

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

OR

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

Commission File No. 1-8951

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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value	552676108	New York Stock Exchange
6% Senior Notes due January 2043	552676AQ1	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected 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 July 24, 2020, 63,401,388 shares of M.D.C. Holdings, Inc. common stock were outstanding.

M.D.C. HOLDINGS, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2020

INDEX

	Page No.
<u>Part I. Financial Information:</u>	
Item 1. Unaudited Consolidated Financial Statements:	
Consolidated Balance Sheets at June 30, 2020 and December 31, 2019	1
Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2020 and 2019	2
Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2020 and 2019	3
Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	38
Item 4. Controls and Procedures	39
<u>Part II. Other Information:</u>	
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 6. Exhibits	41
<u>Signature</u>	42

PART I

ITEM 1. Unaudited Consolidated Financial Statements

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

	June 30, 2020	December 31, 2019
	(Dollars in thousands, except per share amounts)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 482,702	\$ 424,186
Restricted cash	15,668	14,279
Trade and other receivables	88,279	65,829
Inventories:		
Housing completed or under construction	1,270,300	1,036,191
Land and land under development	1,235,598	1,330,384
Total inventories	2,505,898	2,366,575
Property and equipment, net	62,516	60,414
Deferred tax asset, net	19,828	21,768
Prepaid and other assets	69,484	78,358
Total homebuilding assets	3,244,375	3,031,409
Financial Services:		
Cash and cash equivalents	62,218	35,747
Marketable securities	—	56,747
Mortgage loans held-for-sale, net	173,567	197,021
Other assets	25,775	17,432
Total financial services assets	261,560	306,947
Total Assets	\$ 3,505,935	\$ 3,338,356
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$ 95,018	\$ 87,364
Accrued and other liabilities	278,543	245,940
Revolving credit facility	10,000	15,000
Senior notes, net	1,037,062	989,422
Total homebuilding liabilities	1,420,623	1,337,726
Financial Services:		
Accounts payable and accrued liabilities	70,033	68,529
Mortgage repurchase facility	142,094	149,616
Total financial services liabilities	212,127	218,145
Total Liabilities	1,632,750	1,555,871
Stockholders' Equity		
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; 63,384,866 and 62,574,961 issued and outstanding at June 30, 2020 and December 31, 2019, respectively	634	626
Additional paid-in-capital	1,359,985	1,348,733
Retained earnings	512,566	433,126
Total Stockholders' Equity	1,873,185	1,782,485
Total Liabilities and Stockholders' Equity	\$ 3,505,935	\$ 3,338,356

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
Homebuilding:				
Home sale revenues	\$ 886,758	\$ 732,844	\$ 1,583,843	\$ 1,380,122
Home cost of sales	(707,789)	(590,172)	(1,266,436)	(1,114,724)
Inventory impairments	—	—	—	(610)
Total cost of sales	(707,789)	(590,172)	(1,266,436)	(1,115,334)
Gross profit	178,969	142,672	317,407	264,788
Selling, general and administrative expenses	(92,316)	(82,712)	(181,637)	(164,973)
Interest and other income	720	2,764	2,609	5,155
Other expense	(2,452)	(1,110)	(3,789)	(2,301)
Homebuilding pretax income	84,921	61,614	134,590	102,669
Financial Services:				
Revenues	32,964	18,597	54,850	36,001
Expenses	(12,178)	(9,574)	(23,107)	(18,531)
Other income (expense), net	5,931	3,694	(6,133)	9,798
Financial services pretax income	26,717	12,717	25,610	27,268
Income before income taxes	111,638	74,331	160,200	129,937
Provision for income taxes	(27,242)	(19,738)	(39,044)	(34,794)
Net income	\$ 84,396	\$ 54,593	\$ 121,156	\$ 95,143
Comprehensive income	\$ 84,396	\$ 54,593	\$ 121,156	\$ 95,143
Earnings per share:				
Basic	\$ 1.33	\$ 0.88	\$ 1.92	\$ 1.55
Diluted	\$ 1.31	\$ 0.86	\$ 1.87	\$ 1.50
Weighted average common shares outstanding:				
Basic	63,015,827	61,336,404	62,755,310	61,138,982
Diluted	64,080,940	63,323,267	64,538,835	63,023,149
Dividends declared per share	\$ 0.33	\$ 0.30	\$ 0.66	\$ 0.60

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

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

	Six Months Ended June 30, 2020				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2019	62,574,961	\$ 626	\$ 1,348,733	\$ 433,126	\$ 1,782,485
Cumulative effect of newly adopted accounting standards (Note 2)	—	—	—	(34)	(34)
Balance at January 1, 2020	62,574,961	626	1,348,733	433,092	1,782,451
Net Income	—	—	—	36,760	36,760
Shares issued under stock-based compensation programs, net	477,582	5	8,189	—	8,194
Cash dividends declared	—	—	—	(20,768)	(20,768)
Stock-based compensation expense	—	—	4,440	—	4,440
Forfeiture of restricted stock	(48)	—	—	—	—
Balance at March 31, 2020	63,052,495	\$ 631	\$ 1,361,362	\$ 449,084	\$ 1,811,077
Net Income	—	—	—	84,396	84,396
Shares issued under stock-based compensation programs, net	334,178	3	(6,865)	—	(6,862)
Cash dividends declared	—	—	—	(20,914)	(20,914)
Stock-based compensation expense	—	—	5,488	—	5,488
Forfeiture of restricted stock	(1,807)	—	—	—	—
Balance at June 30, 2020	63,384,866	\$ 634	\$ 1,359,985	\$ 512,566	\$ 1,873,185

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

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

	Six Months Ended June 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2018	56,615,352	\$ 566	\$ 1,168,442	\$ 406,992	\$ 1,576,000
Cumulative effect of newly adopted accounting standards	—	—	—	(67)	(67)
Balance at January 1, 2019	56,615,352	566	1,168,442	406,925	1,575,933
Net Income	—	—	—	40,550	40,550
Shares issued under stock-based compensation programs, net	372,344	4	7,083	—	7,087
Cash dividends declared	—	—	—	(17,019)	(17,019)
Stock dividend declared	4,534,908	45	138,950	(139,091)	(96)
Stock-based compensation expense	—	—	4,251	—	4,251
Forfeiture of restricted stock	(1,714)	—	—	—	—
Balance at March 31, 2019	61,520,890	\$ 615	\$ 1,318,726	\$ 291,365	\$ 1,610,706
Net Income	—	—	—	54,593	54,593
Shares issued under stock-based compensation programs, net	405,094	4	10,237	—	10,241
Cash dividends declared	—	—	—	(18,521)	(18,521)
Stock-based compensation expense	—	—	4,132	—	4,132
Forfeiture of restricted stock	(3,578)	—	—	—	—
Balance at June 30, 2019	61,922,406	\$ 619	\$ 1,333,095	\$ 327,437	\$ 1,661,151

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

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

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Operating Activities:		
Net income	\$ 121,156	\$ 95,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	9,928	8,383
Depreciation and amortization	11,527	9,941
Inventory impairments	—	610
Net (gain) loss on marketable equity securities	8,285	(7,167)
Deferred income tax expense	1,962	7,759
Net changes in assets and liabilities:		
Trade and other receivables	(23,445)	(36)
Mortgage loans held-for-sale, net	23,454	39,874
Housing completed or under construction	(233,829)	(118,528)
Land and land under development	94,918	24,438
Prepaid and other assets	1,209	(4,206)
Accounts payable and accrued and other liabilities	40,539	(546)
Net cash provided by operating activities	55,704	55,665
Investing Activities:		
Purchases of marketable securities	(10,804)	(5,116)
Sales of marketable securities	59,266	5,057
Purchases of property and equipment	(12,968)	(13,860)
Net cash provided by (used in) investing activities	35,494	(13,919)
Financing Activities:		
Payments on mortgage repurchase facility, net	(7,522)	(33,776)
Payments on homebuilding line of credit, net	(5,000)	—
Repayment of senior notes	(250,000)	—
Proceeds from issuance of senior notes	298,050	—
Dividend payments	(41,682)	(35,636)
Issuance of shares under stock-based compensation programs, net	1,332	17,328
Net cash used in financing activities	(4,822)	(52,084)
Net increase (decrease) in cash, cash equivalents and restricted cash	86,376	(10,338)
Cash, cash equivalents and restricted cash:		
Beginning of period	474,212	470,139
End of period	\$ 560,588	\$ 459,801
Reconciliation of cash, cash equivalents and restricted cash:		
Homebuilding:		
Cash and cash equivalents	\$ 482,702	\$ 390,061
Restricted cash	15,668	12,911
Financial Services:		
Cash and cash equivalents	62,218	56,829
Total cash, cash equivalents and restricted cash	\$ 560,588	\$ 459,801

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

1. Basis of Presentation

The Unaudited 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) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at June 30, 2020 and for all periods presented. These statements should be read in conjunction with MDC's Consolidated Financial Statements and Notes thereto included in MDC's Annual Report on Form 10-K for the year ended December 31, 2019.

Included in these footnotes are certain statements that 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 operations, 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 section 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.

Where necessary, reclassifications have been made to our prior period financial information to conform to the current year presentation.

2. Recently Issued Accounting Standards

Adoption of New Accounting Standards

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. On January 1, 2020, we adopted ASU 2016-13 using the modified retrospective transition method, resulting in a cumulative effect adjustment that decreased the opening balance of retained earnings by less than \$0.1 million. The standard did not materially impact our consolidated statements of operations and comprehensive income or consolidated cash flows.

In March 2020, the Securities and Exchange Commission (SEC) adopted amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees, in Rule 3-10 of Regulation S-X. The amended rule focuses on providing material, relevant and decision-useful information regarding guarantees and other credit enhancements, while eliminating certain prescriptive requirements. The rule is effective January 4, 2021 but earlier compliance is permitted. The Company adopted these amendments on June 30, 2020. As the combined assets, liabilities and results of operations of M.D.C. Holdings, Inc. and the Guarantor Subsidiaries (the "Obligor Group") are not materially different from those in the homebuilding section of our consolidated balance sheets and consolidated statements of operations and comprehensive income, separate summarized financial information of the Obligor Group has not been included. See Note 20 for further information regarding subsidiary guarantees.

3. 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, Oregon and Washington)
- Mountain (Colorado and Utah)
- East (mid-Atlantic, which includes Maryland and Virginia, and Florida)

Our financial services business consists of the operations of the following operating segments: (1) HomeAmerican Mortgage Corporation (“HomeAmerican”); (2) Allegiant Insurance Company, Inc., A Risk Retention Group (“Allegiant”); (3) StarAmerican Insurance Ltd. (“StarAmerican”); (4) American Home Insurance Agency, Inc.; and (5) American Home Title and Escrow Company. 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) the 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.

