

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 October 27, 2020, 64,867,213 shares of M.D.C. Holdings, Inc. common stock were outstanding.

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

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## PART I

## ITEM 1. Unaudited Consolidated Financial Statements

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

	September 30, 2020	December 31, 2019
(Dollars in thousands, except per share amounts)		
<b>ASSETS</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$ 432,277	\$ 424,186
Restricted cash	19,732	14,279
Trade and other receivables	90,609	65,829
Inventories:		
Housing completed or under construction	1,423,855	1,036,191
Land and land under development	1,221,854	1,330,384
Total inventories	2,645,709	2,366,575
Property and equipment, net	64,024	60,414
Deferred tax asset, net	13,297	21,768
Prepaid and other assets	78,421	78,358
Total homebuilding assets	3,344,069	3,031,409
<b>Financial Services:</b>		
Cash and cash equivalents	70,435	35,747
Marketable securities	—	56,747
Mortgage loans held-for-sale, net	160,506	197,021
Other assets	37,764	17,432
Total financial services assets	268,705	306,947
Total Assets	\$ 3,612,774	\$ 3,338,356
<b>LIABILITIES AND EQUITY</b>		
<b>Homebuilding:</b>		
Accounts payable	\$ 103,260	\$ 87,364
Accrued and other liabilities	259,261	245,940
Revolving credit facility	10,000	15,000
Senior notes, net	1,037,225	989,422
Total homebuilding liabilities	1,409,746	1,337,726
<b>Financial Services:</b>		
Accounts payable and accrued liabilities	84,168	68,529
Mortgage repurchase facility	130,861	149,616
Total financial services liabilities	215,029	218,145
Total Liabilities	1,624,775	1,555,871
<b>Stockholders' Equity</b>		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value; 250,000,000 shares authorized; 64,865,577 and 62,574,961 issued and outstanding at September 30, 2020 and December 31, 2019, respectively	649	626
Additional paid-in-capital	1,397,220	1,348,733
Retained earnings	590,130	433,126
Total Stockholders' Equity	1,987,999	1,782,485
Total Liabilities and Stockholders' Equity	\$ 3,612,774	\$ 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
<b>Homebuilding:</b>				
Home sale revenues	\$ 1,000,549	\$ 750,274	\$ 2,584,392	\$ 2,130,396
Home cost of sales	(795,172)	(609,316)	(2,061,608)	(1,724,040)
Inventory impairments	—	—	—	(610)
Total cost of sales	(795,172)	(609,316)	(2,061,608)	(1,724,650)
Gross profit	205,377	140,958	522,784	405,746
Selling, general and administrative expenses	(103,632)	(92,716)	(285,269)	(257,689)
Interest and other income	756	2,336	3,365	7,491
Other expense	(851)	(1,887)	(4,640)	(4,188)
Homebuilding pretax income	101,650	48,691	236,240	151,360
<b>Financial Services:</b>				
Revenues	36,803	22,388	91,653	58,389
Expenses	(13,294)	(10,352)	(36,401)	(28,883)
Other income (expense), net	859	2,079	(5,274)	11,877
Financial services pretax income	24,368	14,115	49,978	41,383
Income before income taxes	126,018	62,806	286,218	192,743
Provision for income taxes	(27,080)	(12,226)	(66,124)	(47,020)
Net income	\$ 98,938	\$ 50,580	\$ 220,094	\$ 145,723
Comprehensive income	\$ 98,938	\$ 50,580	\$ 220,094	\$ 145,723
<b>Earnings per share:</b>				
Basic	\$ 1.54	\$ 0.81	\$ 3.46	\$ 2.36
Diluted	\$ 1.49	\$ 0.79	\$ 3.37	\$ 2.29
<b>Weighted average common shares outstanding:</b>				
Basic	63,868,486	61,978,195	63,129,077	61,422,925
Diluted	65,824,910	63,968,215	64,969,855	63,360,535
Dividends declared per share	\$ 0.33	\$ 0.30	\$ 0.99	\$ 0.90

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)

	Nine Months Ended September 30, 2020				
	Common Stock				
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
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
Net Income	—	—	—	98,938	98,938
Shares issued under stock-based compensation programs, net	1,480,711	15	28,627	—	28,642
Cash dividends declared	—	—	—	(21,374)	(21,374)
Stock-based compensation expense	—	—	8,608	—	8,608
Balance at September 30, 2020	64,865,577	\$ 649	\$ 1,397,220	\$ 590,130	\$ 1,987,999

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)

	Nine Months Ended September 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
Net Income	—	—	—	50,580	50,580
Shares issued under stock-based compensation programs, net	674,984	7	(1,030)	—	(1,023)
Cash dividends declared	—	—	—	(18,700)	(18,700)
Stock-based compensation expense	—	—	9,793	—	9,793
Balance at September 30, 2019	62,597,390	\$ 626	\$ 1,341,858	\$ 359,317	\$ 1,701,801

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

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

	Nine Months Ended September 30,	
	2020	2019
	(Dollars in thousands)	
<b>Operating Activities:</b>		
Net income	\$ 220,094	\$ 145,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	18,536	18,178
Depreciation and amortization	18,881	15,478
Inventory impairments	—	610
Net (gain) loss on marketable equity securities	8,285	(7,934)
Deferred income tax expense	8,493	9,488
Net changes in assets and liabilities:		
Trade and other receivables	(17,512)	(4,682)
Mortgage loans held-for-sale, net	36,515	32,191
Housing completed or under construction	(387,269)	(251,749)
Land and land under development	108,710	(10,461)
Prepaid and other assets	(20,314)	(3,889)
Accounts payable and accrued and other liabilities	35,023	23,929
Net cash provided by (used in) operating activities	<u>29,442</u>	<u>(33,118)</u>
<b>Investing Activities:</b>		
Purchases of marketable securities	(10,804)	(10,340)
Sales of marketable securities	59,266	6,277
Purchases of property and equipment	(20,885)	(20,128)
Net cash provided by (used in) investing activities	<u>27,577</u>	<u>(24,191)</u>
<b>Financing Activities:</b>		
Payments on mortgage repurchase facility, net	(18,755)	(26,344)
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	(63,056)	(54,337)
Issuance of shares under stock-based compensation programs, net	29,974	16,304
Net cash used in financing activities	<u>(8,787)</u>	<u>(64,377)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	48,232	(121,686)
Cash, cash equivalents and restricted cash:		
Beginning of period	474,212	470,139
End of period	<u>\$ 522,444</u>	<u>\$ 348,453</u>
<b>Reconciliation of cash, cash equivalents and restricted cash:</b>		
Homebuilding:		
Cash and cash equivalents	\$ 432,277	\$ 285,338
Restricted cash	19,732	16,325
Financial Services:		
Cash and cash equivalents	70,435	46,790
Total cash, cash equivalents and restricted cash	<u>\$ 522,444</u>	<u>\$ 348,453</u>

