\). \\*](#)
- 10.23 [Second Amendment to the M.D.C. Holdings, Inc. 2011 Equity Incentive Plan \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 24, 2015\). \\*](#)
- 10.24 [Third Amendment to the M.D.C. Holdings, Inc. 2011 Equity Incentive Plan \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 25, 2017\). \\*](#)
- 10.25 [Fourth Amendment to the M.D.C. Holdings, Inc. 2011 Equity Incentive Plan \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 1, 2019\). \\*](#)
- 10.26 [M.D.C. Holdings, Inc. 2011 Equity Incentive Plan, as amended \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed May 1, 2019\). \\*](#)
- 10.27 [Form of 2011 Stock Option Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q dated June 30, 2011\). \\*](#)
- 10.28 [Form of 2011 Restricted Stock Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q dated June 30, 2011\). \\*](#)
- 10.29 [Form of 2015 Restricted Stock Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.34 of the Company's Annual Report on Form 10-K dated December 31, 2015\). \\*](#)
- 10.30 [Form of Executive Officer Stock Option Agreement under the 2011 Equity Incentive Plan \(incorporated by reference to Exhibit 10.3 of the](#)

- 10.31 [Form of Executive Officer Stock Option Agreement under the 2011 Equity Incentive Plan \(May 18, 2015 grants\) \(incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q dated June 30, 2015\).](#)\*

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## [Table of Contents](#)

- 10.32 [Form of Executive Officer Stock Option Agreement under the 2011 Equity Incentive Plan \(May 23, 2018 grants\) \(incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q dated June 30, 2018\).](#)\*
- 10.33 [Restricted Stock Agreement Amendment \(Executive Officers\) under the 2011 Equity Incentive Plan, dated as of February 6, 2019 \(incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q dated March 31, 2019\).](#)\*
- 10.34 [Stock Option Agreement Amendment \(Executive Officers\) under the 2011 Equity Incentive Plan, dated as of February 6, 2019 \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated March 31, 2019\).](#)\*
- 10.35 [Form of Executive Officer Restricted Stock Agreement under the 2011 Equity Incentive Plan, adopted as of March 18, 2019 \(incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q dated March 31, 2019\).](#)\*
- 10.36 [Form of Executive Officer Stock Option Agreement under the 2011 Equity Incentive Plan, adopted as of March 18, 2019 \(incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q dated March 31, 2019\).](#)\*
- 10.37 [Form of Performance Share Unit Grant Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated September 30, 2016\).](#)\*
- 10.38 [Form of 2017 Performance Share Unit Grant Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated June 30, 2017\).](#)\*
- 10.39 [Form of 2018 Performance Share Unit Grant Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated June 30, 2018\).](#)\*
- 10.40 [Form of 2019 Performance Share Unit Grant Agreement \(2011 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 8, 2019\).](#)\*
- 10.41 [M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors effective April 27, 2011 \(incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed April 29, 2011\).](#)\*
- 10.42 [First Amendment to the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed March 24, 2015\).](#)\*
- 10.43 [Second Amendment to the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 1, 2016\).](#)\*
- 10.44 [Form of Stock Option Agreement \(2011 Stock Option Plan for Non-Employee Directors\) \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated June 30, 2011\).](#)\*
- 10.45 [Form of Restricted Stock Award Agreement \(2011 Stock Option Plan for Non-Employee Directors\) \(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q dated June 30, 2016\).](#)\*
- 10.46 [Form of Indemnification Agreement entered into between the Company and members of its Board of Directors \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed October 26, 2006\).](#)\*
- 10.47 [Form of Indemnification Agreement entered into between the Company and certain of its officers \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed October 26, 2006\).](#)\*
- 10.48 [M.D.C. Holdings, Inc. 2013 Executive Officer Performance-Based Compensation Plan, approved March 18, 2013 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 19, 2013\).](#)\*
- 10.49 [M.D.C. Holdings, Inc. 2018 Executive Officer Performance-Based Compensation Plan, December 10, 2018 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 11, 2018\).](#)\*

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## [Table of Contents](#)

- 10.50 [Employment Agreement, Larry A. Mizel, amended and restated as of August 1, 2008 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 26, 2008\).](#)\*
- 10.51 [Amendment to Employment Agreement of Larry A. Mizel, dated March 8, 2012 \(incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed March 9, 2012\).](#)\*
- 10.52 [Second Amendment to Employment Agreement of Larry A. Mizel, dated October 18, 2013 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed October 18, 2013\).](#)\*

10.53	<a href="#"><u>Employment Agreement, David D. Mandarich, amended and restated as of August 1, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 26, 2008). *</u></a>
10.54	<a href="#"><u>Amendment to Employment Agreement of David D. Mandarich, dated March 8, 2012 (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed March 9, 2012). *</u></a>
10.55	<a href="#"><u>Second Amendment to Employment Agreement of David D. Mandarich, dated October 18, 2013 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed October 18, 2013). *</u></a>
10.56	<a href="#"><u>Lease Agreement among MDC, Richmond American Homes of Colorado, Inc. and Larry A. Mizel, August 2, 2007 (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q dated June 30, 2007). *</u></a>
10.57	<a href="#"><u>Lease Agreement among MDC, Richmond American Homes of Colorado, Inc. and David D. Mandarich, August 2, 2007 (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q dated June 30, 2007). *</u></a>
10.58	<a href="#"><u>Change in Control and Separation Agreement between the Company and Michael Touff, dated as of July 30, 2008 (incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q filed July 31, 2008). *</u></a>
10.59	<a href="#"><u>Change in Control Agreement between the Company and Robert N. Martin, dated as of May 23, 2015 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 19, 2015). *</u></a>
10.60	<a href="#"><u>Form of Change in Control Agreement between the Company and certain employees of M.D.C. Holdings, Inc. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed March 27, 1998). *</u></a>
10.61	<a href="#"><u>Independent Contractor Agreement between Mizel Design and Decorating Company and the Company effective as of January 1, 2005 (incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K dated December 31, 2004). *</u></a>
10.62	<a href="#"><u>Sub-Sublease agreement between MDC and CVentures, Inc., executed July 25, 2005 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 27, 2005). *</u></a>
10.63	<a href="#"><u>First Amendment to Sub-Sublease agreement between MDC and CVentures, Inc., executed on March 28, 2006 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 29, 2006). *</u></a>
10.64	<a href="#"><u>Sublease agreement between MDC and CVentures, Inc., executed January 30, 2017 (incorporated by reference to Exhibit 10.60 of the Company's Annual Report on Form 10-K dated December 31, 2016). *</u></a>
21	<a href="#"><u>Subsidiaries of the Company.</u></a>
23	<a href="#"><u>Consent of Ernst &amp; Young LLP.</u></a>
31.1	<a href="#"><u>Certification of principal executive officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of principal financial officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>

## [Table of Contents](#)

32.1	<a href="#"><u>Certification of principal executive officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of principal financial officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101	The following financial statements, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets at December 31, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations for each of the three years in the period ended December 31, 2019, (iii) Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2019, (iv) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2019; and (iv) Notes to the Consolidated Financial Statements, tagged as blocks of text.
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)

\*Incorporated by reference.

## [Table of Contents](#)

### **Item 16. Form 10-K Summary.**

Not applicable.

## [Table of Contents](#)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

M.D.C. HOLDINGS, INC.  
(Registrant)

Date: January 30, 2020

By: /s/ Robert N. Martin  
Robert N. Martin  
*Senior Vice President, Chief Financial Officer and  
Principal Accounting Officer (duly authorized officer)*

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned officers and/or directors of the Registrant, by virtue of their signatures to this report, appearing below, hereby constitute and appoint Larry A. Mizel and David D. Mandarich, or any one of them, with full power of substitution, as attorneys-in-fact in their names, places and steads to execute any and all amendments to this report in the capacities set forth opposite their names and hereby ratify all that said attorneys-in-fact do by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Larry A. Mizel</u> Larry A. Mizel	Chairman of the Board of Directors and Chief Executive Officer ( <i>principal executive officer</i> )	January 30, 2020
<u>/s/ David D. Mandarich</u> David D. Mandarich	Director, President and Chief Operating Officer	January 30, 2020
<u>/s/ Robert N. Martin</u> Robert N. Martin	Senior Vice President, Chief Financial Officer & Principal Accounting Officer ( <i>principal financial officer and principal accounting officer</i> )	January 30, 2020
<u>/s/ Raymond T. Baker</u> Raymond T. Baker	Director	January 30, 2020
<u>/s/ Michael A. Berman</u> Michael A. Berman	Director	January 30, 2020
<u>/s/ David E. Blackford</u> David E. Blackford	Director	January 30, 2020
<u>/s/ Herbert T. Buchwald</u> Herbert T. Buchwald	Director	January 30, 2020
<u>/s/ Leslie B. Fox</u> Leslie B. Fox	Director	January 30, 2020
<u>/s/ Courtney L. Mizel</u> Courtney L. Mizel	Director	January 30, 2020
<u>/s/ Paris G. Reece III</u> Paris G. Reece III	Director	January 30, 2020
<u>/s/ David Siegel</u> David Siegel	Director	January 30, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of the date of the Annual Report on Form 10-K of which this exhibit is a part, M.D.C. Holdings, Inc. (the "Company") has three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our common stock, \$.01 par value per share (the "Common Stock"), (2) our 5.625% Senior Notes due February 2020 and (3) our 6.000% Senior Notes due January 2043.

**Description of Common Stock**

*The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation, as amended (the "charter") and our Bylaws, as amended (the "bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part. We encourage you to read our charter, our bylaws and the applicable provisions of Delaware General Corporation Law for additional information. Our Common Stock is traded on The New York Stock Exchange under the "MDC" symbol.*

The total number of shares of capital stock which the Company has the ability to issue is 275,000,000 shares consisting of 250,000,000 shares of Common Stock and 25,000,000 shares of preferred stock, \$.01 par value. The term "capital stock" means all capital stock of the Company, authorized to be issued from time to time under our charter, and the term "voting stock" shall mean all capital stock which by its terms may generally be voted on matters submitted to stockholders of the Company.

Our Board of Directors is divided into three classes, each class consisting, as nearly as may be possible, of one-third of the total number of Directors constituting the entire Board of Directors.

Holders of our Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. The vote of the holders of a majority of the stock represented at a meeting at which a quorum is present is generally required to take shareholder action, unless a greater vote is required by law. The holders are not entitled to cumulative voting in the election of directors. Directors are elected by a plurality of the shares represented in person or by proxy at the meeting and entitled to vote.

Holders of Common Stock have no preemptive rights. They are entitled to such dividends as may be declared by our board of directors out of funds legally available for such purpose. The Common Stock is not entitled to any sinking fund, redemption or conversion provisions. On our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in our net assets remaining after the payment of all creditors and liquidation preferences of preferred stock, if any. The outstanding shares of common stock are duly authorized, validly issued, fully paid and non-assessable.

The transfer agent and registrar for the Common Stock is Continental Stock Transfer & Trust Company.