On a periodic basis, we assess our Corporate cost allocation estimates. Our most recent assessment resulted in increases in Corporate cost allocations to both our homebuilding and financial services segments beginning January 1, 2020, to reflect the use of centralized administrative functions. Applying the most recent cost allocation estimate to the three and six months ended June 30, 2019 would have resulted in decreased pretax income for our homebuilding segments of approximately \$2.7 million and \$5.4 million, respectively, and decreased pretax income for our financial services segments of approximately \$0.4 million and \$0.8 million, respectively, with corresponding increases in our Corporate segment pretax income. Additionally, beginning January 1, 2020, we have reflected the expense associated with all homebuilding employee bonuses in the respective homebuilding segment to which the employee reports, consistent with how the CODM is now evaluating homebuilding division performance and making operating decisions. Had these bonuses been reflected in a similar manner during the three and six months ended June 30, 2019, pretax income for our homebuilding segments would have decreased by an additional \$3.0 million and \$6.0 million, respectively, with a corresponding increase in our Corporate segment pretax income.

The following table summarizes revenues for our homebuilding and financial services operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Homebuilding				
West	\$ 490,117	\$ 384,530	\$ 895,615	\$ 754,088
Mountain	316,666	287,476	539,524	496,668
East	79,975	60,838	148,704	129,366
Total homebuilding revenues	<u>\$ 886,758</u>	<u>\$ 732,844</u>	<u>\$ 1,583,843</u>	<u>\$ 1,380,122</u>
Financial Services				
Mortgage operations	\$ 24,363	\$ 11,689	\$ 38,988	\$ 21,863
Other	8,601	6,908	15,862	14,138
Total financial services revenues	<u>\$ 32,964</u>	<u>\$ 18,597</u>	<u>\$ 54,850</u>	<u>\$ 36,001</u>

The following table summarizes pretax income (loss) for our homebuilding and financial services operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
Homebuilding				
West	\$ 48,745	\$ 35,350	\$ 85,321	\$ 68,550
Mountain	41,807	35,972	63,319	57,686
East	3,073	2,152	3,973	3,625
Corporate	(8,704)	(11,860)	(18,023)	(27,192)
Total homebuilding pretax income	\$ 84,921	\$ 61,614	\$ 134,590	\$ 102,669
Financial Services				
Mortgage operations	\$ 17,506	\$ 6,239	\$ 25,749	\$ 11,232
Other	9,211	6,478	(139)	16,036
Total financial services pretax income	\$ 26,717	\$ 12,717	\$ 25,610	\$ 27,268
Total pretax income	\$ 111,638	\$ 74,331	\$ 160,200	\$ 129,937

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 our cash and cash equivalents and deferred tax assets. The assets in our financial services segment consist mostly of cash and cash equivalents, marketable securities and mortgage loans held-for-sale.

	June 30,	December 31,
	2020	2019
(Dollars in thousands)		
Homebuilding assets		
West	\$ 1,575,620	\$ 1,461,645
Mountain	893,282	869,665
East	220,235	194,592
Corporate	555,238	505,507
Total homebuilding assets	\$ 3,244,375	\$ 3,031,409
Financial services assets		
Mortgage operations	\$ 194,213	\$ 209,946
Other	67,347	97,001
Total financial services assets	\$ 261,560	\$ 306,947
Total assets	\$ 3,505,935	\$ 3,338,356

4. Earnings Per Share

Accounting Standards Codification ("ASC") Topic 260, *Earnings per Share* ("ASC 260") requires a company that has participating security holders (for example, holders of unvested restricted stock that have non-forfeitable dividend rights) to utilize the two-class method for calculating earnings per share ("EPS") 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 adjusted to include the effect of potentially dilutive stock options outstanding. The table below shows our basic and diluted EPS calculations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
Numerator				
Net income	\$ 84,396	\$ 54,593	\$ 121,156	\$ 95,143
Less: distributed earnings allocated to participating securities	(121)	(110)	(256)	(221)
Less: undistributed earnings allocated to participating securities	(363)	(213)	(465)	(352)
Net income attributable to common stockholders (numerator for basic earnings per share)	83,912	54,270	120,435	94,570
Add back: undistributed earnings allocated to participating securities	363	213	465	352
Less: undistributed earnings reallocated to participating securities	(357)	(209)	(455)	(345)
Numerator for diluted earnings per share under two class method	\$ 83,918	\$ 54,274	\$ 120,445	\$ 94,577
Denominator				
Weighted-average common shares outstanding	63,015,827	61,336,404	62,755,310	61,138,982
Add: dilutive effect of stock options	1,065,113	1,435,739	1,494,841	1,333,043
Add: dilutive effect of performance share units	—	551,124	288,684	551,124
Denominator for diluted earnings per share under two class method	64,080,940	63,323,267	64,538,835	63,023,149
Basic Earnings Per Common Share	\$ 1.33	\$ 0.88	\$ 1.92	\$ 1.55
Diluted Earnings Per Common Share	\$ 1.31	\$ 0.86	\$ 1.87	\$ 1.50

Diluted EPS for the three and six months ended June 30, 2020 excluded options to purchase approximately 1.3 and 0.8 million shares of common stock, respectively, because the effect of their inclusion would be anti-dilutive. For the same periods in 2019, diluted EPS excluded options to purchase approximately 0.5 and 0.5 million shares, respectively.

5. Fair Value Measurements

ASC Topic 820, *Fair Value Measurements* (“ASC 820”), defines fair value, establishes guidelines for measuring fair value and expands 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	
		June 30, 2020	December 31, 2019
(Dollars in thousands)			
Marketable securities			
Equity securities	Level 1	\$ —	\$ 56,747
Mortgage loans held-for-sale, net	Level 2	\$ 173,567	\$ 197,021

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of June 30, 2020 and December 31, 2019.

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 consisted of holdings in common stock and exchange traded funds as of December 31, 2019. Our equity securities were 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.

The following table reconciles the net gain recognized during the three and six months ended June 30, 2020 and 2019 on equity securities to the unrealized gain recognized during the periods on equity securities still held at the reporting date.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
Net gain (loss) recognized during the period on equity securities	\$ 4,983	\$ 2,327	\$ (8,285)	\$ 7,167
Less: Net gain (loss) recognized during the period on equity securities sold during the period	4,983	—	(8,285)	237
Unrealized gain recognized during the reporting period on equity securities still held at the reporting date	\$ —	\$ 2,327	\$ —	\$ 6,930

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 are not under commitments to sell. At June 30, 2020 and December 31, 2019, we had \$84.0 million and \$136.8 million, respectively, of mortgage loans held-for-sale 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 June 30, 2020 and December 31, 2019, we had \$89.6 million and \$60.2 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.

Gains on sales of mortgage loans, net, are included as a component of revenues in the financial services section of our consolidated statements of operations and comprehensive income. For the three and six months ended June 30, 2020, we recorded net gains on the sales of mortgage loans of \$20.8 million and \$37.5 million, respectively, compared to \$12.6 million and \$24.3 million for the same periods in the prior year, respectively.

Mortgage Repurchase Facility. The debt associated with our mortgage repurchase facility (see Note 18 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 that were provided by multiple sources.

	June 30, 2020		December 31, 2019	
	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
\$250 million 5.500% Senior Notes due January 2024, net	249,117	266,983	249,005	272,083
\$300 million 3.850% Senior Notes due January 2030, net	297,342	289,725	—	—
\$500 million 6.000% Senior Notes due January 2043, net	490,603	527,662	490,508	528,542
Total	\$ 1,037,062	\$ 1,084,370	\$ 989,422	\$ 1,051,025

6. Inventories

The following table sets forth, by reportable segment, information relating to our homebuilding inventories:

	June 30,	December 31,
	2020	2019
(Dollars in thousands)		
Housing completed or under construction:		
West	\$ 741,109	\$ 589,040
Mountain	418,798	358,370
East	110,393	88,781
Subtotal	1,270,300	1,036,191
Land and land under development:		
West	719,517	772,189
Mountain	425,503	468,718
East	90,578	89,477
Subtotal	1,235,598	1,330,384
Total inventories	\$ 2,505,898	\$ 2,366,575

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 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, 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, we measure it in accordance with ASC 360 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. 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, which are considered Level 3 inputs. 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.

Impairments of homebuilding inventory by segment for the three and six months ended June 30, 2020 and 2019 are shown in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
West	\$ —	\$ —	\$ —	\$ —
Mountain	—	—	—	400
East	—	—	—	210
Total inventory impairments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 610</u>

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

Three Months Ended	Impairment Data			Quantitative Data
	Number of Subdivisions Impaired	Inventory Impairments	Fair Value of Inventory After Impairments	Discount Rate
	(Dollars in thousands)			
March 31, 2019	2	\$ 610	\$ 10,476	N/A

7. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Homebuilding interest incurred	\$ 15,094	\$ 15,980	\$ 31,628	\$ 32,011
Less: Interest capitalized	(15,094)	(15,980)	(31,628)	(32,011)
Homebuilding interest expensed	\$ —	\$ —	\$ —	\$ —
Interest capitalized, beginning of period	\$ 59,077	\$ 56,947	\$ 55,310	\$ 54,845
Plus: Interest capitalized during period	15,094	15,980	31,628	32,011
Less: Previously capitalized interest included in home cost of sales	(17,242)	(14,734)	(30,009)	(28,663)
Interest capitalized, end of period	\$ 56,929	\$ 58,193	\$ 56,929	\$ 58,193

8. 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 classified as operating leases. These leases do not contain any residual value guarantees or restrictive covenants and do not include variable lease payments, except for the payment of 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 in the homebuilding and expenses in the financial services sections of our consolidated statements of operations and comprehensive income, respectively. Components of operating lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Operating lease cost ¹	\$ 2,120	\$ 1,990	\$ 4,166	\$ 3,970
Less: Sublease income (Note 19)	(38)	(38)	(76)	(75)
Net lease cost	\$ 2,082	\$ 1,952	\$ 4,090	\$ 3,895

¹ Includes variable lease costs, which are immaterial.

Supplemental cash flow information related to leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 1,741	\$ 1,792	\$ 3,647	\$ 3,563
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,405	\$ 553	\$ 4,050	\$ 2,030

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

	June 30, 2020
Weighted-average remaining lease term (in years)	5.7
Weighted-average discount rate	5.5 %

Maturities of operating lease liabilities were as follows:

	Year Ended December 31, (Dollars in thousands)
2020 (excluding the six months ended June 30, 2020)	\$ 3,152
2021	7,361
2022	7,054
2023	6,141
2024	5,543
Thereafter	9,914
Total operating lease payments	\$ 39,165
Less: Interest	5,772
Present value of operating lease liabilities ¹	\$ 33,393

¹ Homebuilding and financial services operating lease liabilities of \$32.4 million and \$1.0 million, respectively, are included as a component of accrued and other liabilities and accounts payable and accrued liabilities, respectively, in the homebuilding and financial services section of our consolidated balance sheet at June 30, 2020.

9. Homebuilding Prepaid and Other Assets

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

	June 30, 2020	December 31, 2019
(Dollars in thousands)		
Operating lease right-of-use asset (Note 8)	\$ 31,584	\$ 30,277
Land option deposits	19,669	27,361
Prepaid expenses	6,084	7,294
Goodwill	6,008	6,008
Deferred debt issuance costs on revolving credit facility, net	5,363	6,130
Other	776	1,288
Total	\$ 69,484	\$ 78,358

10 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:

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Customer and escrow deposits	\$ 43,632	\$ 39,001
Warranty accrual	30,458	31,386
Accrued compensation and related expenses	34,076	45,003
Lease liability (Note 8)	32,441	30,830
Accrued interest	27,843	27,734
Construction defect claim reserves	8,393	8,196
Land development and home construction accruals	8,125	9,750
Other accrued liabilities	93,575	54,040
Total accrued and other liabilities	<u>\$ 278,543</u>	<u>\$ 245,940</u>

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

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Insurance reserves	\$ 55,488	\$ 52,219
Accounts payable and other accrued liabilities	14,545	16,310
Total accounts payable and accrued liabilities	<u>\$ 70,033</u>	<u>\$ 68,529</u>

11. Warranty Accrual

Our homes are sold with limited third-party warranties and, 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.