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 September 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 nine months ended September 30, 2019 would have resulted in decreased pretax income for our homebuilding segments of approximately \$2.8 million and \$8.2 million, respectively, and decreased pretax income for our financial services segments of approximately \$0.4 million and \$1.2 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 nine months ended September 30, 2019, pretax income for our homebuilding segments would have decreased by an additional \$3.5 million and \$9.5 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
<b>Homebuilding</b>				
West	\$ 552,319	\$ 410,414	\$ 1,447,934	\$ 1,164,502
Mountain	347,095	263,802	886,619	760,470
East	101,135	76,058	249,839	205,424
Total homebuilding revenues	<u>\$ 1,000,549</u>	<u>\$ 750,274</u>	<u>\$ 2,584,392</u>	<u>\$ 2,130,396</u>
<b>Financial Services</b>				
Mortgage operations	\$ 28,548	\$ 14,395	\$ 67,536	\$ 36,258
Other	8,255	7,993	24,117	22,131
Total financial services revenues	<u>\$ 36,803</u>	<u>\$ 22,388</u>	<u>\$ 91,653</u>	<u>\$ 58,389</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
<b>Homebuilding</b>				
West	\$ 59,120	\$ 34,898	\$ 144,441	\$ 103,448
Mountain	48,053	31,391	111,372	89,077
East	6,020	2,136	9,993	5,761
Corporate	(11,543)	(19,734)	(29,566)	(46,926)
Total homebuilding pretax income	<u>\$ 101,650</u>	<u>\$ 48,691</u>	<u>\$ 236,240</u>	<u>\$ 151,360</u>
<b>Financial Services</b>				
Mortgage operations	\$ 20,809	\$ 8,468	\$ 46,558	\$ 19,700
Other	3,559	5,647	3,420	21,683
Total financial services pretax income	<u>\$ 24,368</u>	<u>\$ 14,115</u>	<u>\$ 49,978</u>	<u>\$ 41,383</u>
Total pretax income	<u>\$ 126,018</u>	<u>\$ 62,806</u>	<u>\$ 286,218</u>	<u>\$ 192,743</u>

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.

	September 30,	December 31,
	2020	2019
(Dollars in thousands)		
<b>Homebuilding assets</b>		
West	\$ 1,660,583	\$ 1,461,645
Mountain	927,730	869,665
East	248,028	194,592
Corporate	507,728	505,507
Total homebuilding assets	<u>\$ 3,344,069</u>	<u>\$ 3,031,409</u>
<b>Financial services assets</b>		
Mortgage operations	\$ 196,258	\$ 209,946
Other	72,447	97,001
Total financial services assets	<u>\$ 268,705</u>	<u>\$ 306,947</u>
Total assets	<u>\$ 3,612,774</u>	<u>\$ 3,338,356</u>

#### 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
<b>Numerator</b>				
Net income	\$ 98,938	\$ 50,580	\$ 220,094	\$ 145,723
Less: distributed earnings allocated to participating securities	(148)	(122)	(404)	(343)
Less: undistributed earnings allocated to participating securities	(502)	(202)	(952)	(554)
Net income attributable to common stockholders (numerator for basic earnings per share)	98,288	50,256	218,738	144,826
Add back: undistributed earnings allocated to participating securities	502	202	952	554
Less: undistributed earnings reallocated to participating securities	(488)	(195)	(929)	(540)
Numerator for diluted earnings per share under two class method	\$ 98,302	\$ 50,263	\$ 218,761	\$ 144,840
<b>Denominator</b>				
Weighted-average common shares outstanding	63,868,486	61,978,195	63,129,077	61,422,925
Add: dilutive effect of stock options	1,810,624	1,990,020	1,599,722	1,570,194
Add: dilutive effect of performance share units	145,800	—	241,056	367,416
Denominator for diluted earnings per share under two class method	65,824,910	63,968,215	64,969,855	63,360,535
Basic Earnings Per Common Share	\$ 1.54	\$ 0.81	\$ 3.46	\$ 2.36
Diluted Earnings Per Common Share	\$ 1.49	\$ 0.79	\$ 3.37	\$ 2.29

Diluted EPS for the three and nine months ended September 30, 2020 excluded options to purchase zero 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 0.4 million and 0.4 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	
		September 30, 2020	December 31, 2019
(Dollars in thousands)			
Marketable securities			
Equity securities	Level 1	\$ —	\$ 56,747
Mortgage loans held-for-sale, net	Level 2	\$ 160,506	\$ 197,021

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
Net gain (loss) recognized during the period on equity securities	\$ —	\$ 767	\$ (8,285)	\$ 7,934
Less: Net gain (loss) recognized during the period on equity securities sold during the period	—	299	(8,285)	536
Unrealized gain recognized during the reporting period on equity securities still held at the reporting date	\$ —	\$ 468	\$ —	\$ 7,398

*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 September 30, 2020 and December 31, 2019, we had \$105.5 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 September 30, 2020 and December 31, 2019, we had \$55.0 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 nine months ended September 30, 2020, we recorded net gains on the sales of mortgage loans of \$26.8 million and \$64.3 million, respectively, compared to \$14.6 million and \$38.9 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.

	September 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	249,174	270,388	249,005	272,083
\$300 million 3.850% Senior Notes due January 2030, net	297,400	313,505	—	—
\$500 million 6.000% Senior Notes due January 2043, net	490,651	605,125	490,508	528,542
<b>Total</b>	<b>\$ 1,037,225</b>	<b>\$ 1,189,018</b>	<b>\$ 989,422</b>	<b>\$ 1,051,025</b>

## 6. Inventories

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

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
<b>Housing completed or under construction:</b>		
West	\$ 844,264	\$ 589,040
Mountain	463,690	358,370
East	115,901	88,781
Subtotal	1,423,855	1,036,191
<b>Land and land under development:</b>		
West	698,099	772,189
Mountain	412,299	468,718
East	111,456	89,477
Subtotal	1,221,854	1,330,384
<b>Total inventories</b>	<b>\$ 2,645,709</b>	<b>\$ 2,366,575</b>

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 nine months ended September 30, 2020 and 2019 are shown in the table below.