The following are provisions in our charter or bylaws:

- Our charter prohibits shareholder action by written consent.
- Our charter provides that the shareholders shall not have the right to remove a director except (i) for cause upon the affirmative vote of the holders of a majority of all outstanding shares of voting stock or (ii) without cause upon the affirmative vote of the holders of eighty percent (80%) of all outstanding shares of voting stock.
- Our charter provides that any vacancy on the Board of Directors or any newly created directorship may be filled by the remaining directors then in office, though they may constitute less than a quorum.
- Our bylaws provide that special meetings of the shareholders may only be called by either (i) the Chairman or (ii) the President, (iii) any Vice President or (iv) the Secretary and shall be called by any such officer at the request in writing of a majority of the Board of Directors or the holders of a majority of the outstanding voting shares.

- Our bylaws establish an advance written notice procedure for shareholders seeking to propose matters to be acted upon at shareholders' meetings or to nominate persons for election to the Board of Directors.
- Our charter provides that certain business combinations require the affirmative vote of not less than eighty percent (80%) of all the then outstanding shares of voting stock.
- Our charter requires, in certain circumstances, the affirmative vote of not less than eighty percent (80%) of all the then outstanding shares of voting stock to amend, repeal or adopt certain provisions of the charter.
- Our charter authorizes our Board of Directors to fix, with respect to a particular class or series of preferred stock, the voting powers of stock of such class or series, and the designations, preferences and relative, participating, optional and other special rights and the qualifications, limitations and restrictions of such class or series.

The foregoing provisions may have an effect of delaying, deferring or preventing a change in control of our company.

### **Description of 5.625% Senior Notes due 2020**

*The following description of our 5.625% Senior Notes due 2020 (the "Notes") is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Indenture, dated as of December 3, 2002 (the "Base Indenture"), between the Company and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the Supplemental Indenture, dated as of January 15, 2010 (the "Supplemental Indenture") (the Base Indenture, as supplemented by the Supplemental Indenture, the "Indenture"), which are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this exhibit is a part. The Notes are traded on The New York Stock Exchange under the bond trading symbol of "552676AP3".*

*Definitions of certain terms are set forth under "Certain Definitions" and throughout this description. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture, and those definitions are incorporated herein by reference. We encourage you to read the above referenced Indenture for additional information.*

#### **General**

The Notes were issued under the Indenture, the "Indenture"), among the Company, the Guarantors and the Trustee.

#### **Principal, Maturity and Interest**

The Notes will mature on February 1, 2020. In this offering, \$250,000,000 aggregate principal amount of Notes were issued. Interest on the Notes accrues at a rate of 5.625% per annum, computed on the basis of a 360-day year of twelve 30-day months and payable semiannually in arrears on each February 1 and August 1 (each an "Interest Payment Date"), commencing on August 1, 2010. We pay interest to the persons in whose names the Notes are registered at the close of business on January 15 or July 15, as the case may be, before any Interest Payment Date.

The Notes are unsecured and unsubordinated obligations of the Company and rank equally and ratably with our existing and future unsecured and unsubordinated indebtedness.

We conduct our operations through our subsidiaries and, therefore, we are primarily dependent on the earnings and cash flows of our subsidiaries to meet our debt service obligations.

Any right that we have or that our creditors have to participate in the assets of any of our subsidiaries upon any liquidation or reorganization of any such subsidiary will be subject to the prior claims of that subsidiary's creditors, including trade creditors. Accordingly, the Notes will also be effectively subordinated to the creditors of our subsidiaries. The Notes will, however, have the benefit of the Guarantees from the Guarantors, which consist of certain of our homebuilding subsidiaries. The Guarantees from the Guarantors, however, are unsecured and, accordingly, will be effectively subordinated to the secured debt of the Guarantors. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans or other payments, other than as expressly provided in the Guarantees. The payment of dividends and the making of loans and advances to us by our subsidiaries are subject to contractual, statutory or regulatory restrictions, are contingent upon the earnings of those subsidiaries and are subject to various business considerations.

We expect that payments of principal, premium, if any, and interest to owners of beneficial interests in Notes held in global form will be made in accordance with the procedures of The Depository Trust Company (“DTC”) and its participants in effect from time to time. DTC will act as the Depository for the global Notes.

The Notes will not be entitled to the benefit of any sinking fund or mandatory redemption provisions.

The Notes were issued only in fully registered form without coupons, in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

The principal of, premium, if any, and interest on the Notes will be payable, and, subject to the restrictions on transfer described herein, the Notes may be surrendered for registration of transfer or exchange, at the office or agency maintained by us for that purpose in the Borough of Manhattan, The City of New York; provided that payments of interest may be made at our option by check mailed to the address of the persons entitled thereto or by wire transfer to an account maintained by the payee with a bank located in the United States. The office or agency initially maintained by us for the foregoing purposes shall be the office of the Trustee. No service charge will be made for any registration of transfer or exchange of the Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection herewith.

If any Interest Payment Date or maturity date of the Notes is not a business day at any place of payment, then payment of principal, premium, if any, and interest need not be made at such place of payment on that date but may be made on the next succeeding business day at that place of payment, and no interest will accrue on the amount payable for the period from and after such Interest Payment Date or maturity date, as the case may be.

The Indenture does not limit the amount of indebtedness that we or our subsidiaries may issue. The Indenture does not contain covenants or other provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction, change in credit rating or other similar occurrence.

We expect that interests in the global Notes will trade in DTC’s Same-Day Funds Settlement System and secondary market trading activity in these interests will therefore be required by DTC to settle in immediately available funds.

## **Guarantees**

Payment of principal of, premium, if any, and interest on the Notes will be guaranteed fully and unconditionally, jointly and severally, by certain of our homebuilding subsidiaries. Each Guarantee will be an unsecured senior obligation of the Guarantor issuing such Guarantee, ranking equal in right of payment with all of such Guarantor’s existing and future unsecured and unsubordinated indebtedness.

The Indenture provides that, in the event any Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of the Guarantor under such Guarantee shall be reduced to the maximum amount, after giving effect to all other contingent and other liabilities of such Guarantor, permissible under applicable fraudulent conveyance or similar law.

The Indenture provides that any subsidiary of the Company that provides a guarantee of any Specified Indebtedness, other than Finance Subsidiaries, will guarantee the Notes. The Indenture provides that any Guarantor may be released from its Guarantee so long as (1) no default or Event of Default exists or would result from release of such Guarantee, (2) the Guarantor being released has Consolidated Net Worth of less than 5% of the Company’s Consolidated Net Worth as of the end of the most recent fiscal quarter, (3) the Guarantors released from their Guarantees in any year-end period comprise in the aggregate less than 10% (or 15% if and to the extent necessary to permit us to cure a default) of the Company’s Consolidated Net Worth as of the end of the most recent fiscal quarter, (4) such release would not have a material adverse effect on the homebuilding business of the Company and its subsidiaries and (5) the Guarantor is released from its guarantee(s) under all Specified Indebtedness (other than by reason of payment under its guarantee of Specified Indebtedness).

By reason of the foregoing, if the Guarantors are released under their guarantees of our other Specified Indebtedness, the Guarantors will also be released under their Guarantees of the Notes and the other notes issued under the 2002 Indenture.

## Optional Redemption

We may, at our option, redeem the Notes in whole at any time or in part from time to time, on at least 30 but not more than 60 days' prior notice, at a redemption price equal to the greater of the following amounts:

- 100% of their principal amount, and
- the present value of the Remaining Scheduled Payments on the Notes being redeemed on the redemption date, discounted to the redemption date, on a semiannual basis, at the Treasury Rate plus 35 basis points (0.35%),

plus, in each case, accrued and unpaid interest on the Notes to the redemption date. In determining the redemption price and accrued interest, interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed is deposited with the Trustee on or before the redemption date, on and after the redemption date interest will cease to accrue on the Notes (or such portions thereof) called for redemption and the Notes will cease to be outstanding.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with a paying agent (or the Trustee) money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed on that date. If less than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected by lot by DTC, in the case of Notes represented by a global security.

## Change of Control Repurchase Event

If a Change of Control Repurchase Event occurs, unless we have exercised our right to redeem the Notes as described above, we will make an offer to each holder of Notes to repurchase all or any part (in amounts of \$2,000 or in integral multiples of \$1,000 in excess thereof) of that holder's Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to the date of purchase. Within 30 days following any Change of Control Repurchase Event or, at our option, prior to any Change of Control, but after the public announcement of the Change of Control, we will mail a notice to each holder, with a copy to the Trustee, describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase Notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Repurchase Event occurring on or prior to the payment date specified in the notice.

We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations under the Exchange Act to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of the Notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Repurchase Event provisions of the Notes by virtue of such conflict.

On the Change of Control Repurchase Event date, we will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to our offer;
- (2) deposit with the paying agent an amount equal to the aggregate purchase price in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes properly accepted, together with an officers' certificate stating the aggregate principal amount of Notes being purchased by us.

The paying agent will promptly mail to each holder of Notes properly tendered the purchase price for the Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Note equal in principal amount to any unpurchased portion of any Notes surrendered; provided that each new Note will be in a principal amount of \$2,000 or an integral multiple of \$1,000.

We will not be required to make an offer to repurchase the Notes upon a Change of Control Repurchase Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all Notes properly tendered and not withdrawn under its offer.

## Certain Covenants

*Restrictions on Secured Debt.* The Indenture provides that the Company will not, and will not cause or permit a Restricted Subsidiary (other than any Finance Subsidiary) to, create, incur, assume or guarantee any Secured Debt unless the Notes will be secured equally and ratably with (or prior to) such Secured Debt, with certain exceptions. This restriction does not prohibit the creation, incurrence, assumption or guarantee of Secured Debt which is secured by:

- (1) Security Interests in model homes, homes held for sale, homes that are under contract for sale, contracts for the sale of homes, land (improved or unimproved), manufacturing plants, warehouses or office buildings and fixtures and equipment located thereat or thereon;
- (2) Security Interests in property at the time of its acquisition by the Company or a Restricted Subsidiary, including Capitalized Lease Obligations, which Security Interests secure obligations assumed by the Company or a Restricted Subsidiary, or in the property of a corporation or other entity at the time it is merged into or consolidated with the Company or a Restricted Subsidiary (other than Secured Debt created in contemplation of the acquisition of such property or the consummation of such a merger or where the Security Interest attaches to or affects the property of the Company or a Restricted Subsidiary prior to such transaction);
- (3) Security Interests arising from conditional sales agreements or title retention agreements with respect to property acquired by the Company or a Restricted Subsidiary;
- (4) Security Interests incurred in connection with pollution control, industrial revenue, water, sewage or any similar item; and
- (5) Security Interests securing Indebtedness of a Restricted Subsidiary owing to the Company or a Restricted Subsidiary that is wholly owned (directly or indirectly) by the Company or Security Interests securing the Company's Indebtedness owing to a Guarantor.

Additionally, such permitted Secured Debt includes any amendment, restatement, supplement, renewal, replacement, extension or refunding, in whole or in part, of Secured Debt permitted at the time of the original incurrence thereof.