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.

The table set forth below summarizes accrual, adjustment and payment activity related to our warranty accrual for the three and six months ended June 30, 2020 and 2019. For the three and six months ended June 30, 2020 and 2019, we recorded adjustments to decrease our warranty accrual due to lower than expected general warranty related expenditures in certain close of escrow years.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Balance at beginning of period	\$ 30,887	\$ 29,992	\$ 31,386	\$ 28,262
Expense provisions	3,937	3,737	7,102	7,085
Cash payments	(2,366)	(2,976)	(6,030)	(5,469)
Adjustments	(2,000)	(1,404)	(2,000)	(529)
Balance at end of period	<u>\$ 30,458</u>	<u>\$ 29,349</u>	<u>\$ 30,458</u>	<u>\$ 29,349</u>

12. Insurance and Construction Defect Claim 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.

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 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.

The table set forth below summarizes our insurance and construction defect claim reserves activity for the three and six months ended June 30, 2020 and 2019. These reserves are included as a component of accounts payable and accrued liabilities and accrued and other liabilities in the financial services and homebuilding sections, respectively, of the consolidated balance sheets.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Balance at beginning of period	\$ 61,450	\$ 56,219	\$ 60,415	\$ 55,308
Expense provisions	3,586	2,745	6,504	5,210
Cash payments, net of recoveries	(1,155)	(2,147)	(3,038)	(3,701)
Balance at end of period	\$ 63,881	\$ 56,817	\$ 63,881	\$ 56,817

In the ordinary course of business, we make payments from our insurance and construction defect claim reserves to settle litigation claims arising 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 three and six months ended June 30, 2020 and 2019 are not necessarily indicative of what future cash payments will be for subsequent periods.

13. Income Taxes

Our overall effective income tax rates were 24.4% for both the three and six months ended June 30, 2020 and 26.6% and 26.8% for the three and six months ended June 30, 2019, respectively. The rates for the three and six months ended June 30, 2020 resulted in income tax expense of \$27.2 million and \$39.0 million, respectively, compared to income tax expense of \$19.7 million and \$34.8 million for the three and six months ended June 30, 2019, respectively. The year-over-year decrease in our effective tax rate for the three and six months ended June 30, 2020 was primarily due to windfalls on our equity awards as well as energy tax credits that expired on December 31, 2017 and were retroactively extended by the Further Consolidated Appropriations Act, 2020 (H.R. 1865, PL 116-94) signed by the President on December 20, 2019.

14. Senior Notes

The carrying values of our senior notes as of June 30, 2020 and December 31, 2019, net of any unamortized debt issuance costs or discount, were as follows:

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
5.625% Senior Notes due February 2020, net	\$ —	\$ 249,909
5.500% Senior Notes due January 2024, net	249,117	249,005
3.850% Senior Notes due January 2030, net	297,342	—
6.000% Senior Notes due January 2043, net	490,603	490,508
Total	\$ 1,037,062	\$ 989,422

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.

15. Stock-Based Compensation

We account for share-based awards in accordance with ASC Topic 718 *Compensation—Stock Compensation* (“ASC 718”), which requires the fair value of stock-based compensation awards to be amortized as an expense over the vesting period. Stock-based compensation awards are valued at fair value on the date of grant. The following table sets forth share-based award expense activity for the three and six months ended June 30, 2020 and 2019, which 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Stock option grants expense	\$ 717	\$ 245	\$ 1,212	\$ 500
Restricted stock awards expense	1,053	677	2,570	1,588
Performance share units expense	3,718	3,210	6,146	6,295
Total stock-based compensation	\$ 5,488	\$ 4,132	\$ 9,928	\$ 8,383

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 period of three years (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 each grant has 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 - June 30, 2019	July 1, 2015 - 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 - March 31, 2020	April 1, 2016 - 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	\$ —
May 23, 2018	April 1, 2018 - March 31, 2021	April 1, 2017 - 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	\$ 3,922
August 5, 2019	January 1, 2019 - December 31, 2021	January 1, 2018 - 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 Goal following the achievement of the Maximum Goals and certification by the Compensation Committee that the Maximum Goals had been achieved. For the three and six months ended June 30, 2019, the Company recorded share-based award expense of \$0.9 million and \$1.8 million related to these awards.

2017 PSU Grants. The 2017 PSU awards vested on May 5, 2020 at the Maximum Goal following the achievement of the Maximum Goals and certification by the Compensation Committee that the Maximum Goals had been achieved. For both the three and six months ended June 30, 2020, the Company recorded share-based award expense of \$1.4 million related to these awards. For the three and six months ended June 30, 2019, the Company recorded share-based award expense of \$2.3 million and \$4.5 million, respectively, related to these awards.

2018 PSU Grants. As of June 30, 2020, the Company determined that achievement of the Maximum Goals for these awards was probable and, as such, the Company recorded share-based award expense related to the awards of \$3.7 million and \$4.7 million, respectively, for the three and six months ended June 30, 2020. As of June 30, 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 the grant of these awards had been recognized as of June 30, 2019.

2019 PSU Grants. For the PSUs granted in August of 2019, the Company concluded that achievement of any of the performance metrics has 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 June 30, 2020.

16. 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 June 30, 2020, we had outstanding surety bonds and letters of credit totaling \$264.4 million and \$87.9 million, respectively, including \$62.0 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$89.7 million and \$47.4 million, respectively. All letters of credit as of June 30, 2020, excluding those issued by HomeAmerican, were issued under our unsecured revolving credit facility (see Note 18 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. Due to 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.

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 June 30, 2020, we had cash deposits and letters of credit totaling \$17.8 million and \$7.4 million, respectively, at risk associated with the option to purchase 7,327 lots.

Coronavirus/COVID-19 Pandemic. While the response to the pandemic continues to evolve, many state and local governments began easing restrictions during the second quarter that were put in place earlier this year. Some areas are now experiencing an increase in cases leading to restrictions being re-instated in certain areas. We continue to construct, market and sell homes in all markets in which we operate, but increased restrictions could have a negative impact on traffic at our sales centers and model homes, cancellation rates and our ability to physically construct homes. While the extent to which the pandemic will impact our financial results in the coming periods depends on future developments, including whether there are additional outbreaks of COVID-19 and the actions taken to contain or address the virus, the pandemic and its associated impact on the U.S. economy and consumer confidence could have a material impact to the Company’s future results of operations, financial condition and cash flows.

17. 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 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 June 30, 2020, we had interest rate lock commitments with an aggregate principal balance of \$233.0 million. Additionally, we had \$85.9 million of mortgage loans held-for-sale at June 30, 2020 that had not yet been committed to a mortgage purchaser. In order to hedge the changes in fair value of our interest rate lock commitments and mortgage loans held-for-sale that had not yet been committed to a mortgage purchaser, we had forward sales of securities totaling \$205.5 million at June 30, 2020.

For the three and six months ended June 30, 2020, we recorded net gains on derivatives of \$2.3 million and \$3.3 million, respectively, in revenues in the financial services section of our consolidated statements of operations and comprehensive income, compared to a net loss of \$0.5 million and a net gain of \$1.4 million for the same periods in 2019.

18. Lines of Credit

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 \$1.0 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 June 30, 2020.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At June 30, 2020 and December 31, 2019, there were \$25.9 million and \$23.5 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. At June 30, 2020 and December 31, 2019, we had \$10.0 million and \$15.0 million, respectively, outstanding under the Revolving Credit Facility. As of June 30, 2020, availability under the Revolving Credit Facility was approximately \$964.1 million.

Mortgage Repurchase Facility. HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). Effective May 21, 2020, the Mortgage Repurchase Facility was amended to extend its termination date to May 20, 2021. 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 June 25, 2020 from \$75 million to \$150 million effective through July 23, 2020. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$75 million to \$150 million on December 24, 2019 effective through January 22, 2020. At June 30, 2020 and December 31, 2019, HomeAmerican had \$142.1 million and \$149.6 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 June 30, 2020.

19. Related Party Transactions

We contributed \$1.5 million in cash to the MDC/Richmond American Homes Foundation (the “Foundation”) during the six months ended June 30, 2020. 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 June 30, 2020, all of whom serve without compensation:

<u>Name</u>	<u>MDC Title</u>
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.

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 since 2005. The current 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.

20. 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.

As the combined assets, liabilities and results of operations of M.D.C. Holdings, Inc. and the Guarantor Subsidiaries (the "Obligor Group") are not materially different from those in the homebuilding section of our consolidated balance sheets and consolidated statements of operations and comprehensive income, separate summarized financial information of the Obligor Group has not been included. As of June 30, 2020 and December 31, 2019, amounts due to non-guarantor subsidiaries from the Obligor Group totaled \$65.5 million and \$24.2 million, respectively.

ITEM 2. 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 Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are based upon management's experiences, observations, and analyses. 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" of our Annual Report on Form 10-K for the year ended December 31, 2019 and this Quarterly Report on Form 10-Q.

Specifically, as a result of the Coronavirus/COVID-19 pandemic, we experienced adverse business conditions, especially in the latter portion of March and into April 2020, which negatively impacted our operating results. The degree to which the pandemic will impact our financial results in the coming periods depends on future developments that are highly uncertain.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
Homebuilding:				
Home sale revenues	\$ 886,758	\$ 732,844	\$ 1,583,843	\$ 1,380,122
Home cost of sales	(707,789)	(590,172)	(1,266,436)	(1,114,724)
Inventory impairments	—	—	—	(610)
Total cost of sales	(707,789)	(590,172)	(1,266,436)	(1,115,334)
Gross profit	178,969	142,672	317,407	264,788
Gross margin	20.2 %	19.5 %	20.0 %	19.2 %
Selling, general and administrative expenses	(92,316)	(82,712)	(181,637)	(164,973)
Interest and other income	720	2,764	2,609	5,155
Other expense	(2,452)	(1,110)	(3,789)	(2,301)
Homebuilding pretax income	84,921	61,614	134,590	102,669
Financial Services:				
Revenues	32,964	18,597	54,850	36,001
Expenses	(12,178)	(9,574)	(23,107)	(18,531)
Other income (expense), net	5,931	3,694	(6,133)	9,798
Financial services pretax income	26,717	12,717	25,610	27,268
Income before income taxes	111,638	74,331	160,200	129,937
Provision for income taxes	(27,242)	(19,738)	(39,044)	(34,794)
Net income	\$ 84,396	\$ 54,593	\$ 121,156	\$ 95,143
Earnings per share:				
Basic	\$ 1.33	\$ 0.88	\$ 1.92	\$ 1.55
Diluted	\$ 1.31	\$ 0.86	\$ 1.87	\$ 1.50
Weighted average common shares outstanding:				
Basic	63,015,827	61,336,404	62,755,310	61,138,982
Diluted	64,080,940	63,323,267	64,538,835	63,023,149
Dividends declared per share	\$ 0.33	\$ 0.30	\$ 0.66	\$ 0.60
Cash provided by (used in):				
Operating Activities	\$ 92,877	\$ 1,317	\$ 55,704	\$ 55,665
Investing Activities	\$ 42,512	\$ (7,485)	\$ 35,494	\$ (13,919)
Financing Activities	\$ 574	\$ (10,097)	\$ (4,822)	\$ (52,084)

Overview

Industry Conditions

The Coronavirus/COVID-19 pandemic devastated the US economy during the early portion of the second quarter, adversely impacting consumer demand, financial markets and employment levels. Industries relying on in-person interaction, such as leisure and hospitality and retail, have been disproportionately impacted by the pandemic. The homebuilding industry was not immune to the impact of the pandemic as we experienced an industry wide decrease in traffic and order activity as well as increased cancellation levels during the months of March and April.