	Three Months Ended September 30,		Nine Months Ended September 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			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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Homebuilding interest incurred	\$ 14,799	\$ 15,879	\$ 46,427	\$ 47,890
Less: Interest capitalized	(14,799)	(15,879)	(46,427)	(47,890)
Homebuilding interest expensed	\$ —	\$ —	\$ —	\$ —
Interest capitalized, beginning of period	\$ 56,929	\$ 58,193	\$ 55,310	\$ 54,845
Plus: Interest capitalized during period	14,799	15,879	46,427	47,890
Less: Previously capitalized interest included in home cost of sales	(16,511)	(14,451)	(46,520)	(43,114)
Interest capitalized, end of period	\$ 55,217	\$ 59,621	\$ 55,217	\$ 59,621

## 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. All of our property related leases 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Operating lease cost <sup>1</sup>	\$ 2,083	\$ 1,841	\$ 6,249	\$ 5,811
Less: Sublease income (Note 19)	(38)	(37)	(114)	(112)
Net lease cost	\$ 2,045	\$ 1,804	\$ 6,135	\$ 5,699

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

Supplemental cash flow information related to leases was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands)				
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>				
Operating cash flows from operating leases	\$ 1,792	\$ 1,834	\$ 5,439	\$ 5,397
Leased assets obtained in exchange for new operating lease liabilities	\$ —	\$ 646	\$ 4,050	\$ 2,676

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

	September 30, 2020
Weighted-average remaining lease term (in years)	5.6
Weighted-average discount rate	5.5 %

Maturities of operating lease liabilities were as follows:

	Year Ended December 31, (Dollars in thousands)
2020 (excluding the nine months ended September 30, 2020)	\$ 1,343
2021	7,421
2022	7,115
2023	6,203
2024	5,607
Thereafter	10,096
<b>Total operating lease payments</b>	<b>\$ 37,785</b>
<b>Less: Interest</b>	<b>5,290</b>
<b>Present value of operating lease liabilities <sup>1</sup></b>	<b>\$ 32,495</b>

<sup>1</sup> Homebuilding and financial services operating lease liabilities of \$31.6 million and \$0.9 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 September 30, 2020.

## 9. Homebuilding Prepaid and Other Assets

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

	September 30, 2020	December 31, 2019
(Dollars in thousands)		
Operating lease right-of-use asset (Note 8)	\$ 30,653	\$ 30,277
Land option deposits	25,925	27,361
Prepaid expenses	10,070	7,294
Goodwill	6,008	6,008
Deferred debt issuance costs on revolving credit facility, net	4,980	6,130
Other	785	1,288
<b>Total prepaid and other assets</b>	<b>\$ 78,421</b>	<b>\$ 78,358</b>



## 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:

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Customer and escrow deposits	\$ 59,468	\$ 39,001
Warranty accrual	32,097	31,386
Accrued compensation and related expenses	48,226	45,003
Lease liability (Note 8)	31,637	30,830
Accrued interest	13,825	27,734
Construction defect claim reserves	8,479	8,196
Land development and home construction accruals	8,630	9,750
Other accrued liabilities	56,899	54,040
Total accrued and other liabilities	<u>\$ 259,261</u>	<u>\$ 245,940</u>

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

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Insurance reserves	\$ 58,601	\$ 52,219
Accounts payable and other accrued liabilities	25,567	16,310
Total accounts payable and accrued liabilities	<u>\$ 84,168</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 nine months ended September 30, 2020 and 2019. The warranty accrual increased due to the increase in the number of home closings, which was partially offset during the nine months ended September 30, 2020 by adjustments to our per home warranty accrual rate due to lower than expected general warranty related expenditures in certain close of escrow years.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Balance at beginning of period	\$ 30,458	\$ 29,349	\$ 31,386	\$ 28,262
Expense provisions	4,493	3,557	11,595	10,642
Cash payments	(2,683)	(3,425)	(8,713)	(8,894)
Adjustments	(171)	389	(2,171)	(140)
Balance at end of period	<u>\$ 32,097</u>	<u>\$ 29,870</u>	<u>\$ 32,097</u>	<u>\$ 29,870</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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Balance at beginning of period	\$ 63,881	\$ 56,817	\$ 60,415	\$ 55,308
Expense provisions	4,058	3,102	10,562	8,312
Cash payments, net of recoveries	(859)	(2,614)	(3,897)	(6,315)
Balance at end of period	\$ 67,080	\$ 57,305	\$ 67,080	\$ 57,305

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 nine months ended September 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 21.5% and 23.1% for the three and nine months ended September 30, 2020 and 19.5% and 24.4% for the three and nine months ended September 30, 2019, respectively. The rates for the three and nine months ended September 30, 2020 resulted in income tax expense of \$27.1 million and \$66.1 million, respectively, compared to income tax expense of \$12.2 million and \$47.0 million for the three and nine months ended September 30, 2019, respectively. The year-over-year increase in our effective tax rate for the three months ended September 30, 2020 was primarily due to changes in the estimated amount of energy tax credits to be received. The year-over-year decrease in our effective tax rate for the nine months ended September 30, 2020 was primarily due to tax windfalls recognized upon the vesting and exercise of equity awards.

#### 14. Senior Notes

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

	September 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	249,174	249,005
3.850% Senior Notes due January 2030, net	297,400	—
6.000% Senior Notes due January 2043, net	490,651	490,508
<b>Total</b>	<b>\$ 1,037,225</b>	<b>\$ 989,422</b>

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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Stock option grants expense	\$ 814	\$ 429	\$ 2,026	\$ 929
Restricted stock awards expense	2,271	1,391	4,841	2,979
Performance share units expense	5,523	7,975	11,669	14,270
<b>Total stock-based compensation</b>	<b>\$ 8,608</b>	<b>\$ 9,795</b>	<b>\$ 18,536</b>	<b>\$ 18,178</b>

On August 20, 2020, 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, 2019 and 2020, 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			
Jul 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	\$ —
Jun 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	\$ 2,615
Aug 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	\$ 13,391
Aug 20, 2020	January 1, 2020 - December 31, 2022	January 1, 2019 - December 31, 2019	\$3.205 billion	135,000	\$3.366 billion	270,000	\$3.526 billion	540,000	\$3.846 billion	\$ 41.89	\$ 22,618	\$ 22,618

\* 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 nine months ended September 30, 2019, the Company recorded share-based award expense of \$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 the nine months ended September 30, 2020, the Company recorded share-based award expense of \$1.4 million related to these awards. For the three and nine months ended September 30, 2019, the Company recorded share-based award expense of \$5.5 million and \$10.0 million, respectively, related to these awards.

**2018 PSU Grants.** As of September 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 \$1.3 million and \$6.0 million, respectively, for the three and nine months ended September 30, 2020. As of September 30, 2019, the Company determined that achievement between the Threshold and Target Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$2.5 million for both the three and nine months ended September 30, 2019.

**2019 PSU Grants.** As of September 30, 2020, the Company determined that achievement of the Target Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$4.2 million for both the three and nine months ended September 30, 2020. As of September 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 these awards had been recognized.

**2020 PSU Grants.** For the PSUs granted in August of 2020, 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 September 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 September 30, 2020, we had outstanding surety bonds and letters of credit totaling \$256.3 million and \$126.3 million, respectively, including \$100.9 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$96.0 million and \$82.5 million, respectively. All letters of credit as of September 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 September 30, 2020, we had cash deposits and letters of credit totaling \$22.1 million and \$7.6 million, respectively, at risk associated with the option to purchase 7,757 lots.

*Coronavirus/COVID-19 Pandemic.* 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 and the possibility for restrictions to be increased again in the future. 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 September 30, 2020, we had interest rate lock commitments with an aggregate principal balance of \$254.7 million. Additionally, we had \$53.0 million of mortgage loans held-for-sale at September 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 \$201.0 million at September 30, 2020.