In addition, the Company and the Guarantors may create, incur, assume or guarantee Secured Debt, without equally and ratably securing the Notes, if immediately thereafter the sum of (1) the aggregate principal amount of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (5) above and any Secured Debt in relation to which the Notes have been equally and ratably secured) and (2) all Attributable Debt (as defined below) in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions as to which the provisions of clauses (1) through (3) described under "Limitation on Sale and Leaseback Transactions" have been complied with) as of the date of determination would not exceed 20% of Consolidated Net Tangible Assets (as defined below).

The provisions described above with respect to limitations on Secured Debt are not applicable to Non-Recourse Indebtedness (as defined below) by virtue of the definition of Secured Debt, and will not restrict the Company's or the Guarantors' ability to create, incur, assume or guarantee any unsecured Indebtedness, or of any Subsidiary which is not a Restricted Subsidiary to create, incur, assume or guarantee any secured or unsecured Indebtedness.

*Limitation on Sale and Leaseback Transactions.* The Indenture provides that we will not, and will not cause or permit a Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless:

- the net proceeds received therefrom are equal to or exceed the fair value of such property so leased, as determined by the Board of Directors, chairman of the board, vice chairman, president or principal financial officer of the Company,
- we or any of our Restricted Subsidiaries would be entitled to incur Secured Debt as described in "Restrictions on Secured Debt" above,
- we, or a Restricted Subsidiary, within 180 days of the effective date of any Sale and Leaseback Transaction, apply an amount equal to the fair value of the property so leased to the retirement of our Funded Indebtedness,
- the Sale and Leaseback Transaction relates to a sale which occurs within 180 days from the date of acquisition of that property by us or any of our Restricted Subsidiaries or the date of the completion of construction or commencement of full operations on that property, whichever is later, or
- the Sale and Leaseback Transaction was consummated prior to the date of the Indenture.

**Additional Guarantees.** The Indenture provides that the Company shall not permit any Subsidiary that is not a Guarantor, directly or indirectly, to guarantee any obligations of the Company under any Specified Indebtedness unless such Subsidiary simultaneously executes and delivers to the Trustee a supplemental indenture, in a form reasonably satisfactory to the Trustee, pursuant to which such Subsidiary guarantees, jointly and severally with all other Guarantors, on the same basis as the Specified Indebtedness is guaranteed, the Company's obligations under the Indenture and the Notes. The Company shall deliver to the Trustee an opinion of counsel that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and, subject to customary exceptions, constitutes a valid and legally binding and enforceable obligation of such Subsidiary.

**SEC Reports.** The Indenture provides that we will deliver to the Trustee and each Holder, within 15 days after we file the same with the SEC, copies of all reports and information (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe), if any, exclusive of exhibits, which we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act or pursuant to the immediately following sentence. So long as any Notes remain outstanding, we shall file with the SEC such reports as may be required pursuant to Section 13 of the Exchange Act in respect of a security registered pursuant to Section 12 of the Exchange Act. If we are not subject to the requirements of Section 13 or 15(d) of the Exchange Act (or otherwise required to file reports pursuant to the immediately preceding sentence), we shall deliver to the Trustee and to each Holder, within 15 days after we would have been required to file such information with the SEC were we required to do so, financial statements, including any notes thereto (and, in the case of a fiscal year end, an auditors' report by an independent certified public accounting firm of established national reputation), and a "Management's Discussion and Analysis of Financial Condition and Results of Operations," substantially equivalent to that which we would have been required to include in such quarterly or annual reports, information, documents or other reports if we had been subject to the requirements of Section 13 or 15(d) of the Exchange Act. We shall also comply with the other provisions of TIA Section 314(a).

### **Consolidation, Merger and Sale of Assets**

Neither the Company nor the Guarantors will consolidate or merge into or sell, assign, transfer or lease all or substantially all of our or their assets to another person unless:

(1) the person is a corporation organized under the laws of the United States of America or any state thereof;

(2) the person assumes by supplemental indenture all of the obligations of us or such Guarantor, as the case may be, relating to the Notes, the Guarantees and the Indenture, as the case may be; and

(3) immediately after the transaction no Event of Default exists; provided that this clause (3) will not restrict or be applicable to a merger, consolidation or liquidation of a Guarantor with or into the Company or another Subsidiary that is wholly owned, directly or indirectly, by the Company that is, or concurrently with the completion of such merger, consolidation or liquidation becomes, a Guarantor or a Restricted Subsidiary that is wholly owned, directly or indirectly, by the Company.

Upon any such consolidation, merger, sale, assignment or transfer, the successor corporation will be substituted for the Company or such Guarantor (including any merger or consolidation described in the proviso at the end of the immediately preceding sentence), as applicable, under the Indenture. The successor corporation may then exercise every power and right of the Company or such Guarantor under the Indenture, and the Company or such Guarantor, as applicable, will be released from all of its respective liabilities and obligations in respect of the Notes and the Indenture. If the Company or any Guarantor leases all or substantially all of its assets, the lessee corporation will be the successor to the Company or such Guarantor and may exercise every power and right of the Company or such Guarantor, as the case may be, under the Indenture, but the Company or such Guarantor, as the case may be, will not be released from its respective obligations to pay the principal of and premium, if any, and interest, if any, on the Notes.

### **Events of Default**

An "Event of Default" with respect to the Notes is defined in the Indenture as being:

(1) default in the payment of interest on the Notes as and when the same becomes due and payable and the continuance of any such failure for 30 days;

(2) default in the payment of all or any part of the principal or premium, if any, on the Notes when and as the same become due and payable at maturity, at redemption, by declaration of acceleration or otherwise;

(3) default in the observance or performance of, or breach of, any covenant, agreement or warranty of the Company contained in the Notes or the Indenture (unless specifically dealt with elsewhere), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by Holders of at least 25% in aggregate principal amount of the outstanding Notes, a written notice specifying such default or breach, requiring it to be remedied and stating that such notice is a “Notice of Default” thereunder;

(4) a decree, judgment or order by a court of competent jurisdiction shall have been entered adjudging the Company or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition in an involuntary case or proceeding seeking reorganization of the Company or any of its Significant Subsidiaries under any bankruptcy or similar law, or a decree, judgment or order of a court of competent jurisdiction directing the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Company, any of its Significant Subsidiaries, or of the assets or property of any such Person, or the winding up or liquidation of the affairs of any such Person, shall have been entered, and the continuance of any such decree, judgment or order unstayed and in effect for a period of 90 consecutive days;

(5) the Company or any of its Significant Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt (including conversion of an involuntary proceeding into a voluntary proceeding), or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of it or any of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, or fail generally to pay its debts as they become due;

(6) (a) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company or any of its Significant Subsidiaries (in accordance with the terms of such Indebtedness and after giving effect to any applicable grace period set forth in the documents governing such Indebtedness) that has an outstanding principal amount of \$25,000,000 or more individually or \$40,000,000 or more in the aggregate to be immediately due and payable; provided that, in the event any such acceleration is withdrawn or otherwise rescinded (including satisfaction of such Indebtedness) within a period of ten business days after such acceleration by the holders of such Indebtedness, any Event of Default under this clause (6) will be deemed to be cured and any acceleration hereunder will be deemed withdrawn or rescinded; or (b) the failure by the Company or any of its Significant Subsidiaries to make any principal, premium, interest or other required payment in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any of its Significant Subsidiaries with an outstanding aggregate principal amount of \$25,000,000 or more individually or \$40,000,000 or more in the aggregate (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(7) one or more final nonappealable judgments (in the amount not covered by insurance or not reserved for) or the issuance of any warrant of attachment against any portion of the property or assets (except with respect to Non-Recourse Indebtedness) of the Company or any of its Restricted Subsidiaries, which are \$25,000,000 or more individually or \$40,000,000 or more in the aggregate, at any one time rendered against the Company or any of its Restricted Subsidiaries by a court of competent jurisdiction and not bonded, satisfied or discharged for a period (during which execution shall not be effectively stayed) of (a) 60 days after the judgment becomes final and such court shall not have ordered or approved, and the parties shall not have agreed upon, the payment of such judgment at a later date or dates or (b) 60 days after all or any part of such judgment is payable pursuant to any court order or agreement between the parties; or

(8) the Guarantee of any Guarantor shall fail to remain in full force and effect except in accordance with the Indenture or any action shall be taken by any Guarantor to discontinue or to assert the invalidity or unenforceability of its Guarantee, or any Guarantor shall fail to comply with any of the terms or provisions of its Guarantee, or any Guarantor denies that it has any further liability under its Guarantee or gives notice to such effect.

The Indenture provides that if an Event of Default (other than an Event of Default described in clause (4) or (5) above) shall have occurred and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of Notes then outstanding may declare the principal amount of all the Notes and interest, if any, accrued thereon to be due and payable immediately, but upon certain conditions such declaration may be annulled and past defaults (except, unless cured, a default in payment of principal of or interest on the Notes) may be waived by the holders of a majority in principal amount of the Notes then outstanding. If an Event of Default described in clause (4) or (5) above occurs and is continuing, then the principal amount of all the debt securities shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder.

The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, to be indemnified by the holders of the Notes before proceeding to exercise any right or power under the Indenture at the request of the holders of the Notes. The Indenture also provides that the holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on such Trustee.

No holder of Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless: (1) the holder shall have previously given the Trustee written notice of an Event of Default with respect to the Notes, (2) the holders of at least 25% in aggregate principal amount of the outstanding Notes shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, (3) the Trustee shall have failed to institute any such proceeding for 60 days after its receipt of such notice and (4) no direction inconsistent with such written request shall have been given to the Trustee during the 60-day period by the holders of a majority in principal amount of the Notes. However, any right of a holder of Notes to receive payment of the principal of and any interest on the Notes on or after the dates expressed in the Notes and to institute suit for the enforcement of any such payment on or after such dates shall not be impaired or affected without the consent of such holder.

The Indenture contains a covenant that we will file annually with the Trustee a certificate as to the absence of any default or specifying any default that exists.

## **Certain Definitions**

*“Attributable Debt”* means, in respect of a Sale and Leaseback Transaction, the present value (discounted at the weighted average effective interest cost per annum of the outstanding debt securities of all series, compounded semiannually) of the obligation of the lessee for rental payments during the remaining term of the lease included in such transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended or, if earlier, until the earliest date on which the lessee may terminate such lease upon payment of a penalty (in which case the obligation of the lessee for rental payments shall include such penalty), after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water and utility rates and similar charges.

*“Below Investment Grade Rating Event”* means the Notes are rated below Investment Grade by all three Rating Agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies); provided that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of Change of Control Repurchase Event) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at our request that the reduction was the result, in whole or in part, of any event or circumstance comprised of, or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred within the 60-day period preceding the reduction in ratings).

*“Capital Stock”* means any and all shares, interests, participations or other equivalents (however designated) of or in a Person’s capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Preferred Stock of such Person if such Person is a corporation or membership interests if such Person is a limited liability company and each general and limited partnership interest of such Person if such Person is a partnership.

*“Capitalized Lease Obligations”* of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

*“Change of Control”* means the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner, directly or indirectly, of more than 50% of our Voting Stock, measured by voting power rather than number of shares. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (1) the Company becomes a wholly owned subsidiary of a holding company and (2) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company’s Voting Stock immediately prior to that transaction.