The demand for new homes has steadily improved subsequent to April across nearly all markets in which we operate. This increase in demand is due to a number of factors, including: favorable interest rates, pent-up demand from stay-at-home and shelter-in-place orders during March and April, low existing home inventory and increased city-to-suburban migration as a result of the pandemic. The degree to which the pandemic will impact our financial results in the coming periods depends on future developments that are highly uncertain.

Our first priority with regard to the pandemic continues to be the health and safety of our employees, customers, subcontractors and suppliers, as well as the communities in which we operate. We continue to encourage employees to work remotely where practical, and we have increased sanitization procedures, implemented temperature checks and posted signage requiring the use of masks and promoting social distancing measures across all of our offices and subdivisions. We have successfully implemented and continue to rely on virtual processes for key operational activities that have traditionally been done in-person, such as model home tours, Home Gallery appointments, and pre-closing walk-throughs.

Three Months Ended June 30, 2020

For the three months ended June 30, 2020, our net income was \$84.4 million, or \$1.31 per diluted share, a 55% increase compared to net income of \$54.6 million, or \$0.86 per diluted share, for the same period in the prior year. Both our homebuilding and financial services businesses contributed to these year-over-year improvements, as pretax income from our homebuilding operations increased \$23.3 million, or 38%, and our financial services pretax income increased \$14.0 million, or 110%. The increase in homebuilding pretax income was the result of a 21% increase in home sale revenues, a 70 basis point increase in our gross margin from home sales and a 90 basis point decrease in our selling, general and administrative expenses as a percentage of revenue. The increase in financial services pretax income was due to our mortgage business, which experienced a higher interest rate lock volume, driven by the year-over-year increase in homes in backlog as well as an increase in the number of mortgages we originated as a percentage of our total homes delivered ("Capture Rate"), and increased net interest income on loans originated during the quarter.

The dollar value of our net new home orders increased 8% from the prior year period, due to a 5% increase in the number of net new orders and a 3% increase in the average selling price. The increase in net new orders was driven by increases in both the monthly sales absorption rate and the number of average active communities during the period, while the increase in the average selling price was the result of price increases implemented over the past twelve months offset slightly by a shift in mix to lower priced communities.

Six Months Ended June 30, 2020

For the six months ended June 30, 2020, our net income was \$121.2 million, or \$1.87 per diluted share, a 27% increase compared to net income of \$95.1 million, or \$1.50 per diluted share, for the same period in the prior year. Similar to the second quarter commentary above, the increase was driven by a \$31.9 million increase in homebuilding pretax income and a \$14.5 million increase in mortgage operations pretax income. These increases were partially offset by a net loss on equity securities of \$8.3 million during the six months ended June 30, 2020, as compared to a net gain of \$7.2 million for the prior year period.

Outlook for MDC*

The steps taken during the six months ended June 30, 2020 to improve cash flow and reduce costs have reinforced our strong financial position as we deal with the continued uncertainties brought about by the pandemic. We ended the 2020 second quarter with cash and cash equivalents of nearly \$550 million and available borrowing capacity on our Revolving Credit Facility exceeding \$950 million, resulting in total liquidity of more than \$1.5 billion. The dollar value of our homes in backlog was \$2.4 billion as of June 30, 2020, which was 23% higher than the prior year period. The higher backlog puts us in a strong position to drive continued year-over-year improvement to our operating results during the back half of 2020. However, our financial position and ability to convert backlog into closings could be negatively impacted in future periods by the pandemic, the extent to which is highly uncertain and depends on future developments, including new information that may emerge concerning the severity of the pandemic, whether there are additional outbreaks of COVID-19 and the actions taken to contain or address the virus (see discussion in Industry Conditions above and in Risk Factors below).

* See "Forward-Looking Statements" below.

Homebuilding

Pretax Income:

	Three Months Ended				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2020	2019	Amount	%	2020	2019	Amount	%
(Dollars in thousands)								
West	\$ 48,745	\$ 35,350	\$ 13,395	38 %	\$ 85,321	\$ 68,550	\$ 16,771	24 %
Mountain	41,807	35,972	5,835	16 %	63,319	57,686	5,633	10 %
East	3,073	2,152	921	43 %	3,973	3,625	348	10 %
Corporate	(8,704)	(11,860)	3,156	27 %	(18,023)	(27,192)	9,169	34 %
Total Homebuilding pretax income	\$ 84,921	\$ 61,614	\$ 23,307	38 %	\$ 134,590	\$ 102,669	\$ 31,921	31 %

For the three months ended June 30, 2020, we recorded homebuilding pretax income of \$84.9 million, an increase of \$23.3 million from \$61.6 million for the same period in the prior year. The increase was due to a 21% increase in home sale revenues, a 70 basis point increase in our gross margin from home sales and a 90 basis point decrease in our selling, general and administrative expenses as a percentage of revenue.

Our West segment experienced a \$13.4 million year-over-year increase in pretax income, due to a 27% increase in home sales revenue and an improved gross margin, which were slightly offset by a \$3.3 million increase in general and administrative expenses resulting from the change in our Corporate cost allocation discussed below. Our Mountain segment experienced a \$5.8 million increase in pretax income from the prior year, as a result of a 10% increase in home sales revenue and an improved gross margin, which were slightly offset by a \$1.7 million increase in general and administrative expenses due to the change in our Corporate cost allocation. Our East segment experienced a \$0.9 million increase in pretax income from the prior year, due primarily to a 31% increase in home sales revenue, which was slightly offset by a \$0.7 million increase in general and administrative expenses resulting from the change in our Corporate cost allocation. Our Corporate segment experienced a \$3.1 million increase in pretax income, due to the impact of the change in our Corporate cost allocation, which was partially offset by a \$2.0 million decrease in interest income due to lower interest rates during the current period.

For the six months ended June 30, 2020, we recorded homebuilding pretax income of \$134.6 million, an increase of \$31.9 million from \$102.7 million for the same period in the prior year. The increase was due to a 15% increase in home sale revenues, an 80 basis point increase in our gross margin from home sales and a 50 basis point decrease in our selling, general and administrative expenses as a percentage of revenue. Commentary on the drivers of the increase in pretax income in our individual homebuilding segments is consistent with the 2020 second quarter discussion above.

On a periodic basis, we assess our Corporate cost allocation estimates. Our most recent assessment resulted in increases in Corporate cost allocations to both our homebuilding and financial services segments beginning January 1, 2020, to reflect the use of centralized administrative functions. Applying the most recent cost allocation estimate to the three and six months ended June 30, 2019 would have resulted in decreased pretax income for our homebuilding segments of approximately \$2.7 million and \$5.4 million, respectively, and decreased pretax income for our financial services segments of approximately \$0.4 million and \$0.8 million, respectively, with corresponding increases in our Corporate segment pretax income. Additionally, beginning January 1, 2020, we have reflected the expense associated with all homebuilding employee bonuses in the respective homebuilding segment to which the employee reports, consistent with how the CODM is now evaluating homebuilding division performance and making operating decisions. Had these bonuses been reflected in a similar manner during the three and six months ended June 30, 2019, pretax income for our homebuilding segments would have decreased by an additional \$3.0 million and \$6.0 million, respectively, with a corresponding increase in our Corporate segment pretax income.

Assets:

	June 30, 2020	December 31, 2019	Change	
			Amount	%
(Dollars in thousands)				
West	\$ 1,575,620	\$ 1,461,645	113,975	8 %
Mountain	893,282	869,665	23,617	3 %
East	220,235	194,592	25,643	13 %
Corporate	555,238	505,507	49,731	10 %
Total homebuilding assets	\$ 3,244,375	\$ 3,031,409	\$ 212,966	7 %

Total homebuilding assets increased 7% from December 31, 2019 to June 30, 2020. Homebuilding assets increased in each of our operating segments largely due to a greater number of homes completed or under construction as of period-end. Our Corporate assets also increased, primarily due to an increase in funds lent from our financial services segment. These increases were slightly offset by a decrease in land and land under development in our West and Mountain Segments, where the total number of lots owned has decreased slightly from December 31, 2019.

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.

	Three Months Ended June 30,								
	2020			2019			% Change		
	Homes	Home Sale Revenues	Average Price	Homes	Home Sale Revenues	Average Price	Homes	Home Sale Revenues	Average Price
(Dollars in thousands)									
West	1,017	\$ 490,117	\$ 481.9	785	\$ 384,530	\$ 489.8	30 %	27 %	(2) %
Mountain	608	316,666	520.8	534	287,476	538.3	14 %	10 %	(3) %
East	275	79,975	290.8	195	60,838	312.0	41 %	31 %	(7) %
Total	1,900	\$ 886,758	\$ 466.7	1,514	\$ 732,844	\$ 484.0	25 %	21 %	(4) %

	Six Months Ended June 30,								
	2020			2019			% Change		
	Homes	Home Sale Revenues	Average Price	Homes	Home Sale Revenues	Average Price	Homes	Home Sale Revenues	Average Price
(Dollars in thousands)									
West	1,888	\$ 895,615	\$ 474.4	1,537	\$ 754,088	\$ 490.6	23 %	19 %	(3) %
Mountain	1,043	539,524	517.3	943	496,668	526.7	11 %	9 %	(2) %
East	516	148,704	288.2	392	129,366	330.0	32 %	15 %	(13) %
Total	3,447	\$ 1,583,843	\$ 459.5	2,872	\$ 1,380,122	\$ 480.5	20 %	15 %	(4) %

West Segment Commentary

For both the three and six months ended June 30, 2020, the increase in new home deliveries was primarily the result of an increase in the number of homes in backlog to begin the respective periods. This increase was partially offset by a decrease in backlog conversion rates in our Arizona, California and Washington markets due to construction delays as a result of (1) certain state and local governments not identifying residential construction as an essential business, which impacted our ability to physically construct homes and (2) more general construction related delays resulting from the pandemic coupled with an increase in the number of homes under construction. The average selling price of homes delivered decreased as a result of a greater percentage of closings from our more affordable product offerings during the current periods.

Mountain Segment Commentary

For the three and six months ended June 30, 2020, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the respective periods. The decrease in the average selling price of homes delivered in our Mountain segment was due to a higher percentage of deliveries from communities that offer more affordable home plans.