For the three and nine months ended September 30, 2020, we recorded net gains on derivatives of \$1.6 million and \$4.9 million, respectively, in revenues in the financial services section of our consolidated statements of operations and comprehensive income, compared to net gains of \$0.5 million and \$1.9 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 September 30, 2020.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At September 30, 2020 and December 31, 2019, there were \$25.4 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 September 30, 2020 and December 31, 2019, we had \$10.0 million and \$15.0 million, respectively, outstanding under the Revolving Credit Facility. As of September 30, 2020, availability under the Revolving Credit Facility was approximately \$964.6 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). 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 Mortgage Repurchase Facility terminates on May 20, 2021. Effective September 24, 2020, the Mortgage Repurchase Facility was amended to adjust the commitments to purchase for specific time periods and increase the Adjusted Tangible Net Worth Ratio from 8.0 to 1.0 to 10.0 to 1.0. As part of the amendment, the commitments to purchase were increased to \$100 million for the periods September 24, 2020 through October 23, 2020 and March 25, 2021 through April 23, 2021 and \$200 million for the period December 22, 2020 through February 4, 2021.

The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$50 million on September 28, 2020 effective through October 27, 2020. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$75 million on December 24, 2019 effective through January 22, 2020, which increased the maximum aggregate commitment from \$75 million to \$150 million. At September 30, 2020 and December 31, 2019 HomeAmerican had \$130.9 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 September 30, 2020.

## 19. Related Party Transactions

We contributed \$1.5 million in cash to the MDC/Richmond American Homes Foundation (the “Foundation”) during the nine months ended September 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 September 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 September 30, 2020 and December 31, 2019, amounts due to non-guarantor subsidiaries from the Obligor Group totaled \$65.9 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in thousands, except per share amounts)				
<b>Homebuilding:</b>				
Home sale revenues	\$ 1,000,549	\$ 750,274	\$ 2,584,392	\$ 2,130,396
Home cost of sales	(795,172)	(609,316)	(2,061,608)	(1,724,040)
Inventory impairments	—	—	—	(610)
Total cost of sales	(795,172)	(609,316)	(2,061,608)	(1,724,650)
Gross profit	205,377	140,958	522,784	405,746
Gross margin	20.5 %	18.8 %	20.2 %	19.0 %
Selling, general and administrative expenses	(103,632)	(92,716)	(285,269)	(257,689)
Interest and other income	756	2,336	3,365	7,491
Other expense	(851)	(1,887)	(4,640)	(4,188)
Homebuilding pretax income	101,650	48,691	236,240	151,360
<b>Financial Services:</b>				
Revenues	36,803	22,388	91,653	58,389
Expenses	(13,294)	(10,352)	(36,401)	(28,883)
Other income (expense), net	859	2,079	(5,274)	11,877
Financial services pretax income	24,368	14,115	49,978	41,383
Income before income taxes	126,018	62,806	286,218	192,743
Provision for income taxes	(27,080)	(12,226)	(66,124)	(47,020)
Net income	\$ 98,938	\$ 50,580	\$ 220,094	\$ 145,723
<b>Earnings per share:</b>				
Basic	\$ 1.54	\$ 0.81	\$ 3.46	\$ 2.36
Diluted	\$ 1.49	\$ 0.79	\$ 3.37	\$ 2.29
<b>Weighted average common shares outstanding:</b>				
Basic	63,868,486	61,978,195	63,129,077	61,422,925
Diluted	65,824,910	63,968,215	64,969,855	63,360,535
Dividends declared per share	\$ 0.33	\$ 0.30	\$ 0.99	\$ 0.90
<b>Cash provided by (used in):</b>				
Operating Activities	\$ (26,262)	\$ (88,783)	\$ 29,442	\$ (33,118)
Investing Activities	\$ (7,917)	\$ (10,272)	\$ 27,577	\$ (24,191)
Financing Activities	\$ (3,965)	\$ (12,293)	\$ (8,787)	\$ (64,377)

## Overview

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

Earlier this year, COVID-19 dampened the outlook for homebuilding, given a significant drop in both consumer confidence and employment levels. However, the demand for new homes surged during the third quarter, driven by low interest rates, a renewed focus on homeownership, and low home inventory levels. We believe that this potentially is the beginning of a period of growth for the homebuilding industry, with homeownership becoming more important due to the increased prominence of remote work and school options and with many consumers migrating away from high cost, densely populated urban areas. While we have seen an increase in certain building costs, most notably lumber, as a result of the pandemic, we have been successful to this point in recouping these increased costs through home price increases.

The dollar value of our homes in backlog was \$3.1 billion as of September 30, 2020, which was a 47% increase from the prior year. The higher backlog not only puts us in a position for a strong end to 2020, but also provides us with the opportunity for significant year-over-year increases in home sale revenues and pretax income to start 2021. We are planning to grow community count in 2021, and, to that end, we acquired 3,555 lots during the third quarter, representing a 63% increase over the prior year period. Our liquidity to end the 2020 third quarter was \$1.5 billion, which we believe provides us with sufficient resources to fund our continued growth. However, even as we plan for growth, we continue to closely monitor developments related to COVID-19 and the upcoming election cycle, which are highly uncertain and could adversely impact our operations and financial results in future periods.

### *Three Months Ended September 30, 2020*

For the three months ended September 30, 2020, our net income was \$98.9 million, or \$1.49 per diluted share, a 96% increase compared to net income of \$50.6 million, or \$0.79 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 \$53.0 million, or 109%, and our financial services pretax income increased \$10.3 million, or 73%. The increase in homebuilding pretax income was the result of a 33% increase in home sale revenues and a 370 basis point increase in our operating margin. The increase in operating margin is the result of our improved pricing over the last twelve months as well as better operating leverage as we continue to grow our homebuilding operations. The increase in financial services pretax income was due to our mortgage business, which experienced a higher interest rate lock volume, an increase in the number of mortgages we originated as a percentage of our total homes delivered ("Capture Rate"), and an increase in net interest income on loans originated during the quarter.

The dollar value of our net new home orders increased 89% from the prior year period, due to a 73% increase in the number of net new orders and a 10% increase in the average selling price of those orders. The increase in the number of net new orders was due to an increase in the monthly sales absorption rate driven by strong demand during the quarter as noted above. The increase in the average selling price was the result of price increases implemented over the past twelve months as well as a shift in geographical mix to some higher priced markets.

### *Nine Months Ended September 30, 2020*

For the nine months ended September 30, 2020, our net income was \$220.1 million, or \$3.37 per diluted share, a 51% increase compared to net income of \$145.7 million, or \$2.29 per diluted share, for the same period in the prior year. Similar to the third quarter commentary above, the increase was driven by an \$84.9 million increase in homebuilding pretax income and a \$26.9 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 nine months ended September 30, 2020, as compared to a net gain of \$7.9 million for the prior year period.

\* See "**Forward-Looking Statements**" below.