*“Change of Control Repurchase Event”* means the occurrence of both a Change of Control and a Below Investment Grade Rating Event.

*“Comparable Treasury Issue”* means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

*“Comparable Treasury Price”* means, with respect to any redemption date, (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (b) if such release (or any successor release) is not published or does not contain such price on such business day, (i) the average of the Reference Treasury Dealer quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

*“Consolidated Net Tangible Assets”* means the total amount of assets which would be included on a combined balance sheet of the Company and the Guarantors under GAAP (less applicable reserves and other properly deductible items) after deducting therefrom:

(1) all short-term liabilities, except for (x) liabilities payable by their terms more than one year from the date of determination (or renewable or extendible at the option of the obligor for a period ending more than one year after such date) and (y) liabilities in respect of retiree benefits other than pensions for which the Restricted Subsidiaries are required to accrue pursuant to Statement of Financial Accounting Standards No.106;

(2) investments in subsidiaries that are not Restricted Subsidiaries; and

(3) all goodwill, trade names, trademarks, patents, unamortized debt discount, unamortized expense incurred in the issuance of debt and other intangible assets.

*“Consolidated Net Worth”* of any Person means the consolidated stockholders’ equity of the Person determined in accordance with GAAP.

*“Finance Subsidiary”* means any Subsidiary of the Company substantially all of whose operations consist of (a) the mortgage financing business or (b) the insurance business.

*“Fitch”* means Fitch Ratings.

*“Funded Indebtedness”* means notes, bonds, debentures or other similar evidences of Indebtedness for money borrowed which by their terms mature at or are extendible or renewable at the option of the obligor to a date more than 12 months after the date of the creation of such debt.

*“GAAP”* means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on the date of the Indenture.

*“Guarantee”* means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

“*Guarantors*” means (i) initially, each of:

M.D.C. Land Corporation, a Colorado corporation;  
RAH of Florida, Inc., a Colorado corporation;  
Richmond American Construction, Inc., a Delaware corporation;  
Richmond American Homes of Arizona, Inc., a Delaware corporation;  
Richmond American Homes of Colorado, Inc., a Delaware corporation;  
Richmond American Homes of Delaware, Inc., a Colorado corporation (now known as Richmond American Homes of Oregon, Inc.);  
Richmond American Homes of Florida, LP, a Colorado limited partnership;  
Richmond American Homes of Illinois, Inc., a Colorado corporation;  
Richmond American Homes of Maryland, Inc., a Maryland corporation;  
Richmond American Homes of Nevada, Inc., a Colorado corporation;  
Richmond American Homes of New Jersey, Inc., a Colorado corporation;  
Richmond American Homes of Pennsylvania, Inc., a Colorado corporation;  
Richmond American Homes of Utah, Inc., a Colorado corporation;  
Richmond American Homes of Virginia, Inc., a Virginia corporation; and  
Richmond American Homes of West Virginia, Inc., a Colorado corporation;

and (ii) any other Subsidiary of the Company that executes and delivers a guarantee of the Notes pursuant to the provisions of the Indenture.

“*Indebtedness*” means (a) any liability of any Person (i) for borrowed money, or (ii) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business), or (iii) for the payment of money relating to a Capitalized Lease Obligation or (iv) for all Redeemable Capital Stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; (b) any liability of others described in the preceding clause (a) that such Person has guaranteed or that is otherwise its legal liability; (c) all Indebtedness referred to in (but not excluded from) clauses (a) and (b) above of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Security Interest upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (d) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (a), (b) and (c) above.

“*Interest Payment Date*” means the stated due date of an installment of interest on the Notes.

“*Investment Grade*” means a rating of Baa3 or better by Moody’s (or its equivalent under any successor rating categories of Moody’s); a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); and the equivalent investment grade credit rating from any additional Rating Agency or Rating Agencies selected by us. “*Moody’s*” means Moody’s Investors Service, Inc.

“*Non-Recourse Indebtedness*” means Indebtedness or other obligations secured by a lien on property to the extent that the liability for the Indebtedness or other obligations is limited to the security of the property without liability on the part of the Company or any Restricted Subsidiary (other than the Restricted Subsidiary which holds title to the property) for any deficiency.

“*Notes*” means the 5.625% Senior Notes due 2020 issued under the Indenture, as supplemented from time to time in accordance with the terms of the Indenture.

“*Person*” means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“*Preferred Stock*” of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

“*Rating Agency*” means (1) each of Moody’s, Fitch and S&P; and (2) if any of Moody’s, Fitch or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available (for reasons outside of our control), a “nationally recognized statistical rating organization” within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by us (as certified by a resolution of our board of directors) as a replacement agency for Moody’s, Fitch or S&P, or all three, as the case may be.

*“Redeemable Capital Stock”* means any Capital Stock of the Company or any of its Subsidiaries that, either by its terms, by the terms of any security into which it is convertible or exchangeable or otherwise, (a) is or upon the happening of an event or passage of time would be required to be redeemed on or prior to the final stated maturity of the securities or (b) is redeemable at the option of the holder thereof at any time prior to such final stated maturity or (c) is convertible into or exchangeable for debt securities at any time on or prior to such final stated maturity.

*“Reference Treasury Dealer”* means (a) Citigroup Global Markets Inc. (or its affiliates which are Primary Treasury Dealers), and its successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer, and (b) any other Primary Treasury Dealer(s) selected by us.

*“Reference Treasury Dealer Quotations”* means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

*“Remaining Scheduled Payments”* means, with respect to any Note, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that if such redemption date is not an Interest Payment Date with respect to such Note, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to such redemption date.

*“Restricted Subsidiary”* means any Guarantor and any successor to such Guarantor.

*“Sale and Leaseback Transaction”* means a sale or transfer made by the Company or a Restricted Subsidiary (except a sale or transfer made to the Company or a Restricted Subsidiary) of any property which is either (a) a manufacturing facility, office building or warehouse whose book value equals or exceeds 1% of Consolidated Net Tangible Assets as of the date of determination or (b) another property (not including a model home) which exceeds 5% of Consolidated Net Tangible Assets as of the date of determination, if such sale or transfer is made with the agreement, commitment or intention of leasing such property to the Company or a Restricted Subsidiary for more than a three-year term.

*“Secured Debt”* means any Indebtedness, except Indebtedness of the Finance Subsidiaries, which is secured by (i) a Security Interest in any of the property of the Company or any Restricted Subsidiary or (ii) a Security Interest in shares of stock owned directly or indirectly by the Company or a Restricted Subsidiary in a corporation or in equity interests owned by the Company or a Restricted Subsidiary in a partnership or other entity not organized as a corporation or in the Company’s rights or the rights of a Restricted Subsidiary in respect of Indebtedness of a corporation, partnership or other entity in which the Company or a Restricted Subsidiary has an equity interest. The securing in the foregoing manner of any such Indebtedness which immediately prior thereto was not Secured Debt shall be deemed to be the creation of Secured Debt at the time security is given.

*“Security Interests”* means any mortgage, pledge, lien, encumbrance or other security interest which secures the payment or performance of an obligation.

*“Significant Subsidiary”* means any Subsidiary (a) whose revenues exceed 10% of our total consolidated revenues, in each case for the most recent fiscal year, or (b) whose net worth exceeds 10% of our total stockholders’ equity, in each case as of the end of the most recent fiscal year.

*“S&P”* means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

*“Specified Indebtedness”* means Indebtedness under (i) the Notes, (ii) the 2002 Indenture and (iii) the Second Amended and Restated Credit Agreement dated as of March 22, 2006, among the Company and the banks named therein, as amended or supplemented from time to time, and any refinancing, extension, renewal or replacement of any of the foregoing.

*“Subsidiary”* means any Person of which at the time of determination by us, directly and/or indirectly through one or more Subsidiaries, we own more than 50% of its Voting Stock.

*“Treasury Rate”* means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

*“Voting Stock”* means, with respect to any Person, the Capital Stock of such Person that is generally entitled to vote in the election of the members of the board of directors (or functional equivalent) of such Person.

## Modification and Waiver

We and the Trustee, with the consent of the holders of at least a majority of the principal amount of the outstanding Notes, may execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or modifying the rights of the holders of the Notes, except that no such supplemental indenture may, without the consent of the holder of each outstanding security affected by the supplemental indenture, among other things:

- (1) change the final maturity of the Notes, or reduce the rate or extend the time of payment of interest on the Notes, or reduce the principal amount of the Notes, or impair the right to institute suit for payment of the Notes;
- (2) change the redemption provisions or the definitions relating thereto in any manner adverse to the holders of the Notes;
- (3) reduce the percentage of Notes whose consent the holders of which is required for any such supplemental indenture, for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture and their consequences provided in the Indenture; or
- (4) modify any of the provisions regarding the modification of the Indenture, waivers of past defaults and waivers of certain covenants, except to increase any percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding security affected thereby.

Our Board of Directors does not have the power to waive any of the covenants of the Indenture. We and the Trustee may modify or amend provisions of the Indenture without the consent of any holder for any of the following purposes:

- (1) to evidence the succession of another Person to us or any Guarantor under the Indenture and the Notes;
- (2) to add to our covenants or the covenants of any Guarantor for the benefit of the holders of the Notes or to surrender any right or power conferred upon us or such Guarantor by the Indenture;
- (3) to add Events of Default for the benefit of the holders of the Notes;
- (4) to secure any debt securities under the Indenture;
- (5) to establish the form or terms of the debt securities of any series;
- (6) to add Guarantors;
- (7) to provide for the acceptance of appointment by a successor Trustee or facilitate the administration of the trusts under the Indenture by more than one Trustee;
- (8) to close the Indenture to authentication and delivery of additional series of debt securities and to cure any ambiguity, defect or inconsistency in the Indenture, provided such action does not adversely affect the interests of holders of the Notes; or
- (9) to supplement any of the provisions of the Indenture to the extent necessary to permit or facilitate defeasance and discharge of the Notes, provided that such action shall not adversely affect the interests of the holders of the Notes in any material respect.

The holders of at least a majority in principal amount of the outstanding Notes may, on behalf of the holders of the Notes, waive any past default under the Indenture with respect to the Notes. However, they may not waive a default (1) in the payment of the principal of (or premium, if any) or any interest on the Notes or (2) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding debt security affected.

## Defeasance Provisions

*Defeasance and Discharge.* The Indenture provides that we will be discharged from any and all obligations in respect of the debt securities of that series (except for certain obligations to register the transfer or exchange of debt securities, replace stolen, lost, destroyed or mutilated debt securities, maintain offices or agencies and hold moneys for payment in trust) upon the deposit with the Trustee, in trust, of money, government obligations or a combination thereof, which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on, and any mandatory sinking fund payments in respect of, the debt securities of that series on the stated maturity date of the payments in accordance with the terms of the Indenture and the debt securities. This type of discharge may only occur if there has been a change in applicable federal law or we have received from, or there has been published by, the United States Internal Revenue Service a ruling to the effect that the holders of the debt securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of that discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the discharge had not occurred. In addition, this type of discharge may only occur so long as no Event of Default or event which, with notice or lapse of time, would become an Event of Default with respect to the debt securities of that series has occurred and is continuing on the date that cash and/or government securities are deposited in trust and other conditions specified in the Indenture are satisfied. The term “government obligations” means securities of the government which issued the currency in which the debt securities of the series are denominated or in which interest is payable or of government agencies backed by the full faith and credit of that government.