East Segment Commentary

For both the three and six months ended June 30, 2020, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the respective periods. For the six months ended June 30, 2020, this increase was partially offset by a decrease in backlog conversion rates in most of our markets within this segment due to (1) a lower percentage of homes in backlog to start the period that were under construction at that time and (2) a lower percentage of homes both sold and delivered during the period. The average selling price of homes delivered decreased as a result of a greater percentage of closings from our more affordable product offerings.

Gross Margin from Home Sales:

Our gross margin from home sales for the three months ended June 30, 2020, increased 70 basis points year-over-year from 19.5% to 20.2%. During the three months ended June 30, 2020 and 2019 we recorded decreases to our warranty accrual of \$2.0 million and \$1.4 million, respectively. These adjustments positively impacted gross margin by 20 basis points in both periods. Gross margins increased on both build-to-order and speculative home deliveries driven by price increases implemented across the majority of our communities over the past twelve months.

Our gross margin from home sales for the six months ended June 30, 2020, increased 80 basis points year-over-year from 19.2% to 20.0%. The primary drivers of the improved gross margin from home sales for the six months ended June 30, 2020 are consistent with those noted above for the three months ended June 30, 2020. Gross margins were also positively impacted as a result of a lower percentage of speculative home deliveries in the six months ended June 30, 2020, which typically have a lower gross margin than our build-to-order deliveries.

Inventory Impairments:

Impairments of homebuilding inventory by segment for the three and six months ended June 30, 2020 and 2019 are shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
West	\$ —	\$ —	\$ —	\$ —
Mountain	—	—	—	400
East	—	—	—	210
Total inventory impairments	\$ —	\$ —	\$ —	\$ 610

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

Three Months Ended	Impairment Data			Discount Rate
	Number of Subdivisions Impaired	Inventory Impairments	Fair Value of Inventory After Impairments	
	(Dollars in thousands)			
March 31, 2019	2	\$ 610	\$ 10,476	N/A

Selling, General and Administrative Expenses:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(Dollars in thousands)					
General and administrative expenses	\$ 40,419	\$ 39,326	\$ 1,093	\$ 85,508	\$ 81,898	\$ 3,610
<i>General and administrative expenses as a percentage of home sale revenues</i>	4.6 %	5.4 %	-80 bps	5.4 %	5.9 %	-50 bps
Marketing expenses	\$ 22,657	\$ 19,513	\$ 3,144	\$ 44,103	\$ 37,809	\$ 6,294
<i>Marketing expenses as a percentage of home sale revenues</i>	2.6 %	2.7 %	-10 bps	2.8 %	2.7 %	10 bps
Commissions expenses	\$ 29,240	\$ 23,873	\$ 5,367	\$ 52,026	\$ 45,266	\$ 6,760
<i>Commissions expenses as a percentage of home sale revenues</i>	3.3 %	3.3 %	0 bps	3.3 %	3.3 %	0 bps
Total selling, general and administrative expenses	\$ 92,316	\$ 82,712	\$ 9,604	\$ 181,637	\$ 164,973	\$ 16,664
<i>Total selling, general and administrative expenses as a percentage of home sale revenues</i>	10.4 %	11.3 %	-90 bps	11.5 %	12.0 %	-50 bps

For both the three and six months ended June 30, 2020, the increase in our marketing expenses was driven by (1) increased sales office expense resulting from an increased number of average active subdivisions, (2) increased deferred selling amortization and master marketing fees resulting from increased closings and (3) increased compensation expense due to a higher average headcount during the periods.

General and administrative expenses increased for both the three and six months ended June 30, 2020 as a result of increased compensation-related expenses due to increased stock based compensation and bonus expense, driven in part by strong operating results during the periods.

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.

	Three Months Ended June 30,											
	2020				2019				% 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	1,309	\$ 574,996	\$ 439.3	4.62	1,246	\$ 550,742	\$ 442.0	4.46	5 %	4 %	(1)%	4 %
Mountain	758	362,228	477.9	3.99	690	318,275	461.3	3.56	10 %	14 %	4 %	12 %
East	323	106,436	329.5	3.53	337	98,843	293.3	4.36	(4)%	8 %	12 %	(19)%
Total	2,390	\$ 1,043,660	\$ 436.7	4.23	2,273	\$ 967,860	\$ 425.8	4.13	5 %	8 %	3 %	2 %

	Six Months Ended June 30,											
	2020				2019				% 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	2,691	\$ 1,262,330	\$ 469.1	4.88	2,211	\$ 1,003,236	\$ 453.7	4.15	22 %	26 %	3 %	18 %
Mountain	1,451	722,197	497.7	3.76	1,409	669,523	475.2	3.53	3 %	8 %	5 %	7 %
East	647	206,911	319.8	3.58	609	182,141	299.1	4.33	6 %	14 %	7 %	(17)%
Total	4,789	\$ 2,191,438	\$ 457.6	4.28	4,229	\$ 1,854,900	\$ 438.6	3.94	13 %	18 %	4 %	9 %

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

	Active Subdivisions			Average Active Subdivisions Three Months Ended			Average Active Subdivisions Six Months Ended		
	June 30,		% Change	June 30,		% Change	June 30,		% Change
	2020	2019		2020	2019		2020	2019	
West	96	97	(1)%	95	94	1 %	92	89	3 %
Mountain	63	65	(3)%	63	65	(3)%	64	66	(3)%
East	33	25	32 %	31	26	19 %	30	23	30 %
Total	192	187	3 %	189	185	2 %	186	178	4 %

West Segment Commentary

For both the three and six months ended June 30, 2020, the increase in net new orders was primarily due to an increase in the monthly sales absorption rates, driven by our Phoenix and California markets. For the six months ended June 30, 2020 the increase in average selling price was due to price increases implemented over the past twelve months within the majority of our communities as well as a shift in mix of homes sold from Nevada to more expensive Southern California markets. For the three months ended June 30, 2020 these increases were offset by a higher percentage of our net new orders coming from an expanded offering of more affordable home plans, most notably in our Southern California markets.

Mountain Segment Commentary

For the three and six months ended June 30, 2020, the increase in net new orders was primarily due to an increase in the monthly sales absorption rates in both our Colorado and Utah markets. The increase in average selling price was due to price increases implemented over the last twelve months.

East Segment Commentary

For the three months ended June 30, 2020, the decrease in net new orders was driven by a decrease in the monthly sales absorption rates in our Florida markets due to (1) a decrease in gross sales due to the impact of the pandemic on Florida's large hospitality-based economy and (2) an increased cancellation rate (see further discussion below). This decrease in the monthly sales absorption rates was largely offset by a 19% year-over-year increase in average active subdivisions.

For the six months ended June 30, 2020, the increase in net new orders was driven by an increase in the number of average active subdivisions in each of our Florida and mid-Atlantic markets. This increase was partially offset by a decrease in the monthly sales absorption rate due to (1) a decrease in close-out communities in our mid-Atlantic market and (2) an increased cancellation rate (see further discussion below).

For both the three and six months ended June 30, 2020, the increase in average selling price was due to price increases implemented over the last twelve months as well as a shift in mix resulting from (1) a decrease in net new orders in our Florida markets as noted above and (2) an increase in net new orders in our mid-Atlantic market driven by an increased monthly sales absorption rate and increased average active subdivisions.

Cancellation Rate:

	Cancellations as a Percentage of Homes in Beginning Backlog			
	2020		2019	
	Three Months Ended			
	June 30,	March 31,	June 30,	March 31,
West	14 %	15 %	13 %	14 %
Mountain	20 %	22 %	13 %	14 %
East	22 %	23 %	18 %	11 %
Total	17 %	18 %	14 %	14 %

Our cancellations as a percentage of homes in beginning backlog to start the quarter ("cancellation rate") increased year-over-year in each of our segments. In general, we experienced a higher cancellation rate during the month of April due to the pandemic as a result of general economic uncertainty and changes in our homebuyers' employment status. Cancellation rates in June were more consistent with our historical rates. Our Florida markets experienced some of the highest cancellation rates as a result of economic, and more specifically employment, uncertainty brought about by the pandemic.

Backlog:

	June 30,								
	2020			2019			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
(Dollars in thousands)									
West	2,826	\$ 1,336,251	\$ 472.8	2,197	\$ 1,016,327	\$ 462.6	29 %	31 %	2 %
Mountain	1,619	\$ 816,559	\$ 504.4	1,509	\$ 739,921	\$ 490.3	7 %	10 %	3 %
East	698	\$ 220,362	\$ 315.7	587	\$ 173,436	\$ 295.5	19 %	27 %	7 %
Total	5,143	\$ 2,373,172	\$ 461.4	4,293	\$ 1,929,684	\$ 449.5	20 %	23 %	3 %

At June 30, 2020, we had 5,143 homes in backlog with a total value of \$2.4 billion. This represented a 20% increase in the number of homes in backlog and a 23% increase in the dollar value of homes in backlog from June 30, 2019. The increase in the number of homes in backlog is primarily a result of the year-over-year increase in net new orders during the six months ended June 30, 2020. The increase in the average selling price of homes in backlog is due to price increases implemented over the past twelve months as well as decreased incentives, which is slightly offset by a shift in mix to lower priced communities, consistent with our ongoing strategy of offering more affordable home plans. Our ability to convert backlog into closings could be negatively impacted in future periods by the pandemic, the extent to which is highly uncertain and depends on future developments.

Homes Completed or Under Construction (WIP lots):

	June 30,		%
	2020	2019	
Unsold:			
Completed	109	96	14 %
Under construction	191	236	(19) %
Total unsold started homes	300	332	(10) %
Sold homes under construction or completed	3,573	3,023	18 %
Model homes under construction or completed	502	457	10 %
Total homes completed or under construction	4,375	3,812	15 %

The increase in sold homes under construction or completed is due to the increase in the number of homes in backlog year-over-year noted above. Total unsold started homes have decreased year-over-year despite the increased cancellation rates as we have been successful in selling our speculative inventory in the current demand environment. Speculative inventory comprised less than 10% of our total housing completed or under construction inventory balance at June 30, 2020.

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

	June 30, 2020			June 30, 2019			Total % Change
	Lots Owned	Lots Optioned	Total	Lots Owned	Lots Optioned	Total	
West	9,364	2,619	11,983	8,611	2,446	11,057	8 %
Mountain	6,076	2,667	8,743	6,457	2,741	9,198	(5) %
East	2,260	2,041	4,301	2,085	1,267	3,352	28 %
Total	17,700	7,327	25,027	17,153	6,454	23,607	6 %

Our total owned and optioned lots at June 30, 2020 were 25,027, which was a 6% year-over-year increase, but a decrease of 8% from March 31, 2020. The sequential decrease was the result of a planned slowdown in our rate of approval of new lot acquisitions during the quarter and the cancellation of some previously approved lot acquisitions due to the uncertainty caused by the pandemic. We believe that our total lot supply, coupled with our planned acquisition activity, can support growth in future periods. See "**Forward-Looking Statements**" below.