## Homebuilding

### Pretax Income:

	Three Months Ended				Nine Months Ended			
	September 30,		Change		September 30,		Change	
	2020	2019	Amount	%	2020	2019	Amount	%
	(Dollars in thousands)							
West	\$ 59,120	\$ 34,898	\$ 24,222	69 %	\$ 144,441	\$ 103,448	\$ 40,993	40 %
Mountain	48,053	31,391	16,662	53 %	111,372	89,077	22,295	25 %
East	6,020	2,136	3,884	182 %	9,993	5,761	4,232	73 %
Corporate	(11,543)	(19,734)	8,191	42 %	(29,566)	(46,926)	17,360	37 %
Total Homebuilding pretax income	\$ 101,650	\$ 48,691	\$ 52,959	109 %	\$ 236,240	\$ 151,360	\$ 84,880	56 %

For the three months ended September 30, 2020, we recorded homebuilding pretax income of \$101.7 million, an increase of 109% from \$48.7 million for the same period in the prior year. The increase was due to a 33% increase in home sale revenues, a 170 basis point increase in our gross margin from home sales and a 200 basis point decrease in our selling, general and administrative expenses as a percentage of revenue.

Our West segment experienced a \$24.2 million year-over-year increase in pretax income, due to a 35% increase in home sales revenue and an improved gross margin, which were slightly offset by a \$3.7 million increase in general and administrative expenses resulting from the change in our Corporate cost allocation discussed below. Our Mountain segment experienced a \$16.7 million increase in pretax income from the prior year, as a result of a 32% increase in home sales revenue and an improved gross margin, which were slightly offset by a \$1.8 million increase in general and administrative expenses due to the change in our Corporate cost allocation. Our East segment experienced a \$3.9 million increase in pretax income from the prior year, due primarily to a 33% increase in home sales revenue and an improved gross margin, which were slightly offset by a \$0.8 million increase in general and administrative expenses resulting from the change in our Corporate cost allocation. Our Corporate segment experienced an \$8.2 million increase in pretax income, due primarily to the impact of the change in our Corporate cost allocation.

For the nine months ended September 30, 2020, we recorded homebuilding pretax income of \$236.2 million, an increase of \$84.9 million from \$151.4 million for the same period in the prior year. The increase was due to a 21% increase in home sale revenues, a 120 basis point increase in our gross margin from home sales and a 110 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 third 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 nine months ended September 30, 2019 would have resulted in decreased pretax income for our homebuilding segments of approximately \$2.8 million and \$8.2 million, respectively, and decreased pretax income for our financial services segments of approximately \$0.4 million and \$1.2 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 nine months ended September 30, 2019, pretax income for our homebuilding segments would have decreased by an additional \$3.5 million and \$9.5 million, respectively, with a corresponding increase in our Corporate segment pretax income.

**Assets:**

	September 30, 2020	December 31, 2019	Change	
			Amount	%
(Dollars in thousands)				
West	\$ 1,660,583	\$ 1,461,645	198,938	14 %
Mountain	927,730	869,665	58,065	7 %
East	248,028	194,592	53,436	27 %
Corporate	507,728	505,507	2,221	0 %
<b>Total homebuilding assets</b>	<b>\$ 3,344,069</b>	<b>\$ 3,031,409</b>	<b>\$ 312,660</b>	<b>10 %</b>

Total homebuilding assets increased 10% from December 31, 2019 to September 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. This increase was slightly offset by a decrease in land and land under development in our West and Mountain Segments, where the total number of lots owned, excluding those currently under construction, 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 September 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	1,135	\$ 552,319	\$ 486.6	927	\$ 410,414	\$ 442.7	22 %	35 %	10 %
Mountain	677	347,095	512.7	537	263,802	491.2	26 %	32 %	4 %
East	335	101,135	301.9	249	76,058	305.5	35 %	33 %	(1)%
<b>Total</b>	<b>2,147</b>	<b>\$ 1,000,549</b>	<b>\$ 466.0</b>	<b>1,713</b>	<b>\$ 750,274</b>	<b>\$ 438.0</b>	<b>25 %</b>	<b>33 %</b>	<b>6 %</b>

	Nine Months Ended September 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	3,023	\$ 1,447,934	\$ 479.0	2,464	\$ 1,164,502	\$ 472.6	23 %	24 %	1 %
Mountain	1,720	886,619	515.5	1,480	760,470	513.8	16 %	17 %	0 %
East	851	249,839	293.6	641	205,424	320.5	33 %	22 %	(8)%
<b>Total</b>	<b>5,594</b>	<b>\$ 2,584,392</b>	<b>\$ 462.0</b>	<b>4,585</b>	<b>\$ 2,130,396</b>	<b>\$ 464.6</b>	<b>22 %</b>	<b>21 %</b>	<b>(1)%</b>

**West Segment Commentary**

For both the three and nine months ended September 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. The average selling price of homes delivered increased due to a shift in mix of homes from Nevada to more expensive Southern California markets.

#### Mountain Segment Commentary

For both the three and nine months ended September 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 three months ended September 30, 2020, the increase in new home deliveries also benefited from an increase in backlog conversion rates in our Colorado markets due to the construction status of homes in beginning backlog compared to the prior year. For the three months ended September 30, 2020, the increase in the average selling price of homes delivered was the result of price increases implemented across the majority of our communities over the past twelve months.

#### East Segment Commentary

For the three months ended September 30, 2020, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the period. New home deliveries for the quarter also benefited from improved backlog conversion rates in our Florida markets due to the construction status of homes in beginning backlog compared to the prior year.

For the nine months ended September 30, 2020, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the period. This 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. For the nine months ended September 30, 2020, 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 September 30, 2020, increased 170 basis points year-over-year from 18.8% to 20.5%. Gross margin from home sales increased across each of our segments on both build-to-order and speculative home deliveries driven by price increases implemented across nearly all of our communities over the past twelve months.

Our gross margin from home sales for the nine months ended September 30, 2020, increased 120 basis points year-over-year from 19.0% to 20.2%. The primary drivers of the improved gross margin from home sales for the nine months ended September 30, 2020 are consistent with those noted above for the three months ended September 30, 2020.

#### *Inventory Impairments:*

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

	Three Months Ended September 30,		Nine Months Ended September 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			
	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

*Selling, General and Administrative Expenses:*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	(Dollars in thousands)					
General and administrative expenses	\$ 45,980	\$ 46,951	\$ (971)	\$ 131,488	\$ 128,849	\$ 2,639
<i>General and administrative expenses as a percentage of home sale revenues</i>	4.6 %	6.3 %	-170 bps	5.1 %	6.0 %	-90 bps
Marketing expenses	\$ 24,725	\$ 20,457	\$ 4,268	\$ 68,828	\$ 58,266	\$ 10,562
<i>Marketing expenses as a percentage of home sale revenues</i>	2.5 %	2.7 %	-20 bps	2.7 %	2.7 %	0 bps
Commissions expenses	\$ 32,927	\$ 25,308	\$ 7,619	\$ 84,953	\$ 70,574	\$ 14,379
<i>Commissions expenses as a percentage of home sale revenues</i>	3.3 %	3.4 %	-10 bps	3.3 %	3.3 %	0 bps
<b>Total selling, general and administrative expenses</b>	<b>\$ 103,632</b>	<b>\$ 92,716</b>	<b>\$ 10,916</b>	<b>\$ 285,269</b>	<b>\$ 257,689</b>	<b>\$ 27,580</b>
<i>Total selling, general and administrative expenses as a percentage of home sale revenues</i>	10.4 %	12.4 %	-200 bps	11.0 %	12.1 %	-110 bps

General and administrative expenses decreased slightly for the three months ended September 30, 2020, primarily due to a decrease in stock-based compensation expense that was largely offset by an increase in salaries and other compensation-related expenses due to higher average headcount and strong operating results.