*Defeasance of Certain Covenants.* The Indenture also provides that we may omit to comply with the covenants described above under “Certain Covenants” with respect to the debt securities of that series if we comply with the following conditions. In order to exercise this option, we will be required to deposit with the Trustee money, government obligations or a combination thereof which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on, and any mandatory sinking fund payments in respect of, the debt securities of that series on the stated maturity date of the payments in accordance with the terms of the Indenture and the debt securities. We will also be required to deliver to the Trustee an opinion of counsel to the effect that the deposit and related covenant defeasance will not cause the holders of the debt securities of that series to recognize income, gain or loss for federal income tax purposes and that those holders will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and covenant defeasance had not occurred, and to satisfy other conditions specified in the Indenture.

*Covenant Defeasance and Events of Default.* In the event we exercise our option to effect covenant defeasance with respect to the debt securities of any series and those debt securities are declared due and payable because of the occurrence of any Event of Default, the amount of money and government obligations on deposit with the Trustee will be sufficient to pay amounts due on the debt securities of that series at the time of their stated maturity dates but may not be sufficient to pay amounts due on the debt securities at the time of the acceleration resulting from such Event of Default. However, we shall remain liable for such payments.

### **Regarding the Trustee**

The Indenture contains certain limitations on the rights of the Trustee, which is a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign. In the ordinary course of its business, the Trustee provides, and may continue to provide, service to the Company as trustee for other debt securities of the Company.

### **Book-Entry Delivery and Settlement**

The Notes are issued in the form of one or more permanent global securities in definitive, fully registered form. The global securities will be deposited with or on behalf of The Depository Trust Company, referred to as DTC, and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the trustee in accordance with the FAST Balance Certificate Agreement between DTC and the Trustee. DTC has advised us that:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended;
- DTC holds securities that its direct participants deposit with DTC and facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants’ accounts, thereby eliminating the need for physical movement of securities certificates;
- direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations;
- DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc.;

- access to the DTC system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly; and
- the rules applicable to DTC and its direct and indirect participants are on file with the SEC.

## Certificated Notes

We will issue certificated Notes to each Person that DTC identifies as the beneficial owner of Notes represented by the global securities upon surrender by DTC of the global securities only if:

- DTC notifies us that it is no longer willing or able to act as a depository for the global securities, and we have not appointed a successor depository within 90 days of that notice;
- an Event of Default has occurred and is continuing; or
- we decide not to have the Notes represented by a global security.

Neither we nor the Trustee will be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the related Notes. We and the Trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee, including instructions about the registration and delivery, and the respective principal amounts, of the Notes to be issued.

## Same-Day Settlement and Payment

Settlement for the Notes will be made by the underwriter in immediately available funds. So long as the Notes are represented by global securities registered in the name of DTC or its nominee, all payments of principal and interest will be made by us in immediately available funds. In addition, so long as the Notes are represented by such Global Securities, the Notes will trade in DTC's Same-Day Funds Settlement System, and secondary market trading activity in the Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the Notes.

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## Description of 6.000% Senior Notes due 2043

*The following description of our 6.000% Senior Notes due 2043 (the "Notes") is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Indenture, dated as of December 3, 2002 (the "Base Indenture"), between the Company and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the Supplemental Indenture, dated as of January 10, 2013 (the "Supplemental Indenture") (the Base Indenture, as supplemented by the Supplemental Indenture, the "Indenture"), which are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this exhibit is a part. The Notes are traded on The New York Stock Exchange under the bond trading symbol of "552676AQ1".*

*Definitions of certain terms are set forth under "Certain Definitions" and throughout this description. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture, and those definitions are incorporated herein by reference. We encourage you to read the above referenced Indenture for additional information.*

## General

The Notes were issued under the Indenture among the Company, the Guarantors and the Trustee.

## Principal, Maturity and Interest

The Indenture does not limit the amount of debt securities that we may issue. We may issue debt securities under the Indenture from time to time in one or more series. The Notes will constitute a separate series of debt securities under the Indenture and will therefore vote together as a single class for purposes of determining whether holders of the requisite percentage in principal amount thereof have taken actions or exercised rights they are entitled to take or exercise under the Indenture.

The Notes will mature on January 15, 2043. \$500,000,000 aggregate principal amount of Notes were issued, but we may issue additional Notes at any time on the same terms and conditions and with the same or different CUSIP number as the Notes. Interest on the Notes accrues from January 10, 2013, at a rate of 6.000% per annum, and is computed on the basis of a 360-day year of twelve 30-day months and is payable semi-annually in arrears on each January 15 and July 15 (each an “*Interest Payment Date*”), commencing on July 15, 2013. We will pay interest to the persons in whose names the Notes are registered at the close of business on January 1 or July 1, as the case may be, before any Interest Payment Date.

The Notes are unsecured and unsubordinated obligations of the Company and rank equally and ratably with our existing and future unsecured and unsubordinated indebtedness.

We conduct our operations through our subsidiaries and, therefore, we are primarily dependent on the earnings and cash flows of our subsidiaries to meet our debt service obligations.

Any right that we have or that our creditors have to participate in the assets of any of our subsidiaries upon any liquidation or reorganization of any such subsidiary will be subject to the prior claims of that subsidiary’s creditors, including trade creditors. Accordingly, the Notes will also be effectively subordinated to the creditors of our subsidiaries. The Notes will, however, have the benefit of the Guarantees from the Guarantors, which consist of certain of our homebuilding subsidiaries. The Guarantees from the Guarantors, however, are unsecured and, accordingly, will be effectively subordinated to the secured debt of the Guarantors. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans or other payments, other than as expressly provided in the Guarantees. The payment of dividends and the making of loans and advances to us by our subsidiaries are subject to contractual, statutory or regulatory restrictions, are contingent upon the earnings of those subsidiaries and are subject to various business considerations.

We expect that payments of principal, premium, if any, and interest to owners of beneficial interests in Notes held in global form will be made in accordance with the procedures of The Depository Trust Company (“*DTC*”) and its participants in effect from time to time. DTC will act as the Depository for the global Notes.

The Notes will not be entitled to the benefit of any sinking fund or mandatory redemption provisions.

The Notes are issued only in fully registered form without coupons, in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

The principal of, premium, if any, and interest on the Notes will be payable, and, subject to the restrictions on transfer described herein, the Notes may be surrendered for registration of transfer or exchange, at the office or agency maintained by us for that purpose in the Borough of Manhattan, The City of New York; *provided* that payments of interest may be made at our option by check mailed to the address of the persons entitled thereto or by wire transfer to an account maintained by the payee with a bank located in the United States. The office or agency initially maintained by us for the foregoing purposes shall be the office of the Trustee. No service charge will be made for any registration of transfer or exchange of the Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection herewith.

If any Interest Payment Date or maturity date of the Notes is not a business day at any place of payment, then payment of principal, premium, if any, and interest need not be made at such place of payment on that date but may be made on the next succeeding business day at that place of payment, and no interest will accrue on the amount payable for the period from and after such Interest Payment Date or maturity date, as the case may be.

The Indenture does not limit the amount of indebtedness that we or our subsidiaries may issue. The Indenture does not contain covenants or other provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction, change in credit rating or other similar occurrence.

We expect that interests in the global Notes will trade in DTC’s Same-Day Funds Settlement System and secondary market trading activity in these interests will therefore be required by DTC to settle in immediately available funds.

## **Interest Rate Adjustment Following A Change of Control**

If a Change of Control occurs and within 60 days thereafter all three of the Ratings Agencies have less than Investment Grade debt ratings assigned to the Notes, whether as a result of a downgrade or otherwise, the per annum interest rate on the Notes will increase from the interest rate payable on the Notes immediately before the Change of Control. The interest rate will increase by 0.25% for each rating level below Investment Grade by each of the two Rating Agencies with the lowest ratings (i.e., if two Rating Agencies are two levels below Investment Grade and the third Rating Agency is one level below Investment Grade, the interest rate increase will be 1.00% per annum). In the event that only two Rating Agencies have debt ratings assigned to the Notes, those two debt ratings will be used to determine any interest rate increase. In the event that only one Rating Agency has a debt rating assigned to the Notes, the interest rate increase will be two times 0.25% for each rating level below Investment Grade by the Rating Agency that has a debt rating assigned to the Notes. In the event that no Rating Agency has a debt rating assigned to the Notes, the interest rate increase will be 2.00% per annum. Any downgrade of the ratings assigned to the Notes that occurs outside of the 60 day period will not alter the per annum interest rate.

In no event shall: (1) the total increase in the interest rate on the Notes exceed 2.00% per annum above the interest rate payable on the Notes on the date of their initial issuance; or (2) the interest rate increase unless the debt ratings on the Notes by all Rating Agencies that have debt ratings assigned to the Notes are below Investment Grade within 60 days after the Change of Control.

If at any time after the interest rate on the Notes has been adjusted upward pursuant to this provision as a result of a Rating Agency rating the Notes below Investment Grade, that Rating Agency (or a replacement rating agency selected by us under the circumstance set forth in, and in accordance with, the definition of “Rating Agency”) thereafter increases its rating with respect to the Notes, the per annum interest rate on the Notes will decrease by 0.25% per annum (or, if the debt rating for only one Rating Agency was used to determine the interest rate increase pursuant to the fourth sentence of the first paragraph of this “Interest Rate Adjustment Following a Change of Control” section, two times 0.25% per annum) for each level of improvement in the rating of the Notes by such Rating Agency; provided that the decrease in interest rate resulting therefrom will not exceed the aggregate percentage increase in the interest rate that resulted from the prior lower rating by such Rating Agency. In no event will the interest rate on the Notes ever be less than the interest rate payable on the Notes on the date of their initial issuance.

Any interest rate change described above will take effect as of the first day of the interest period for which the next interest payment will be made.

The interest rate on the Notes will permanently cease to be subject to any adjustment described above (notwithstanding any subsequent decrease in the ratings by any Rating Agency) if all of the Rating Agencies subsequently increase their rating of the Notes to the following levels at the same time (Moody’s: A3; S&P: A-; Fitch A-; or the equivalent if with respect to any substitute rating agency) or higher.

## **Guarantees**

Payment of principal of, premium, if any, and interest on the Notes will be guaranteed fully and unconditionally, jointly and severally, by certain of our homebuilding subsidiaries. Each Guarantee will be an unsecured senior obligation of the Guarantor issuing such Guarantee, ranking equal in right of payment with all of such Guarantor’s existing and future unsecured and unsubordinated indebtedness.

The Indenture provides that, in the event any Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of the Guarantor under such Guarantee shall be reduced to the maximum amount, after giving effect to all other contingent and other liabilities of such Guarantor, permissible under applicable fraudulent conveyance or similar law.