Financial Services

	Three Months Ended				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2020	2019	Amount	%	2020	2019	Amount	%
(Dollars in thousands)								
Financial services revenues								
Mortgage operations	\$ 24,363	\$ 11,689	\$ 12,674	108 %	\$ 38,988	\$ 21,863	\$ 17,125	78 %
Other	8,601	6,908	1,693	25 %	15,862	14,138	1,724	12 %
Total financial services revenues	<u>\$ 32,964</u>	<u>\$ 18,597</u>	<u>\$ 14,367</u>	77 %	<u>\$ 54,850</u>	<u>\$ 36,001</u>	<u>\$ 18,849</u>	52 %
Financial services pretax income								
Mortgage operations	\$ 17,506	\$ 6,239	\$ 11,267	181 %	\$ 25,749	\$ 11,232	\$ 14,517	129 %
Other	9,211	6,478	2,733	42 %	(139)	16,036	(16,175)	(101) %
Total financial services pretax income	<u>\$ 26,717</u>	<u>\$ 12,717</u>	<u>\$ 14,000</u>	110 %	<u>\$ 25,610</u>	<u>\$ 27,268</u>	<u>\$ (1,658)</u>	(6) %

For the three months ended June 30, 2020, our financial services pretax income increased by \$14.0 million, or 110%, from the same period in the prior year. The increase was primarily due to our mortgage operations, which saw an increase in pretax income of \$11.3 million due to higher interest rate lock volume driven by the year-over-year increase in homes in backlog as well as an increased Capture Rate, and increased net interest income on loans originated during the period. The increase in our other financial services segment was due to gains on equity securities during the quarter of \$5.0 million compared to \$2.3 million in the prior year quarter. During the three months ended June 30, 2020, we sold our portfolio of equity securities in light of recent market volatility. These proceeds remain invested in money market funds as of June 30, 2020.

For the six months ended June 30, 2020, our financial services pretax income decreased \$1.7 million, or 6%, from the same period in the prior year. The decrease was due to our other financial services segment, which had \$8.3 million of net losses on equity securities during the period as compared to \$7.2 million of net gains for the same period in the prior year. This was largely offset by an increase in our mortgage operations pretax income of \$14.5 million. Commentary on the drivers of the increase in pretax income in our mortgage operations segment is consistent with the 2020 second quarter discussion above.

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

	Three Months Ended June 30,		% or Percentage Change	Six Months Ended June 30,		% or Percentage Change
	2020	2019		2020	2019	
(Dollars in thousands)						
Total Originations (including transfer loans):						
Loans	1,336	931	44 %	2,365	1,714	38 %
Principal	\$ 497,566	\$ 351,148	42 %	\$ 876,872	\$ 636,674	38 %
Capture Rate Data:						
Capture rate as % of all homes delivered	69 %	61 %	8 %	68 %	60 %	8 %
Capture rate as % of all homes delivered (excludes cash sales)	72 %	66 %	6 %	71 %	64 %	7 %
Mortgage Loan Origination Product Mix:						
FHA loans	21 %	15 %	6 %	21 %	16 %	5 %
Other government loans (VA & USDA)	21 %	19 %	2 %	22 %	19 %	3 %
Total government loans	42 %	34 %	8 %	43 %	35 %	8 %
Conventional loans	58 %	66 %	(8)%	57 %	65 %	(8)%
	100 %	100 %	— %	100 %	100 %	— %
Loan Type:						
Fixed rate	100 %	97 %	3 %	99 %	97 %	2 %
ARM	— %	3 %	(3)%	1 %	3 %	(67)%
Credit Quality:						
Average FICO Score	737	742	(1)%	736	740	(1)%
Other Data:						
Average Combined LTV ratio	84 %	82 %	(2)%	84 %	81 %	4 %
Full documentation loans	100 %	100 %	— %	100 %	100 %	— %
Loans Sold to Third Parties:						
Loans	1,229	929	32 %	2,428	1,818	34 %
Principal	\$ 460,111	\$ 350,010	31 %	\$ 898,213	\$ 670,424	34 %

Income Taxes

Our overall effective income tax rates were 24.4% for both the three and six months ended June 30, 2020 and 26.6% and 26.8% for the three and six months ended June 30, 2019, respectively. The rates for the three and six months ended June 30, 2020 resulted in income tax expense of \$27.2 million and \$39.0 million, respectively, compared to income tax expense of \$19.7 million and \$34.8 million for the three and six months ended June 30, 2019, respectively. The year-over-year decrease in our effective tax rate for the three and six months ended June 30, 2020 was primarily due to windfalls on our equity awards as well as energy tax credits that expired on December 31, 2017 and were retroactively extended by the Further Consolidated Appropriations Act, 2020 (H.R. 1865, PL 116-94) signed by the President on December 20, 2019.

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 ongoing 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**" below.

Our critical accounting estimates and policies have not changed from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 and Mortgage Repurchase Facility (both 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, \$1.70 billion remains on our effective shelf registration statement.

Capital Resources

Our capital structure is primarily a combination of: (1) permanent financing, represented by stockholders' equity; (2) long-term financing, represented by our 5.500% senior notes due 2024, 3.850% senior notes due 2030 and our 6.000% senior notes due 2043; (3) our Revolving Credit Facility (defined below); and (4) our Mortgage Repurchase Facility (defined below). Because of our current balance of cash, cash equivalents, 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**" below.

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 \$1.0 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 June 30, 2020.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At June 30, 2020 and December 31, 2019, there were \$25.9 million and \$23.5 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. At June 30, 2020 and December 31, 2019, we had \$10.0 million and \$15.0 million, respectively, outstanding under the Revolving Credit Facility. As of June 30, 2020, availability under the Revolving Credit Facility was approximately \$964.1 million.

Mortgage Repurchase Facility. HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). Effective May 21, 2020, the Mortgage Repurchase Facility was amended to extend its termination date to May 20, 2021. 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 June 25, 2020 from \$75 million to \$150 million effective through July 23, 2020. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$75 million to \$150 million on December 24, 2019 effective through January 22, 2020. At June 30, 2020 and December 31, 2019, HomeAmerican had \$142.1 million and \$149.6 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 June 30, 2020.

Dividends

During the three months ended June 30, 2020 and 2019, we paid dividends of \$0.33 per share and \$0.30 per share, respectively.

MDC Common Stock Repurchase Program

At June 30, 2020, 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 during the three months ended June 30, 2020.

Consolidated Cash Flow

During both the six months ended June 30, 2020 and 2019, we generated \$55.7 million of cash from operating activities. The most significant source of cash provided by operating activities in both periods was net income. Cash provided by the decrease in land and land under development for the six months ended June 30, 2020 and 2019, was \$94.9 million and \$24.4 million, respectively, as home starts following the spring selling season outnumbered lot acquisitions during the period. The level of lot acquisitions during the six months ended June 30, 2020 was further impacted by the pandemic. Cash provided from the sale of mortgage loans for the six months ended June 30, 2020 and 2019, was \$23.5 million and \$39.9 million, respectively, resulting from increased loan activity during the month of December. Cash used to increase housing completed or under construction for the six months ended June 30, 2020 and 2019 was \$233.8 million and \$118.5 million, respectively, as homes in inventory increased by nearly 750 during both periods. The amount of cash used to increase housing completed or under construction in both periods was also impacted by the construction status of those homes in inventory at both the beginning and end of the respective periods.

During the six months ended June 30, 2020, net cash provided by investing activities was \$35.5 million compared with net cash used by investing activities of \$13.9 million in the prior year period. This primarily relates to \$48.5 million in net cash provided by the sale of marketable securities during the six months ended June 30, 2020. This was partially offset by cash used to purchase property and equipment, which remained consistent year-over-year.

During the six months ended June 30, 2020, net cash used in financing activities was \$4.8 million compared with \$52.1 million in the prior year period. The primary driver of this decrease in cash used in financing activities was due to net proceeds from the issuance of senior notes of \$48.1 million during the six months ended June 30, 2020.

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 June 30, 2020, we had deposits of \$19.7 million in the form of cash and \$8.4 million in the form of letters of credit that secured option contracts to purchase 7,327 lots for a total estimated purchase price of \$514.5 million.

Surety Bonds and Letters of Credit. At June 30, 2020, we had outstanding surety bonds and letters of credit totaling \$264.4 million and \$87.9 million, respectively, including \$62.0 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately \$89.7 million and \$47.4 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.

IMPACT OF INFLATION, CHANGING PRICES AND ECONOMIC CONDITIONS

The impact of inflation and changing prices have not changed materially from the disclosure in our December 31, 2019 Annual Report on Form 10-K.

OTHER

Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q, 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 operations, 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. Additionally, information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A of Part II of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have a cash and investment policy that enables us to achieve an appropriate investment return while preserving principal and managing risk. Under this policy, 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. Marketable securities under this policy may include holdings in 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 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 June 30, 2020, our cash and cash equivalents included commercial bank deposits and money market 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 June 30, 2020 had an aggregate principal balance of \$233.0 million, all of which were under interest rate lock commitments at an average interest rate of 3.03%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of \$166.4 million at June 30, 2020, of which \$85.9 million had not yet been committed to a mortgage purchaser and had an average interest rate of 2.95%. 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 \$205.5 million and \$108.5 million at June 30, 2020 and December 31, 2019, 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 do affect our earnings and cash flows. See “**Forward-Looking Statements**” above.

Item 4. Controls and Procedures

- (a) *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 Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.
- (a) *Changes in internal control over financial reporting* - There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

M.D.C. HOLDINGS, INC.
FORM 10-Q

PART II

Item 1. 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 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors that appeared under Item 1A. Risk Factors in the Company's 2019 Annual Report on Form 10-K. There are no material changes from the risk factors included within the Company's 2019 Annual Report on Form 10-K, other than the risk described below.

The recent global Coronavirus/COVID-19 pandemic could harm business and results of operations of the Company.

Demand for our homes is dependent on a variety of macroeconomic factors, 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 factors, in particular consumer confidence, can be significantly and adversely affected by a variety of factors beyond our control. In response to the pandemic, many state and local governments instituted restrictions that substantially limited the operations of non-essential businesses and the activities of individuals. While some of these restrictions have been eased, there is still significant uncertainty around the extent and duration of those still in place, the possibility for restrictions to be increased again in the future and the impact these restrictions will have on the U.S. economy and consumer confidence. The degree to which the pandemic will impact our financial results in the coming periods depends on future developments that are highly uncertain, including new information that may emerge concerning the severity of the pandemic, whether there are additional outbreaks of COVID-19 and the actions taken to contain or address the virus. If the pandemic continues to cause significant negative impacts to the U.S. economy and consumer confidence, our results of operations, financial condition and cash flows could be significantly and adversely impacted.

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

The following table provides information about our repurchase of common stock during the three months ended June 30, 2020:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program ⁽²⁾	Maximum Number of Shares that may yet be Purchased under the Plan or Program ⁽²⁾
April 1 to April 30, 2020	—	N/A	—	4,000,000
May 1 to May 31, 2020	256,623	\$ 27.66	—	4,000,000
June 1 to June 30, 2020	—	N/A	—	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 three month period ended June 30, 2020.