For the nine months ended September 30, 2020, the increase in general and administrative expenses was the result of increased compensation-related expenses due to increased bonus expense as a result of strong operating results.

For both the three and nine months ended September 30, 2020, the increase in our marketing expenses was driven by increased deferred selling amortization and master marketing fees resulting from increased closings as well as increased compensation expense due to a higher average headcount during the respective 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 September 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	1,955	\$ 932,111	\$ 476.8	6.58	1,168	\$ 516,000	\$ 441.8	4.09	67 %	81 %	8 %	61 %
Mountain	1,051	542,375	516.1	5.70	565	271,800	481.1	2.86	86 %	100 %	7 %	99 %
East	509	176,896	347.5	5.39	303	83,896	276.9	3.58	68 %	111 %	26 %	50 %
Total	3,515	\$ 1,651,382	\$ 469.8	6.10	2,036	\$ 871,696	\$ 428.1	3.59	73 %	89 %	10 %	70 %

  

Nine Months Ended September 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	4,646	\$ 2,265,557	\$ 487.6	5.47	3,379	\$ 1,543,584	\$ 456.8	4.14	37 %	47 %	7 %	32 %
Mountain	2,502	1,309,176	523.3	4.39	1,974	960,109	486.4	3.30	27 %	36 %	8 %	33 %
East	1,156	393,913	340.8	4.23	912	268,578	294.5	4.02	27 %	47 %	16 %	5 %
Total	8,304	\$ 3,968,646	\$ 477.9	4.91	6,265	\$ 2,772,271	\$ 442.5	3.82	33 %	43 %	8 %	28 %

\*Calculated as total net new orders (gross orders less cancellations) in period ÷ average active communities during period ÷ number of months in period.

	Active Subdivisions			Average Active Subdivisions Three Months Ended			Average Active Subdivisions Nine Months Ended		
	September 30,		% Change	September 30,		% Change	September 30,		% Change
	2020	2019		2020	2019		2020	2019	
	West	102	93	10 %	99	96	3 %	94	92
Mountain	61	67	(9)%	62	66	(6)%	63	66	(5)%
East	31	30	3 %	32	29	10 %	30	25	20 %
Total	194	190	2 %	193	191	1 %	187	183	2 %

#### West Segment Commentary

For both the three and nine months ended September 30, 2020, the increase in net new orders was primarily due to an increase in the monthly sales absorption rates in all of our markets in the West segment. The increase in average selling price was due to price increases implemented over the past twelve months within nearly all of our communities as well as a shift in mix of homes sold to more expensive Southern California markets.

#### Mountain Segment Commentary

For the three and nine months ended September 30, 2020, the increase in net new orders was primarily due to an increase in the monthly sales absorption rates in each of our Colorado and Utah markets. The increase in average selling price was due to price increases implemented over the last twelve months within nearly all of our communities.



### East Segment Commentary

For the three months ended September 30, 2020, the increase in net new orders was primarily driven by an increase in the monthly sales absorption rates in each of our Florida and mid-Atlantic markets and to a lesser extent an increase in average active subdivisions in our mid-Atlantic market.

For the nine months ended September 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 and to a lesser extent an increase in the monthly sales absorption rate in our mid-Atlantic market.

For both the three and nine months ended September 30, 2020, the increase in average selling price was due to price increases implemented over the last twelve months within nearly all of our communities. Additionally, we experienced a shift in mix to our mid-Atlantic market resulting from an increase in net new orders that was driven by increases in both monthly sales absorption rates and average active subdivisions.

#### Cancellation Rate:

	Cancellations as a Percentage of Homes in Beginning Backlog					
	2020			2019		
	Three Months Ended					
	September 30,	June 30,	March 31,	September 30,	June 30,	March 31,
West	11 %	14 %	15 %	12 %	13 %	14 %
Mountain	12 %	20 %	22 %	16 %	13 %	14 %
East	18 %	22 %	23 %	22 %	18 %	11 %
Total	12 %	17 %	18 %	15 %	14 %	14 %

Our cancellations as a percentage of homes in beginning backlog to start the quarter (“cancellation rate”) decreased on both a sequential and year-over-year basis in each of our segments. In general, we experienced a higher cancellation rate during the first and second quarter of 2020 as a result of general economic uncertainty surrounding the pandemic.

#### Backlog:

	September 30,								
	2020			2019			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
West	3,646	\$ 1,743,547	\$ 478.2	2,438	\$ 1,146,912	\$ 470.4	50 %	52 %	2 %
Mountain	1,993	1,033,264	518.4	1,537	768,317	499.9	30 %	34 %	4 %
East	872	298,965	342.9	641	183,856	286.8	36 %	63 %	20 %
Total	6,511	\$ 3,075,776	\$ 472.4	4,616	\$ 2,099,085	\$ 454.7	41 %	47 %	4 %

At September 30, 2020, we had 6,511 homes in backlog with a total value of \$3.1 billion. This represented a 41% increase in the number of homes in backlog and a 47% increase in the dollar value of homes in backlog from September 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 nine months ended September 30, 2020. The increase in the average selling price of homes in backlog is due to price increases implemented over the past twelve months in nearly all of our communities as well as a shift in our net new order mix in our East and West segments as discussed above. These increases were 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):*

	September 30,		% Change
	2020	2019	
Unsold:			
Completed	74	82	(10)%
Under construction	129	255	(49)%
Total unsold started homes	203	337	(40)%
Sold homes under construction or completed	4,540	3,433	32 %
Model homes under construction or completed	505	455	11 %
Total homes completed or under construction	5,248	4,225	24 %

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 due to the strong demand for new homes.