The Indenture provides that any subsidiary of the Company that provides a guarantee of any Specified Indebtedness, other than Finance Subsidiaries, will guarantee the Notes. The Indenture provides that any Guarantor may be released from its Guarantee so long as (1) no default or Event of Default exists or would result from release of such Guarantee, (2) the Guarantor being released has Consolidated Net Worth of less than 5% of the Company’s Consolidated Net Worth as of the end of the most recent fiscal quarter, (3) the Guarantors released from their Guarantees in any year-end period comprise in the aggregate less than 10% (or 15% if and to the extent necessary to permit us to cure a default) of the Company’s Consolidated Net Worth as of the end of the most recent fiscal quarter, (4) such release would not have a material adverse effect on the homebuilding business of the Company and its subsidiaries and (5) the Guarantor is released from its guarantee(s) under all Specified Indebtedness (other than by reason of payment under its guarantee of Specified Indebtedness).

By reason of the foregoing, if the Guarantors are released under their guarantees of our other Specified Indebtedness, the Guarantors will also be released under their Guarantees of the Notes and the other notes issued under the 2002 Indenture.

See “Risk Factors –Risks Relating to the Notes –The notes will be unsecured and effectively subordinated to our secured indebtedness and structurally subordinated to all of the liabilities of our subsidiaries that do not guarantee the notes” and “— Federal and state laws allow courts, under specific circumstances, to void guarantees and to require you to return payments received from guarantors of the notes.”

## Optional Redemption

We may, at our option, redeem the Notes in whole at any time or in part from time to time, as set forth below on at least 30 but not more than 60 days’ prior notice.

If the Notes are redeemed prior to the date that is three months prior to the maturity date for the Notes, the redemption price for the Notes to be redeemed will equal the greater of the following amounts:

- 100% of their principal amount, and
- the present value of the Remaining Scheduled Payments on the Notes being redeemed on the redemption date, discounted to the redemption date, on a semi-annual basis, at the Treasury Rate plus 45 basis points (0.450%),

plus, in each case, accrued and unpaid interest on the Notes to the redemption date.

If the Notes are redeemed on or after the date that is three months prior to the maturity date for the Notes, the redemption price for the Notes to be redeemed will equal 100% of the principal amount of such Notes, plus accrued and unpaid interest to the redemption date. In determining the redemption price and accrued interest, interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed is deposited with the Trustee on or before the redemption date, on and after the redemption date interest will cease to accrue on the Notes (or such portions thereof) called for redemption and the Notes will cease to be outstanding.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with a paying agent (or the Trustee) money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed on that date. If less than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected by lot by DTC, in the case of Notes represented by a global security.

## Certain Covenants

*Restrictions on Secured Debt.* The Indenture provides that the Company will not, and will not cause or permit a Restricted Subsidiary (other than any Finance Subsidiary) to, create, incur, assume or guarantee any Secured Debt unless the Notes will be secured equally and ratably with (or prior to) such Secured Debt, with certain exceptions. This restriction does not prohibit the creation, incurrence, assumption or guarantee of Secured Debt which is secured by:

- (1) Security Interests in model homes, homes held for sale, homes that are under contract for sale, contracts for the sale of homes, land (improved or unimproved), manufacturing plants, warehouses or office buildings and fixtures and equipment located thereat or thereon;
- (2) Security Interests in property at the time of its acquisition by the Company or a Restricted Subsidiary, including Capitalized Lease Obligations, which Security Interests secure obligations assumed by the Company or a Restricted Subsidiary, or in the property of a corporation or other entity at the time it is merged into or consolidated with the Company or a Restricted Subsidiary (other than Secured Debt created in contemplation of the acquisition of such property or the consummation of such a merger or where the Security Interest attaches to or affects the property of the Company or a Restricted Subsidiary prior to such transaction);
- (3) Security Interests arising from conditional sales agreements or title retention agreements with respect to property acquired by the Company or a Restricted Subsidiary;
- (4) Security Interests incurred in connection with pollution control, industrial revenue, water, sewage or any similar item; and
- (5) Security Interests securing Indebtedness of a Restricted Subsidiary owing to the Company or a Restricted Subsidiary that is wholly owned (directly or indirectly) by the Company or Security Interests securing the Company’s Indebtedness owing to a Guarantor.

Additionally, such permitted Secured Debt includes any amendment, restatement, supplement, renewal, replacement, extension or refunding, in whole or in part, of Secured Debt permitted at the time of the original incurrence thereof.

In addition, the Company and the Guarantors may create, incur, assume or guarantee Secured Debt, without equally and ratably securing the Notes, if immediately thereafter the sum of (1) the aggregate principal amount of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (5) above and any Secured Debt in relation to which the Notes have been equally and ratably secured) and (2) all Attributable Debt (as defined below) in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions as to which the provisions of clauses (1) through (3) described under “Limitation on Sale and Leaseback Transactions” have been complied with) as of the date of determination would not exceed 20% of Consolidated Net Tangible Assets (as defined below).

The provisions described above with respect to limitations on Secured Debt are not applicable to Non-Recourse Indebtedness (as defined below) by virtue of the definition of Secured Debt, and will not restrict the Company’s or the Guarantors’ ability to create, incur, assume or guarantee any unsecured Indebtedness, or of any Subsidiary which is not a Restricted Subsidiary to create, incur, assume or guarantee any secured or unsecured Indebtedness.

*Limitation on Sale and Leaseback Transactions.* The Indenture provides that we will not, and will not cause or permit a Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless:

- the net proceeds received therefrom are equal to or exceed the fair value of such property so leased, as determined by the Board of Directors, chairman of the board, vice chairman, president or principal financial officer of the Company,
- we or any of our Restricted Subsidiaries would be entitled to incur Secured Debt as described in “Restrictions on Secured Debt” above,
- we, or a Restricted Subsidiary, within 180 days of the effective date of any Sale and Leaseback Transaction, apply an amount equal to the fair value of the property so leased to the retirement of our Funded Indebtedness,
- the Sale and Leaseback Transaction relates to a sale which occurs within 180 days from the date of acquisition of that property by us or any of our Restricted Subsidiaries or the date of the completion of construction or commencement of full operations on that property, whichever is later, or
- the Sale and Leaseback Transaction was consummated prior to the date of the Indenture.

*Additional Guarantees.* The Indenture provides that the Company shall not permit any Subsidiary that is not a Guarantor, directly or indirectly, to guarantee any obligations of the Company under any Specified Indebtedness unless such Subsidiary simultaneously executes and delivers to the Trustee a supplemental indenture, in a form reasonably satisfactory to the Trustee, pursuant to which such Subsidiary guarantees, jointly and severally with all other Guarantors, on the same basis as the Specified Indebtedness is guaranteed, the Company’s obligations under the Indenture and the Notes. The Company shall deliver to the Trustee an opinion of counsel that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and, subject to customary exceptions, constitutes a valid and legally binding and enforceable obligation of such Subsidiary.

*SEC Reports.* The Indenture provides that we will deliver to the Trustee and each Holder, within 15 days after we file the same with the SEC, copies of all reports and information (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe), if any, exclusive of exhibits, which we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act or pursuant to the immediately following sentence. So long as any Notes remain outstanding, we shall file with the SEC such reports as may be required pursuant to Section 13 of the Exchange Act in respect of a security registered pursuant to Section 12 of the Exchange Act. If we are not subject to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (or otherwise required to file reports pursuant to the immediately preceding sentence), we shall deliver to the Trustee and to each Holder, within 15 days after we would have been required to file such information with the SEC were we required to do so, financial statements, including any notes thereto (and, in the case of a fiscal year end, an auditors’ report by an independent certified public accounting firm of established national reputation), and a “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” substantially equivalent to that which we would have been required to include in such quarterly or annual reports, information, documents or other reports if we had been subject to the requirements of Section 13 or 15(d) of the Exchange Act. We shall also comply with the other provisions of TIA Section 314(a).

## Consolidation, Merger and Sale of Assets

Neither the Company nor the Guarantors will consolidate or merge into or sell, assign, transfer or lease all or substantially all of our or their assets to another person unless:

(1) the person is a corporation organized under the laws of the United States of America or any state thereof;

(2) the person assumes by supplemental indenture all of the obligations of us or such Guarantor, as the case may be, relating to the Notes, the Guarantees and the Indenture, as the case may be; and

(3) immediately after the transaction no Event of Default exists; *provided* that this clause (3) will not restrict or be applicable to a merger, consolidation or liquidation of a Guarantor with or into the Company or another Subsidiary that is wholly owned, directly or indirectly, by the Company that is, or concurrently with the completion of such merger, consolidation or liquidation becomes, a Guarantor or a Restricted Subsidiary that is wholly owned, directly or indirectly, by the Company.

Upon any such consolidation, merger, sale, assignment or transfer, the successor corporation will be substituted for the Company or such Guarantor (including any merger or consolidation described in the proviso at the end of the immediately preceding sentence), as applicable, under the Indenture. The successor corporation may then exercise every power and right of the Company or such Guarantor under the Indenture, and the Company or such Guarantor, as applicable, will be released from all of its respective liabilities and obligations in respect of the Notes and the Indenture. If the Company or any Guarantor leases all or substantially all of its assets, the lessee corporation will be the successor to the Company or such Guarantor and may exercise every power and right of the Company or such Guarantor, as the case may be, under the Indenture, but the Company or such Guarantor, as the case may be, will not be released from its respective obligations to pay the principal of and premium, if any, and interest, if any, on the Notes.

## Events of Default

An “Event of Default” with respect to the Notes is defined in the Indenture as being:

(1) default in the payment of interest on the Notes as and when the same becomes due and payable and the continuance of any such failure for 30 days;

(2) default in the payment of all or any part of the principal or premium, if any, on the Notes when and as the same become due and payable at maturity, at redemption, by declaration of acceleration or otherwise;

(3) default in the observance or performance of, or breach of, any covenant, agreement or warranty of the Company contained in the Notes or the Indenture (unless specifically dealt with elsewhere), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by Holders of at least 25% in aggregate principal amount of the outstanding Notes, a written notice specifying such default or breach, requiring it to be remedied and stating that such notice is a “Notice of Default” thereunder;

(4) a decree, judgment or order by a court of competent jurisdiction shall have been entered adjudging the Company or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition in an involuntary case or proceeding seeking reorganization of the Company or any of its Significant Subsidiaries under any bankruptcy or similar law, or a decree, judgment or order of a court of competent jurisdiction directing the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Company, any of its Significant Subsidiaries, or of the assets or property of any such Person, or the winding up or liquidation of the affairs of any such Person, shall have been entered, and the continuance of any such decree, judgment or order unstayed and in effect for a period of 90 consecutive days;

(5) the Company or any of its Significant Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt (including conversion of an involuntary proceeding into a voluntary proceeding), or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of it or any of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, or fail generally to pay its debts as they become due;

(6) (a) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company or any of its Significant Subsidiaries (in accordance with the terms of such Indebtedness and after giving effect to any applicable grace period set forth in the documents governing such Indebtedness) that has an outstanding principal amount of \$25,000,000 or more individually or \$40,000,000 or more in the aggregate to be immediately due and payable; *provided* that, in the event any such acceleration is withdrawn or otherwise rescinded (including satisfaction of such Indebtedness) within a period of ten business days after such acceleration by the holders of such Indebtedness, any Event of Default under this clause (6) will be deemed to be cured and any acceleration hereunder will be deemed withdrawn or rescinded; or (b) the failure by the Company or any of its Significant Subsidiaries to make any principal, premium, interest or other required payment in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any of its Significant Subsidiaries with an outstanding aggregate principal amount of \$25,000,000 or more individually or \$40,000,000 or more in the aggregate (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(7) one or more final nonappealable judgments (in the amount not covered by insurance or not reserved for) or the issuance of any warrant of attachment against any portion of the property or assets (except with respect to Non-Recourse Indebtedness) of the Company or any of its Restricted Subsidiaries, which are \$25,000,000 or more individually or \$40,000,000 or more in the aggregate, at any one time rendered against the Company or any of its Restricted Subsidiaries by a court of competent jurisdiction and not bonded, satisfied or discharged for a period (during which execution shall not be effectively stayed) of (a) 60 days after the judgment becomes final and such court shall not have ordered or approved, and the parties shall not have agreed upon, the payment of such judgment at a later date or dates or (b) 60 days after all or any part of such judgment is payable pursuant to any court order or agreement between the parties; or

(8) the Guarantee of any Guarantor shall fail to remain in full force and effect except in accordance with the Indenture or any action shall be taken by any Guarantor to discontinue or to assert the invalidity or unenforceability of its Guarantee, or any Guarantor shall fail to comply with any of the terms or provisions of its Guarantee, or any Guarantor denies that it has any further liability under its Guarantee or gives notice to such effect.