Item 6. Exhibits

- 10.1 [M.D.C. Holdings, Inc. 2020 Equity Plan for Non-Employee Directors \(as amended and restated\) \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 22, 2020\).](#) *
- 10.2 [Form of Stock Option Agreement \(2020 Equity Plan for Non-Employee Directors\).](#)
- 10.3 [Form of Restricted Stock Award Agreement \(2020 Equity Plan for Non-Employee Directors\).](#)
- 10.4 [Fourth 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 21, 2020 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 22, 2020\).](#) *
- 22 [Subsidiary Guarantors](#)
- 31.1 [Certification of Chief Executive Officer required by 17 CFR 240.13a-14\(a\), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer required by 17 CFR 240.13a-14\(a\), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer required by 17 CFR 240.13a-14\(b\), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer required by 17 CFR 240.13a-14\(b\), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial statements, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019, (iii) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020 and 2019, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019; and (v) Notes to the Unaudited Consolidated Financial Statements, tagged as blocks of text.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Incorporated by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 28, 2020

M.D.C. HOLDINGS, INC.

(Registrant)

By: /s/ Robert N. Martin

Robert N. Martin

Senior Vice President, Chief Financial Officer and Principal Accounting Officer (principal financial officer and duly authorized officer)

M.D.C. HOLDINGS, INC.**2020 EQUITY PLAN FOR NON-EMPLOYEE DIRECTORS****STOCK OPTION AGREEMENT**

M.D.C. Holdings, Inc., a Delaware corporation (the “**Company**”), grants an option under the M.D.C. Holdings, Inc. 2020 Equity Plan for Non-Employee Directors Plan (the “**Plan**”) to purchase shares of common stock, \$0.01 par value per share, of the Company (“**Stock**”) to the Optionee named below. This Stock Option Agreement (the “**Agreement**”) evidences the terms of the Company’s grant of an Option to Optionee.

A. NOTICE OF GRANT

Name of Optionee:

Number of Shares of Stock Covered by the Option:

Exercise Price per Share: \$

Grant Date: August 1, ____

Expiration Date: August 1, ____

Type of Option: Non-Qualified Stock Option

Vesting Schedule: This Option is fully vested upon grant. Except as provided otherwise in this Agreement and the Plan, Optionee’s right to purchase shares of Stock under this Option shall commence six months after the Grant Date.

B. STOCK OPTION AGREEMENT

1. **Grant of Option.** Subject to the terms and conditions of this Agreement and the Plan, the Company grants to Optionee, a fully vested Option to purchase the number of shares of Stock, at the Exercise Price (each as set forth in the Notice of Grant on the cover page of this Agreement), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan shall govern. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the Plan.

2. **Type of Option.** This Option is a Non-Qualified Stock Option.

3. **Certificates; Book Entry.** The Company may elect to satisfy any requirement for the delivery of shares of stock through the use of electronic or other forms of book-entry including, but not limited to, uncertificated shares maintained electronically.

4. **Exercisability.** The Option is only exercisable, in whole or in part, after six months after the Grant Date and before it expires. Subject to the preceding sentence, Optionee may exercise this Option, by following the procedures set forth in this Agreement.

5. **Option Term; Expiration Date.** This Option shall have a maximum term of ten (10) years measured from the original Grant Date (as set forth in the Notice of Grant on the cover sheet of this Agreement) and shall accordingly expire at the close of business at Company headquarters on the tenth anniversary of the Grant Date, unless sooner terminated in accordance with Section 6 of this Agreement (the “**Expiration Date**”).

6. **Termination of Service; Expiration of Option.** If Optionee terminates Board service with the Company prior to the tenth anniversary of the Grant Date, the following shall apply:

(a) **By the Company Without Cause.** The termination of Optionee’s Board service by the Company without Cause shall have no effect on the Option.

(b) **Voluntary Resignation.** If Optionee voluntarily resigns from the Board during the Option Period, the Option will remain outstanding for the term of the Option.

(c) **Termination for Cause.** If Optionee is removed as a director of the Company during the term of the Option for Cause, then the Option shall immediately terminate and shall be void for all purposes, and Optionee shall immediately forfeit all then existing rights to the Option.

(d) **Disability.** If Optionee’s Board service terminates due to Optionee’s Disability, the Option will be fully exercisable on the date of termination of Board service due to Disability and will remain outstanding for the term of the Option.

(e) **Death.** If Optionee dies during the Option Period, the Option may be exercised by those empowered to do so under the Optionee’s will or, should the Optionee die intestate, by the heirs determined to receive the Option under the then applicable laws of descent and distribution at any time during the term of the Option following the Optionee’s death.

7. **Option Exercise.**

(a) **Right to Exercise.** The Option shall be exercisable in whole or in part after six months after the Grant Date and before the Expiration Date.

(b) **Notice of Exercise.** The Option shall be exercised by delivery of written or electronic notice to a representative of the Company designated by the Committee on any business day, on the form specified by the Company. The notice shall specify the number of shares of Stock to be purchased, which number may be identified at the end of the exercise day, accompanied by full payment of the Exercise Price for the shares being purchased. The notice must also specify how the shares should be registered (in the name of Optionee or in both the names of Optionee and Optionee’s spouse as joint tenants with right of survivorship). The notice of exercise will be effective when it is received by the Company. Anyone exercising the Option

after the death of Optionee must provide appropriate documentation to the satisfaction of the Company that the individual is entitled to exercise the Option.

(c) Payment of Exercise Price. Payment of the Exercise Price for the number of shares of Stock being purchased in full shall be made in one (or a combination) of the following forms:

(i) Cash or cash equivalents acceptable to the Company.

(ii) Unrestricted shares of Stock which have already been owned by Optionee (for at least six months or such other period designated by the Committee) which are surrendered to the Company. The Fair Market Value of the shares, determined as of the date of surrender, must equal the aggregate Exercise Price to be applied to the Exercise Price.

(iii) Any other method approved or accepted by the Committee in its sole discretion, including, but limited to a cashless (broker-assisted) exercise, if permitted, in which the sale proceeds are delivered to the Company in payment of the aggregate Exercise Price and any withholding taxes.

8. Tax Withholding. The Company shall have the right to require payment of, or deduction from payments of any kind otherwise due to Optionee, any federal, state, local or foreign taxes of any kind required by law to be withheld upon the issuance or delivery of any shares of Stock, dividends or payments of any kind. The Company may withhold taxes from any payments due to Optionee or Optionee may deliver a check to the Company. Subject to the prior approval of the Committee, which may be withheld by the Committee, in its sole discretion, Optionee may elect to satisfy the minimum statutory withholding obligations, in whole or in part, (i) by having the Company withhold shares of Stock otherwise issuable to Optionee or (ii) by delivering to the Company shares of Stock already owned by Optionee (for at least six months or any other minimum period required by the Company). The shares delivered or withheld shall have an aggregate Fair Market Value sufficient to satisfy the minimum statutory total tax withholding obligations. The Fair Market Value of the shares used to satisfy the withholding obligation shall be determined by the Company as of the date that the amount of tax to be withheld is to be determined ("Tax Date"). Shares used to satisfy any tax withholding obligation must be vested and cannot be subject to any repurchase, forfeiture, or other similar requirements. Any election must be made prior to the Tax Date, shall be irrevocable, made in writing and signed by Optionee, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

9. Transfer of Option. During Optionee's lifetime, only Optionee (or, in the event of Optionee's legal incapacity or incompetency, Optionee's guardian or legal representative) may exercise the Option. Except for a transfer to a Family Member, Optionee cannot transfer or assign the Option, other than by will or the laws of descent and distribution, and upon any attempt to transfer or assign the Option, the Option will immediately become invalid. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from Optionee's spouse, nor is the Company obligated to recognize Optionee's spouse's interest in the Option in any other way.

Optionee may transfer, not for value, all or part of the Option to any Family Member; provided, however, such a transfer must be accompanied by an executed tax agreement prepared by the Company. Following a transfer to a Family Member, the Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, except that the Option shall be exercised by such transferee Family Member (or trustee of a Family Member trust, if applicable). Subsequent transfers of transferred Options are prohibited except to the original Optionee or Family Members of the original Optionee in accordance with this Section, or by will or the laws of descent and distribution.

10. **Investment Representations.** The Committee may require Optionee (or Optionee's estate or heirs) to represent and warrant in writing that the individual is acquiring the shares of Stock for investment and without any present intention to sell or distribute such shares and to make such other representations as are deemed necessary or appropriate by the Company and its counsel.

11. **Continued Service.** Neither the grant of the Option nor this Agreement gives Optionee the right to be retained or nominated as a director of the Board of the Company or its Affiliates in any capacity.

12. **Shareholder Rights.** An individual holding or exercising the Option shall not have any rights as a shareholder of the Company until the individual becomes the holder of record of such shares of Stock, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date prior to the date the individual becomes the holder of record of such shares.

13. **Adjustments.** The number of shares of Stock outstanding under this Option shall be proportionately increased or decreased for any increase or decrease in the number of shares of Stock on account of any Corporate Event. Any such adjustment in the Option shall not increase the aggregate Exercise Price payable with respect to shares that are subject to the unexercised portion of the outstanding Option and the adjustment shall comply with the requirements under Section 409A of the Code. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. In the event of any distribution to the Company's shareholders of an extraordinary cash dividend or securities of any other entity or other assets (other than ordinary dividends payable in cash or shares of Stock) without receipt of consideration by the Company, the Company shall proportionately adjust (a) the number and kind of shares subject to this Option and/or (b) the Exercise Price of this Option to reflect such distribution.

14. **Additional Requirements.** Optionee acknowledges that shares of Stock acquired upon exercise of the Option may bear such legends, as the Company deems appropriate to comply with applicable federal and state laws. No shares shall be issued or delivered pursuant to this Agreement unless there shall have been compliance with all applicable requirements of federal, state and other securities laws, all applicable listing requirements of the New York Stock Exchange, if applicable, and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery. In connection therewith and prior to the issuance of

the shares, Optionee may be required to deliver to the Company such other documents as may be reasonably necessary to ensure compliance with applicable laws and regulations.

15. **Governing Law.** The validity and construction of this Agreement and the Plan shall be construed in accordance with and governed by the laws of the State of Delaware other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan and this Agreement to the substantive laws of any other jurisdiction.

16. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the Company and Optionee and their respective heirs, executors, administrators, legal representatives, successors and assigns.

17. **Tax Treatment; Section 409A.** Optionee may incur tax liability as a result of the exercise of the Option or the disposition of shares of Stock. Optionee should consult his or her own tax adviser before exercising the Option or disposing of the shares.

Optionee acknowledges that the Committee, in the exercise of its sole discretion and without Optionee's consent, may (but is not obligated to) amend or modify the Option and this Agreement in any manner and delay the payment of any amounts payable pursuant to this Agreement to the minimum extent necessary to satisfy the requirements of Section 409A of the Code. The Company will provide Optionee with notice of any such amendment or modification.

18. **Amendment.** The terms and conditions set forth in this Agreement may only be amended by the written consent of the Company and Optionee, except to the extent set forth in Section 17 hereof regarding Section 409A of the Code and any other provision set forth in the Plan.

19. **2020 Equity Plan for Non-Employee Directors.** The Option and shares of Stock acquired upon exercise of the Option granted hereunder shall be subject to such additional terms and conditions as may be imposed under the terms of the Plan, a copy of which has been provided to Optionee.

20. **Headings; Construction.** The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

21. **Interpretation; Administration.** The Board of Directors shall have the full power and authority to administer the terms and conditions of this Agreement, to adopt any procedures, make any determinations, correct any defect, supply any omission or reconcile any inconsistency with respect to the terms and conditions of this Agreement in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Board shall be liable for any action or determination made in good faith. The determinations, interpretations and other actions of the Board with respect to this Agreement and the Option shall be binding and conclusive for all purposes and on all persons.