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

	September 30, 2020			September 30, 2019			Total % Change
	Lots Owned	Lots Optioned	Total	Lots Owned	Lots Optioned	Total	
West	10,140	3,280	13,420	9,128	2,203	11,331	18 %
Mountain	6,217	2,708	8,925	6,456	3,139	9,595	(7)%
East	2,716	1,769	4,485	2,014	2,003	4,017	12 %
Total	19,073	7,757	26,830	17,598	7,345	24,943	8 %

Our total owned and optioned lots at September 30, 2020 were 26,830, which was a 8% increase year-over-year. 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				Nine Months Ended			
	September 30,		Change		September 30,		Change	
	2020	2019	Amount	%	2020	2019	Amount	%
(Dollars in thousands)								
<b>Financial services revenues</b>								
Mortgage operations	\$ 28,548	\$ 14,395	\$ 14,153	98 %	\$ 67,536	\$ 36,258	\$ 31,278	86 %
Other	8,255	7,993	262	3 %	24,117	22,131	1,986	9 %
Total financial services revenues	\$ 36,803	\$ 22,388	\$ 14,415	64 %	\$ 91,653	\$ 58,389	\$ 33,264	57 %
<b>Financial services pretax income</b>								
Mortgage operations	\$ 20,809	\$ 8,468	\$ 12,341	146 %	\$ 46,558	\$ 19,700	\$ 26,858	136 %
Other	3,559	5,647	(2,088)	(37)%	3,420	21,683	\$ (18,263)	(84)%
Total financial services pretax income	\$ 24,368	\$ 14,115	\$ 10,253	73 %	\$ 49,978	\$ 41,383	\$ 8,595	21 %

For the three months ended September 30, 2020, our financial services pretax income increased by \$10.3 million, or 73%, from the same period in the prior year. The increase was due to our mortgage operations, which saw an increase in pretax income of \$12.3 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. This increase was partially offset by a decrease in our other financial services segment due to an increase in construction defect claim self-insurance expense driven by an increase in home closings as well as an increase in third-party insurance costs for excess construction defect claim coverage.

For the nine months ended September 30, 2020, our financial services pretax income increased \$8.6 million, or 21%, from the same period in the prior year. The increase was due to our mortgage operations, which saw an increase in pretax income of \$26.9 million. Commentary on the drivers of the increase in pretax income in our mortgage operations segment are consistent with the 2020 third quarter discussion above. This increase was partially offset by a decrease in our other financial services segment, which had \$8.3 million of net losses on equity securities during the period as compared to \$7.9 million of net gains for the same period in the prior year.

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

	Three Months Ended		% or Percentage Change	Nine Months Ended		% or Percentage Change
	September 30,			September 30,		
	2020	2019		2020	2019	
(Dollars in thousands)						
<b>Total Originations (including transfer loans):</b>						
Loans	1,476	1,095	35 %	3,841	2,809	37 %
Principal	\$ 563,047	\$ 386,613	46 %	\$ 1,439,918	\$ 1,023,287	41 %
<b>Capture Rate Data:</b>						
Capture rate as % of all homes delivered	68 %	64 %	4 %	68 %	61 %	7 %
Capture rate as % of all homes delivered (excludes cash sales)	71 %	68 %	3 %	71 %	66 %	5 %
<b>Mortgage Loan Origination Product Mix:</b>						
FHA loans	20 %	20 %	— %	21 %	17 %	4 %
Other government loans (VA & USDA)	22 %	20 %	2 %	22 %	20 %	2 %
Total government loans	42 %	40 %	2 %	43 %	37 %	6 %
Conventional loans	58 %	60 %	(2)%	57 %	63 %	(6)%
	100 %	100 %	— %	100 %	100 %	— %
<b>Loan Type:</b>						
Fixed rate	100 %	98 %	2 %	99 %	97 %	2 %
ARM	— %	2 %	(2)%	1 %	3 %	(2)%
<b>Credit Quality:</b>						
Average FICO Score	736	738	— %	736	739	— %
<b>Other Data:</b>						
Average Combined LTV ratio	85 %	84 %	1 %	85 %	82 %	3 %
Full documentation loans	100 %	100 %	— %	100 %	100 %	— %
<b>Loans Sold to Third Parties:</b>						
Loans	1,530	1,064	44 %	3,958	2,882	37 %
Principal	\$ 574,239	\$ 377,213	52 %	\$ 1,472,452	\$ 1,047,637	41 %

### Income Taxes

Our overall effective income tax rates were 21.5% and 23.1% for the three and nine months ended September 30, 2020 and 19.5% and 24.4% for the three and nine months ended September 30, 2019, respectively. The rates for the three and nine months ended September 30, 2020 resulted in income tax expense of \$27.1 million and \$66.1 million, respectively, compared to income tax expense of \$12.2 million and \$47.0 million for the three and nine months ended September 30, 2019, respectively. The year-over-year increase in our effective tax rate for the three months ended September 30, 2020 was primarily due to changes in the estimated amount of energy tax credits to be received. The year-over-year decrease in our effective tax rate for the nine months ended September 30, 2020 was primarily due to tax windfalls recognized upon the vesting and exercise of equity awards.

## **CRITICAL ACCOUNTING ESTIMATES AND POLICIES**

The preparation of financial statements in conformity with accounting principles 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 September 30, 2020.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At September 30, 2020 and December 31, 2019, there were \$25.4 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 September 30, 2020 and December 31, 2019, we had \$10.0 million and \$15.0 million, respectively, outstanding under the Revolving Credit Facility. As of September 30, 2020, availability under the Revolving Credit Facility was approximately \$964.6 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). 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 Mortgage Repurchase Facility terminates on May 20, 2021. Effective September 24, 2020, the Mortgage Repurchase Facility was amended to adjust the commitments to purchase for specific time periods and increase the Adjusted Tangible Net Worth Ratio from 8.0 to 1.0 to 10.0 to 1.0. As part of the amendment, the commitments to purchase were increased to \$100 million for the periods September 24, 2020 through October 23, 2020 and March 25, 2021 through April 23, 2021 and \$200 million for the period December 22, 2020 through February 4, 2021.

The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$50 million on September 28, 2020 effective through October 27, 2020. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$75 million on December 24, 2019 effective through January 22, 2020, which increased the maximum aggregate commitment from \$75 million to \$150 million. At September 30, 2020 and December 31, 2019, HomeAmerican had \$130.9 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 September 30, 2020.

#### **Dividends**

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

#### **MDC Common Stock Repurchase Program**

At September 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 September 30, 2020.

#### **Consolidated Cash Flow**

During the nine months ended September 30, 2020 and 2019, we generated \$29.4 million and used \$33.1 million of cash from operating activities, respectively. The most significant source of cash provided by operating activities in both periods was net income. During the nine months ended September 30, 2020, cash provided by the decrease in land and land under development was \$108.7 million, as home starts outnumbered lot acquisitions during the period. Cash provided from the sale of mortgage loans for the nine months ended September 30, 2020 and 2019, was \$36.5 million and \$32.2 million, respectively, resulting from increased loan activity during the month of December. Cash used to increase housing completed or under construction for the nine months ended September 30, 2020 and 2019 was \$387.3 million and \$251.7 million, respectively, as homes in inventory increased significantly during both periods.

During the nine months ended September 30, 2020, net cash provided by investing activities was \$27.6 million compared with net cash used by investing activities of \$24.2 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 nine months ended September 30, 2020. This was partially offset by cash used to purchase property and equipment, which remained consistent year-over-year.

During the nine months ended September 30, 2020, net cash used in financing activities was \$8.8 million compared with \$64.4 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 nine months ended September 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 September 30, 2020, we had deposits of \$25.9 million in the form of cash and \$8.2 million in the form of letters of credit that secured option contracts to purchase 7,757 lots for a total estimated purchase price of \$488.6 million.