The Indenture provides that if an Event of Default (other than an Event of Default described in clause (4) or (5) above) shall have occurred and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of Notes then outstanding may declare the principal amount of all the Notes and interest, if any, accrued thereon to be due and payable immediately, but upon certain conditions such declaration may be annulled and past defaults (except, unless cured, a default in payment of principal of or interest on the Notes) may be waived by the holders of a majority in principal amount of the Notes then outstanding. If an Event of Default described in clause (4) or (5) above occurs and is continuing, then the principal amount of all the debt securities shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder.

The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, to be indemnified by the holders of the Notes before proceeding to exercise any right or power under the Indenture at the request of the holders of the Notes. The Indenture also provides that the holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on such Trustee.

No holder of Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless: (1) the holder shall have previously given the Trustee written notice of an Event of Default with respect to the Notes, (2) the holders of at least 25% in aggregate principal amount of the outstanding Notes shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, (3) the Trustee shall have failed to institute any such proceeding for 60 days after its receipt of such notice and (4) no direction inconsistent with such written request shall have been given to the Trustee during the 60-day period by the holders of a majority in principal amount of the Notes. However, any right of a holder of Notes to receive payment of the principal of and any interest on the Notes on or after the dates expressed in the Notes and to institute suit for the enforcement of any such payment on or after such dates shall not be impaired or affected without the consent of such holder.

The Indenture contains a covenant that we will file annually with the Trustee a certificate as to the absence of any default or specifying any default that exists.

#### **Certain Definitions**

*“Attributable Debt”* means, in respect of a Sale and Leaseback Transaction, the present value (discounted at the weighted average effective interest cost per annum of the outstanding debt securities of all series, compounded semiannually) of the obligation of the lessee for rental payments during the remaining term of the lease included in such transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended or, if earlier, until the earliest date on which the lessee may terminate such lease upon payment of a penalty (in which case the obligation of the lessee for rental payments shall include such penalty), after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water and utility rates and similar charges.

*“Capital Stock”* means any and all shares, interests, participations or other equivalents (however designated) of or in a Person’s capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Preferred Stock of such Person if such Person is a corporation or membership interests if such Person is a limited liability company and each general and limited partnership interest of such Person if such Person is a partnership.

*“Capitalized Lease Obligations”* of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

*“Change of Control”* means the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner, directly or indirectly, of more than 50% of our Voting Stock, measured by voting power rather than number of shares. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (1) the Company becomes a wholly owned subsidiary of a holding company and (2) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company’s Voting Stock immediately prior to that transaction.

“*Comparable Treasury Issue*” means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

“*Comparable Treasury Price*” means, with respect to any redemption date, (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (b) if such release (or any successor release) is not published or does not contain such price on such business day, (i) the average of the Reference Treasury Dealer quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“*Consolidated Net Tangible Assets*” means the total amount of assets which would be included on a combined balance sheet of the Company and the Guarantors under GAAP (less applicable reserves and other properly deductible items) after deducting therefrom:

(1) all short-term liabilities, except for (x) liabilities payable by their terms more than one year from the date of determination (or renewable or extendible at the option of the obligor for a period ending more than one year after such date) and (y) liabilities in respect of retiree benefits other than pensions for which the Restricted Subsidiaries are required to accrue pursuant to Statement of Financial Accounting Standards No. 106;

(2) investments in subsidiaries that are not Restricted Subsidiaries; and

(3) all goodwill, trade names, trademarks, patents, unamortized debt discount, unamortized expense incurred in the issuance of debt and other intangible assets.

“*Consolidated Net Worth*” of any Person means the consolidated stockholders’ equity of the Person determined in accordance with GAAP.

“*Finance Subsidiary*” means any Subsidiary of the Company substantially all of whose operations consist of (a) the mortgage financing business or (b) the insurance business.

“*Fitch*” means Fitch Ratings.

“*Funded Indebtedness*” means notes, bonds, debentures or other similar evidences of Indebtedness for money borrowed which by their terms mature at or are extendible or renewable at the option of the obligor to a date more than 12 months after the date of the creation of such debt.

“*GAAP*” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on the date of the Indenture.

“*Guarantee*” means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

“*Guarantors*” means (i) initially, each of:

M.D.C. Land Corporation, a Colorado corporation;  
RAH of Florida, Inc., a Colorado corporation;  
Richmond American Construction, Inc., a Delaware corporation;  
Richmond American Homes of Arizona, Inc., a Delaware corporation;  
Richmond American Homes of Colorado, Inc., a Delaware corporation;  
Richmond American Homes of Delaware, Inc., a Colorado corporation (now known as Richmond American Homes of Oregon, Inc.);  
Richmond American Homes of Florida, LP, a Colorado limited partnership;  
Richmond American Homes of Illinois, Inc., a Colorado corporation;  
Richmond American Homes of Maryland, Inc., a Maryland corporation;  
Richmond American Homes of Nevada, Inc., a Colorado corporation;  
Richmond American Homes of New Jersey, Inc., a Colorado corporation;  
Richmond American Homes of Pennsylvania, Inc., a Colorado corporation;  
Richmond American Homes of Utah, Inc., a Colorado corporation;  
Richmond American Homes of Virginia, Inc., a Virginia corporation; and  
Richmond American Homes of Washington, Inc., a Colorado corporation.

and (ii) any other Subsidiary of the Company that executes and delivers a guarantee of the Notes pursuant to the provisions of the Indenture.

*“Indebtedness”* means (a) any liability of any Person (i) for borrowed money, or (ii) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business), or (iii) for the payment of money relating to a Capitalized Lease Obligation or (iv) for all Redeemable Capital Stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; (b) any liability of others described in the preceding clause (a) that such Person has guaranteed or that is otherwise its legal liability; (c) all Indebtedness referred to in (but not excluded from) clauses (a) and (b) above of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Security Interest upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (d) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (a), (b) and (c) above.

*“Interest Payment Date”* means the stated due date of an installment of interest on the Notes.

*“Investment Grade”* means a rating of Baa3 or better by Moody’s (or its equivalent under any successor rating categories of Moody’s); a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); and the equivalent investment grade credit rating from any additional Rating Agency or Rating Agencies selected by us.

*“Moody’s”* means Moody’s Investors Service, Inc.

*“Non-Recourse Indebtedness”* means Indebtedness or other obligations secured by a lien on property to the extent that the liability for the Indebtedness or other obligations is limited to the security of the property without liability on the part of the Company or any Restricted Subsidiary (other than the Restricted Subsidiary which holds title to the property) for any deficiency.

*“Notes”* means the 6.000% Senior Notes due 2043, issued under the Indenture, as supplemented from time to time in accordance with the terms of the Indenture.

*“Person”* means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*“Preferred Stock”* of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

*“Rating Agency”* means (1) each of Moody’s, Fitch and S&P; and (2) if any of Moody’s, Fitch or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available (for reasons outside of our control), a “nationally recognized statistical rating organization” registered under Section 15E of the Exchange Act, selected by us (as certified by a resolution of our board of directors) as a replacement agency for Moody’s, Fitch or S&P, or all three, as the case may be.

*“Redeemable Capital Stock”* means any Capital Stock of the Company or any of its Subsidiaries that, either by its terms, by the terms of any security into which it is convertible or exchangeable or otherwise, (a) is or upon the happening of an event or passage of time would be required to be redeemed on or prior to the final stated maturity of the securities or (b) is redeemable at the option of the holder thereof at any time prior to such final stated maturity or (c) is convertible into or exchangeable for debt securities at any time on or prior to such final stated maturity.

*“Reference Treasury Dealer”* means (a) Citigroup Global Markets Inc. (or its affiliates which are Primary Treasury Dealers), and its successors; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “*Primary Treasury Dealer*”), the Company will substitute therefor another Primary Treasury Dealer, and (b) any other Primary Treasury Dealer(s) selected by us.

*“Reference Treasury Dealer Quotations”* means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

*“Remaining Scheduled Payments”* means, with respect to any Note, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the related redemption date but for such redemption; *provided, however*, that if such redemption date is not an Interest Payment Date with respect to such Note, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to such redemption date.

*“Restricted Subsidiary”* means any Guarantor and any successor to such Guarantor.

*“Sale and Leaseback Transaction”* means a sale or transfer made by the Company or a Restricted Subsidiary (except a sale or transfer made to the Company or a Restricted Subsidiary) of any property which is either (a) a manufacturing facility, office building or warehouse whose book value equals or exceeds 1% of Consolidated Net Tangible Assets as of the date of determination or (b) another property (not including a model home) which exceeds 5% of Consolidated Net Tangible Assets as of the date of determination, if such sale or transfer is made with the agreement, commitment or intention of leasing such property to the Company or a Restricted Subsidiary for more than a three-year term.

*“Secured Debt”* means any Indebtedness, except Indebtedness of the Finance Subsidiaries, which is secured by (i) a Security Interest in any of the property of the Company or any Restricted Subsidiary or (ii) a Security Interest in shares of stock owned directly or indirectly by the Company or a Restricted Subsidiary in a corporation or in equity interests owned by the Company or a Restricted Subsidiary in a partnership or other entity not organized as a corporation or in the Company’s rights or the rights of a Restricted Subsidiary in respect of Indebtedness of a corporation, partnership or other entity in which the Company or a Restricted Subsidiary has an equity interest. The securing in the foregoing manner of any such Indebtedness which immediately prior thereto was not Secured Debt shall be deemed to be the creation of Secured Debt at the time security is given.

*“Security Interests”* means any mortgage, pledge, lien, encumbrance or other security interest which secures the payment or performance of an obligation.

*“Significant Subsidiary”* means any Subsidiary (a) whose revenues exceed 10% of our total consolidated revenues, in each case for the most recent fiscal year, or (b) whose net worth exceeds 10% of our total stockholders’ equity, in each case as of the end of the most recent fiscal year.