22. **Acceptance.** The Option and this Agreement are voidable by the Company if the Optionee does not accept this Agreement within 30 days after the Agreement is made available, electronically or otherwise, to the Optionee by the Company.

Dated: as of the Grant Date set forth above.

M.D.C. HOLDINGS, INC.

By: _____
Its: _____

OPTIONEE

Signed: _____

M.D.C. HOLDINGS, INC.
2020 EQUITY PLAN FOR NON-EMPLOYEE DIRECTORS
RESTRICTED STOCK AWARD AGREEMENT

M.D.C. Holdings, Inc., a Delaware corporation (the “Company”), awards to the Grantee named below restricted shares of the Company’s common stock \$0.01 par value per share (“Restricted Stock”) under the Company’s 2020 Equity Plan for Non-Employee Directors (the “Plan”). This Restricted Stock Award Agreement (the “Agreement”) evidences the terms of the Company’s award of Restricted Stock to the Grantee.

A. NOTICE OF AWARD

Name of Grantee:

Number of Shares of Restricted Stock Awarded:

Grant Date: August 1, ____

Closing Price on Grant Date (NYSE):

Aggregate Fair Market Value¹: _____

Lapse Schedule: Except as provided otherwise in this Agreement and the Plan, the Forfeiture Restrictions described in Section 4 below shall lapse on the date that is seven months after the Grant Date (the “Vesting Date”); provided that, except as otherwise provided in this Agreement, the Grantee remains in continuous service on the Company’s Board of Directors (the “Board”) from the Grant Date through the Vesting Date.

The Restriction Period shall be the period of time during which the Forfeiture Restrictions remain in effect for the applicable shares of Restricted Stock.

B. RESTRICTED STOCK AWARD AGREEMENT

1. Award. Subject to the terms and conditions of this Agreement and the Plan, which is incorporated herein by reference, the Company awards to the Grantee effective as of the Grant Date the number of shares of Restricted Stock as set forth in the Notice of Award above. In the event of a conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan shall govern. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the Plan.

2. Type of Award. This is an award of Restricted Stock.

¹ The aggregate Fair Market Value is determined by the Grant Date closing price of Company common stock on the New York Stock Exchange (rounded down to the next whole share in the event of a fractional share), subject to the terms and conditions set forth in this Agreement.

3. Certificates; Book Entry. The Company may elect to maintain the shares of Restricted Stock, and deliver shares as to which the Forfeiture Restrictions have lapsed, through the use of electronic or other forms of book-entry including, but not limited to, uncertificated shares maintained electronically. Any certificates representing Restricted Stock shall include restrictive legends regarding applicable Forfeiture Restrictions, restrictions on transfer and compliance with securities law requirements. If the Company maintains the Restricted Stock in certificate form, the Company shall cause the certificate to be delivered to the Secretary of the Company, or such other escrow agent as the Company may appoint, who shall retain physical custody of such certificate until the Forfeiture Restrictions lapse or the shares of Restricted Stock are forfeited pursuant to this Agreement. Upon the request of the Company, the Grantee shall deliver to the Company a stock power, endorsed in blank, relating to the Restricted Stock then subject to the Forfeiture Restrictions.

4. Forfeiture Restrictions. The prohibition against transfer and the obligation to forfeit and surrender Restricted Stock to the Company upon termination of continuous service as a member of the Board are referred to as the “Forfeiture Restrictions.” The Restricted Stock shall be issued subject to Forfeiture Restrictions. The Restricted Stock may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent subject to Forfeiture Restrictions. The Forfeiture Restrictions shall be binding upon and enforceable against any transferee of the Restricted Stock.

5. Lapse of Forfeiture Restrictions. Except as may be otherwise provided in this Agreement or the Plan, subject to Grantee’s continuous service as a member of the Board from the Grant Date through the Vesting Date, the Forfeiture Restrictions shall lapse as to the Restricted Stock in accordance with the Vesting Date set forth in the Notice of Award above. If at any time the number of shares as to which the Forfeiture Restrictions are scheduled to lapse includes a fractional share, the number of shares of Stock as to which the Forfeiture Restrictions shall actually lapse shall be rounded down to the next whole share of Stock. If, prior to the Vesting Date, the Grantee’s service as a member of the Board is terminated by the Company for Cause or the Grantee resigns from the Board (effective prior to the Vesting Date), the Grantee shall, for no consideration, forfeit to the Company the shares of Restricted Stock that, at that time, remain subject to Forfeiture Restrictions. However, if the Grantee’s service as a member of the Board ceases for any other reason, the provisions of Section 7 below shall apply. If the Grantee does not sign this Agreement within the period of time specified below, the Grantee shall, for no consideration, forfeit to the Company the shares of Restricted Stock that, at that time, remain subject to Forfeiture Restrictions. Upon forfeiture of shares of Restricted Stock, the Grantee shall have no further rights with respect to such shares, including but not limited to voting, dividend and liquidation rights.

6. Leave of Absence. For purposes of the award, service shall not be deemed terminated during a Board approved leave of absence.

7. Effect on Forfeiture Restrictions of Termination of Service other than For Cause or by Resignation. If the Grantee’s service as a member of the Board terminates by reason other than for Cause or by resignation (effective prior to the Vesting Date), including due to Grantee’s

death or Disability, the Forfeiture Restrictions shall lapse as of the date that the Grantee's service terminates with respect to the Restricted Stock subject to this Agreement.

8. Transfer of Restricted Stock. If any transfer of Restricted Stock is made or attempted to be made contrary to the terms of this Agreement or the Plan, the Company shall have the right to acquire for its own account, without the payment of any consideration, such shares from the owner thereof or the transferee, at any time before or after such prohibited transfer. In addition to any other legal or equitable remedies it may have, the Company may enforce its rights to specific performance to the extent permitted by law and may exercise such other equitable remedies then available. The Company may refuse for any purpose to recognize any transferee who receives such shares contrary to the provisions of this Agreement as a shareholder of the Company and may retain and/or recover all dividends on such shares that were paid or payable subsequent to the date on which the prohibited transfer was made or attempted.

9. Investment Representations. The Committee may require the Grantee (or the Grantee's estate or heirs) to represent and warrant in writing that the individual is acquiring the shares of Stock for investment and without any present intention to sell or distribute such shares and to make such other representations as are deemed necessary or appropriate by the Company and its counsel.

10. Shareholder Rights. Unless and until shares of the Restricted Stock are forfeited as hereinafter provided, the Grantee shall have all of the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the shares of Restricted Stock, subject, however, to the terms and conditions set forth in this Agreement.

11. Adjustments. The number of shares of Restricted Stock outstanding under this Agreement shall be proportionately increased or decreased for any increase or decrease in the number of shares of the Company's Stock on account of any Corporate Event. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. In the event of any distribution to the Company's shareholders of an extraordinary cash dividend or securities of any other entity or other assets (other than ordinary dividends payable in cash or shares of Stock) without receipt of consideration by the Company, the Company shall proportionately adjust the number of shares of Restricted Stock subject to this Agreement.

12. Change in Control. In the case of a Change in Control, the Forfeiture Restrictions shall lapse as of the date of the Change in Control.

13. Additional Requirements. The Grantee acknowledges that shares of Restricted Stock may bear such legends as the Company deems appropriate to comply with applicable federal, state or other securities laws. No shares shall be issued or delivered pursuant to this Agreement unless there shall have been compliance with all applicable requirements of federal, state and other securities laws, all applicable listing requirements of the New York Stock Exchange, if applicable, and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery. In connection therewith and prior to the issuance of

the shares, Grantee may be required to deliver to the Company such other documents as may be reasonably necessary to ensure compliance with applicable laws and regulations.

14. Governing Law. The validity and construction of this Agreement and the Plan shall be construed in accordance with and governed by the laws of the State of Delaware other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan and this Agreement to the substantive laws of any other jurisdiction.

15. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and Grantee and their respective heirs, executors, administrators, legal representatives, successors and assigns.

16. Tax Treatment; Section 83(b). The Grantee may incur tax liability as a result of the vesting of the Restricted Stock and the payment of dividends or the disposition of Shares. Grantee should consult his or her own tax adviser for tax advice. Grantee hereby acknowledges that Grantee has been informed that Grantee may file with the Internal Revenue Service, within 30 days of the Grant Date, an irrevocable election pursuant to Section 83(b) of the Code to be taxed as of the Grant Date on the Fair Market Value of the Restricted Shares. If Grantee chooses to file an election under Section 83(b) of the Code, Grantee hereby agrees to promptly deliver a copy of any such election to the head of the Tax Department of the Company (or other designated recipient).

17. Amendment. The terms and conditions set forth in this Agreement may only be amended by the written consent of the Company and Grantee, except to the extent set forth herein or in any other provision set forth in the Plan.

18. 2020 Equity Plan for Non-Employee Directors. The award and shares of Restricted Stock shall be subject to such additional terms and conditions as may be imposed under the terms of the Plan, a copy of which has been provided to Grantee.

19. Headings; Construction. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

20. Interpretation; Administration. The Board shall have the full power and authority to administer the terms and conditions of this Agreement, to adopt any procedures, make any determinations, correct any defect, supply any omission or reconcile any inconsistency with respect to the terms and conditions of this Agreement in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Board shall be liable for any action or determination made in good faith. The determinations, interpretations and other actions of the Board with respect to this Agreement and the Restricted Stock shall be binding and conclusive for all purposes and on all persons.

21. Acceptance. The award of Restricted Stock and this Agreement are voidable by the Company if the Grantee does not accept this Agreement within 30 days after the Agreement is made available, electronically or otherwise, to the Grantee by the Company.

Dated: as of the Grant Date set forth above.

M.D.C. HOLDINGS, INC.

GRANTEE

[Name]

[Name]

[Title]

Date: _____, 20____

Date: _____, 20____

EXHIBIT 22

SUBSIDIARY GUARANTORS

The following wholly-owned subsidiaries of M.D.C. Holdings, Inc. (the "Company") have fully and unconditionally guaranteed the senior notes issued by the Company on a joint and several basis.

<i>Name</i>	<i>State of Organization</i>	<i>Doing Business As</i>
M.D.C. Land Corporation	Colorado	MDC Land Flight Operations Co. Richmond Developments Limited
RAH of Florida, Inc.	Colorado	
Richmond American Construction, Inc.	Delaware	
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	

CERTIFICATIONS

I, Larry A. Mizel, certify that:

1. I have reviewed this report on Form 10-Q 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: July 28, 2020

/s/ Larry A. Mizel

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-Q 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: July 28, 2020

/s/ Robert N. Martin

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 principal executive officer of M.D.C. Holdings, Inc. (the "Company") hereby certifies that the Report on Form 10-Q of the Company for the period ended June 30, 2020 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: July 28, 2020

/s/ Larry A. Mizel

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 principal financial officer of M.D.C. Holdings, Inc. (the "Company") hereby certifies that the Report on Form 10-Q of the Company for the period ended June 30, 2020 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: July 28, 2020

/s/ Robert N. Martin

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.