*“S&P”* means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

*“Specified Indebtedness”* means Indebtedness under (i) the Notes and (ii) the 2002 Indenture, and any refinancing, extension, renewal or replacement of any of the foregoing.

*“Subsidiary”* means any Person of which at the time of determination by us, directly and/or indirectly through one or more Subsidiaries, we own more than 50% of its Voting Stock.

*“Treasury Rate”* means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

*“Voting Stock”* means, with respect to any Person, the Capital Stock of such Person that is generally entitled to vote in the election of the members of the board of directors (or functional equivalent) of such Person.

## **Modification and Waiver**

We and the Trustee, with the consent of the holders of at least a majority of the principal amount of the outstanding Notes, may execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or modifying the rights of the holders of the Notes, except that no such supplemental indenture may, without the consent of the holder of each outstanding security affected by the supplemental indenture, among other things:

- (1) change the final maturity of the Notes, or reduce the rate or extend the time of payment of interest on the Notes, or reduce the principal amount of the Notes, or impair the right to institute suit for payment of the Notes;
- (2) change the redemption provisions or the definitions relating thereto in any manner adverse to the holders of the Notes;
- (3) reduce the percentage of Notes whose consent the holders of which is required for any such supplemental indenture, for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture and their consequences provided in the Indenture; or

(4) modify any of the provisions regarding the modification of the Indenture, waivers of past defaults and waivers of certain covenants, except to increase any percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding security affected thereby.

Our Board of Directors does not have the power to waive any of the covenants of the Indenture. We and the Trustee may modify or amend provisions of the Indenture without the consent of any holder for any of the following purposes:

- (1) to evidence the succession of another Person to us or any Guarantor under the Indenture and the Notes;
- (2) to add to our covenants or the covenants of any Guarantor for the benefit of the holders of the Notes or to surrender any right or power conferred upon us or such Guarantor by the Indenture;
- (3) to add Events of Default for the benefit of the holders of the Notes;
- (4) to secure any debt securities under the Indenture;
- (5) to establish the form or terms of the debt securities of any series;
- (6) to add Guarantors;
- (7) to provide for the acceptance of appointment by a successor Trustee or facilitate the administration of the trusts under the Indenture by more than one Trustee;
- (8) to close the Indenture to authentication and delivery of additional series of debt securities and to cure any ambiguity, defect or inconsistency in the Indenture, *provided* such action does not adversely affect the interests of holders of the Notes; or
- (9) to supplement any of the provisions of the Indenture to the extent necessary to permit or facilitate defeasance and discharge of the Notes, *provided* that such action shall not adversely affect the interests of the holders of the Notes in any material respect.

The holders of at least a majority in principal amount of the outstanding Notes may, on behalf of the holders of the Notes, waive any past default under the Indenture with respect to the Notes. However, they may not waive a default (1) in the payment of the principal of (or premium, if any) or any interest on the Notes or (2) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding debt security affected.

#### **Defeasance Provisions**

*Defeasance and Discharge.* The Indenture provides that we will be discharged from any and all obligations in respect of the debt securities of that series (except for certain obligations to register the transfer or exchange of debt securities, replace stolen, lost, destroyed or mutilated debt securities, maintain offices or agencies and hold moneys for payment in trust) upon the deposit with the Trustee, in trust, of money, government obligations or a combination thereof, which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on, and any mandatory sinking fund payments in respect of, the debt securities of that series on the stated maturity date of the payments in accordance with the terms of the Indenture and the debt securities. This type of discharge may only occur if there has been a change in applicable federal law or we have received from, or there has been published by, the United States Internal Revenue Service a ruling to the effect that the holders of the debt securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of that discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the discharge had not occurred. In addition, this type of discharge may only occur so long as no Event of Default or event which, with notice or lapse of time, would become an Event of Default with respect to the debt securities of that series has occurred and is continuing on the date that cash and/or government securities are deposited in trust and other conditions specified in the Indenture are satisfied. The term “government obligations” means securities of the government which issued the currency in which the debt securities of the series are denominated or in which interest is payable or of government agencies backed by the full faith and credit of that government.

*Defeasance of Certain Covenants.* The Indenture also provides that we may omit to comply with the covenants described above under “Certain Covenants” with respect to the debt securities of that series if we comply with the following conditions. In order to exercise this option, we will be required to deposit with the Trustee money, government obligations or a combination thereof which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on, and any mandatory sinking fund payments in respect of, the debt securities of that series on the stated maturity date of the payments in accordance with the terms of the Indenture and the debt securities. We will also be required to deliver to the Trustee an opinion of counsel to the effect that the deposit and related covenant defeasance will not cause the holders of the debt securities of that series to recognize income, gain or loss for federal income tax purposes and that those holders will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and covenant defeasance had not occurred, and to satisfy other conditions specified in the Indenture.

*Covenant Defeasance and Events of Default.* In the event we exercise our option to effect covenant defeasance with respect to the debt securities of any series and those debt securities are declared due and payable because of the occurrence of any Event of Default, the amount of money and government obligations on deposit with the Trustee will be sufficient to pay amounts due on the debt securities of that series at the time of their stated maturity dates but may not be sufficient to pay amounts due on the debt securities at the time of the acceleration resulting from such Event of Default. However, we shall remain liable for such payments.

## **Regarding the Trustee**

The Indenture contains certain limitations on the rights of the Trustee, which is a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign. In the ordinary course of its business, the Trustee provides, and may continue to provide, service to the Company as trustee for other debt securities of the Company.

## **Book-Entry Delivery and Settlement**

We will issue the Notes in the form of one or more permanent global securities in definitive, fully registered form. The global securities will be deposited with or on behalf of The Depository Trust Company, referred to as DTC, and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the trustee in accordance with the FAST Balance Certificate Agreement between DTC and the Trustee. DTC has advised us that:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended;
- DTC holds securities that its direct participants deposit with DTC and facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants’ accounts, thereby eliminating the need for physical movement of securities certificates;
- direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations;
- DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc.;
- access to the DTC system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly; and
- the rules applicable to DTC and its direct and indirect participants are on file with the SEC.

## **Certificated Notes**

We will issue certificated Notes to each Person that DTC identifies as the beneficial owner of Notes represented by the global securities upon surrender by DTC of the global securities only if:

- DTC notifies us that it is no longer willing or able to act as a depository for the global securities, and we have not appointed a successor depository within 90 days of that notice;
- an Event of Default has occurred and is continuing; or
- we decide not to have the Notes represented by a global security.

Neither we nor the Trustee will be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the related Notes. We and the Trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee, including instructions about the registration and delivery, and the respective principal amounts, of the Notes to be issued.

### **Same-Day Settlement and Payment**

Settlement for the Notes will be made by the underwriter in immediately available funds. So long as the Notes are represented by global securities registered in the name of DTC or its nominee, all payments of principal and interest will be made by us in immediately available funds. In addition, so long as the Notes are represented by such Global Securities, the Notes will trade in DTC's Same-Day Funds Settlement System, and secondary market trading activity in the Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the Notes.

## SUBSIDIARIES OF M.D.C. HOLDINGS, INC.

<i>Name</i>	<i>State of Organization</i>	<i>Doing Business As</i>
Allegiant Insurance Company, Inc., A Risk Retention Group	Hawaii	
American Home Insurance Agency, Inc.	Colorado	AHI Insurance Agency
American Home Title and Escrow Company	Colorado	
HomeAmerican Mortgage Corporation	Colorado	Home American Mortgage Corporation
M.D.C. Land Corporation	Colorado	MDC Land Flight Operations Co. Richmond Developments Limited
RAH Aviation, LLC	Colorado	
RAH of Florida, Inc.	Colorado	
Richmond American Construction, Inc.	Delaware	
Richmond American Homes Corporation	Colorado	
Richmond American Homes of Arizona, Inc.	Delaware	
Richmond American Homes of Colorado, Inc.	Delaware	
Richmond American Homes of Florida, LP	Colorado	
Richmond American Homes of Illinois, Inc.	Colorado	
Richmond American Homes of Maryland, Inc.	Maryland	Richmond American Homes of California, Inc.
Richmond American Homes of Nevada, Inc.	Colorado	
Richmond American Homes of New Jersey, Inc.	Colorado	
Richmond American Homes of Oregon, Inc.	Colorado	
Richmond American Homes of Pennsylvania, Inc.	Colorado	
Richmond American Homes of Utah, Inc.	Colorado	
Richmond American Homes of Virginia, Inc.	Virginia	
Richmond American Homes of Washington, Inc.	Colorado	
Richmond American Homes Three, Inc.	Colorado	
Richmond American Homes Four, Inc.	Colorado	
Richmond American Homes Five, Inc.	Colorado	
Richmond American Homes Six, Inc.	Colorado	
Richmond American Homes Seven, Inc.	Colorado	
Richmond Realty, Inc.	Colorado	
Richmond Realty of Washington, Inc.	Colorado	
StarAmerican Insurance Ltd.	Hawaii	

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-232327) of M.D.C. Holdings, Inc. and related Prospectus for the registration of \$2,000,000,000 in common stock, preferred stock, and debt securities; and
- (2) Registration Statements (Form S-8 No. 333-145066) pertaining to the M.D.C. Holdings, Inc. 2001 Equity Incentive Plan and M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors; and
- (3) Registration Statements (Form S-8 No. 333-174110, Form S-8 No. 333-188311, Form S-8 No. 333-203863, Form S-8 No. 333-203864, Form S-8 No. 333-217796 and Form S-8 No. 333-231174) pertaining to the M.D.C. Holdings, Inc. 2011 Equity Incentive Plan and the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors;

of our reports dated January 30, 2020, with respect to the consolidated financial statements of M.D.C. Holdings, Inc., and the effectiveness of internal control over financial reporting of M.D.C. Holdings, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Denver, Colorado  
January 30, 2020

# CERTIFICATIONS

I, Larry A. Mizel, certify that:

1. I have reviewed this report on Form 10-K of M.D.C. Holdings, 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(s) 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(s) 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: January 30, 2020

/s/ Larry A. Mizel  
 Chairman of the Board of Directors  
 and Chief Executive Officer  
 (principal executive officer)

# CERTIFICATIONS

I, Robert N. Martin, certify that:

1. I have reviewed this report on Form 10-K of M.D.C. Holdings, 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(s) 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(s) 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: January 30, 2020

/s/ Robert N. Martin  
 Senior Vice President, Chief Financial Officer  
 and Principal Accounting Officer  
 (principal financial officer)

**CERTIFICATION**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of M.D.C. Holdings, Inc. (the "Company") hereby certifies that the Report on Form 10-K of the Company for the period ended December 31, 2019 accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

/s/ Larry A. Mizel

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Larry A. Mizel  
Chief Executive Officer  
(principal executive officer)

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.

**CERTIFICATION**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of M.D.C. Holdings, Inc. (the "Company") hereby certifies that the Report on Form 10-K of the Company for the period ended December 31, 2019 accompanying this certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

/s/ Robert N. Martin

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Robert N. Martin

Senior Vice President, Chief Financial Officer and Principal  
Accounting Officer  
(principal financial officer)

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.