*Surety Bonds and Letters of Credit.* At September 30, 2020, we had outstanding surety bonds and letters of credit totaling \$256.3 million and \$126.3 million, respectively, including \$100.9 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately \$96.0 million and \$82.5 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 September 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 September 30, 2020 had an aggregate principal balance of \$254.7 million, all of which were under interest rate lock commitments at an average interest rate of 2.78%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of \$154.3 million at September 30, 2020, of which \$53.0 million had not yet been committed to a mortgage purchaser and had an average interest rate of 2.71%. 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 \$201.0 million and \$108.5 million at September 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.
- (b) *Changes in internal control over financial reporting* - There were no changes in our internal control over financial reporting that occurred during the quarter ended September 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 September 30, 2020:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program <sup>(2)</sup>	Maximum Number of Shares that may yet be Purchased under the Plan or Program <sup>(2)</sup>
July 1 to July 31, 2020	—	N/A	—	4,000,000
August 1 to August 31, 2020	—	N/A	—	4,000,000
September 1 to September 30, 2020	—	N/A	—	4,000,000

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 September 30, 2020.

**Item 6. Exhibits**

- 10.1 [Form of 2020 Performance Share Unit Grant Agreement \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 25, 2020\).](#) \*
- 10.2 [M.D.C. Holdings, Inc. 2018 Executive Officer Performance-Based Compensation Plan \(amended September 4, 2020\).](#)
- 10.3 [Fifth 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 September 24, 2020 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 25, 2020\).](#) \*
- 22 [Subsidiary Guarantors \(incorporated by reference to Exhibit 22 of the Company's Quarterly Report on Form 10-Q dated June 30, 2020\).](#) \*
- 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 September 30, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019, (iii) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019, (iv) Consolidated Statements of Cash Flows for the nine months ended September 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: October 29, 2020

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

(Registrant)

By: /s/ Robert N. Martin

Robert N. Martin

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

By: /s/ Staci M. Woolsey

Staci M. Woolsey

*Vice President, Controller and Chief Accounting Officer (principal accounting officer and duly authorized officer)*

**M.D.C. HOLDINGS, INC.**  
**2018 EXECUTIVE OFFICER**  
**PERFORMANCE-BASED COMPENSATION PLAN**  
(amended September 4, 2020)

Article I

Establishment and Administration of Plan

A. The Compensation Committee (the “Committee”) of the Board of Directors of M.D.C. Holdings, Inc., (the “Company”) hereby establishes the following 2018 Executive Officer Performance-Based Compensation Plan (the “Plan”) to provide an additional compensation incentive to improve the Company’s financial results to eligible employees responsible for management of the Company. This Plan shall be effective as of December 10, 2018.

B. The Committee intends that any award of performance-based compensation payable to the Covered Employees on, or following, the effective date of this Plan shall be made pursuant to this Plan instead of the 2013 Executive Officer Performance-Based Compensation Plan, unless the Committee determines otherwise.

C. The Committee shall administer and interpret the Plan and shall have exclusive authority to establish one or more Performance Objectives for any fiscal year.

Article II

Definitions

For purposes of this Plan:

A. “Covered Employees” shall mean the following individuals entitled to compensation payments under the Plan: Larry A. Mizel, the Company’s Chairman of the Board and Chief Executive Officer, and David D. Mandarich, the Company’s President and Chief Operating Officer.

B. The “Performance Goal” shall be a written goal for the achievement of one or more Performance Objectives established and approved by the Committee in respect of a particular fiscal year.

C. The “Performance Objectives” for any fiscal year shall be determined by the Committee. The Performance Objective may be based upon one or more of the following criteria: (1) EBITDA; (2) adjusted pre-tax income; (3) net income; (4) operating income; (5) earnings per share of the Company or an identifiable business segment; (6) book value per share; (7) stockholders’ equity; (8) adjusted pre-tax return on stockholders’ equity; (9) expense management; (10) total shareholder return; (11) return on investment before or after the cost of capital; (12) improvements in capital structure; (13) profitability of the Company or an identifiable business segment, unit or product; (14) maintenance or improvement of profit margins; (15) stock price; (16) market share; (17) revenues or sales; (18) costs; (19) cash flow;

(20) working capital; (21) changes in net assets, whether or not multiplied by a constant percentage intended to represent the cost of capital; (22) return on assets; (23) debt ratings; (24) debt or net debt to EBITDA ratio; (25) debt or net debt to total capital ratios; (26) debt or net debt to equity ratios; (27) gross margins; (28) closings/deliveries; (29) net orders/growth; (30) SG&A and expense management; (31) procurement of land/well located lots; (32) operating margins; (33) mortgage capture rates; (34) acquisitions/entrance into new markets; (35) inventory turnover; (36) liquidity; (37) interest coverage; (38) cost targets, reductions and savings; (39) productivity and efficiencies; (40) strategic business criteria; (41) human resources management; (42) supervision of litigation; (43) economic value added; (44) customer satisfaction; (45) credit rating; (46) debt to equity; (47) cash to debt; (48) inventory; (49) land and other asset acquisitions; (50) debt management; (51) new debt issues; (52) debt retirement; or (53) any other individual or Company performance criteria that may be established by the Committee in its sole discretion. The foregoing criteria may relate to the individual Covered Employee or the Company, one or more of its subsidiaries, divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or other industries, or any combination thereof, as the Committee shall determine.

### Article III

#### Performance-Based Compensation

A. The payments provided for in this Plan shall be paid when the Performance Goal established by the Committee for that fiscal year is determined by the Committee to have been achieved, in which case the Covered Employees shall receive the amount of compensation provided in Paragraph B of Article III.

B. In the event the Performance Goal for a fiscal year is achieved, each of the Covered Employees shall receive the amount attributed to the achievement in accordance with the terms of this Plan, but no more than one percent (1%) of Total Assets as set forth on the Company's balance sheet at the beginning of the most recent fiscal year.

C. The Committee retains the sole discretion to increase or decrease the amount of any payment determined pursuant to this Plan, subject to Paragraph B of Article III.

### Article IV

#### Payment

A. Any amounts to be paid pursuant to this Plan shall be payable in a lump sum cash payment subject to the discretion of the Committee to pay a portion of the amount earned in restricted stock under the terms of the Company's 2011 Equity Incentive plan, as amended.

B. The Company shall make payment to each of the Covered Employees as promptly as practicable after the end of each fiscal year, but in no event later March 15 of the calendar year following the fiscal year to which such bonus relates.

## Article V

### Miscellaneous

A. This Plan may be terminated or amended at any time by the Committee or the Company with or without the consent of any Covered Employees.

B. Any payments made pursuant to this Plan shall be in addition to the base salaries and other compensation or benefits paid or provided to the Covered Employees, and in no event shall this Plan cause such base salaries and benefits to be reduced or forfeited.

C. The Plan shall be unfunded, and the Company shall not be required to segregate any assets which may at any time be awarded under the Plan. Nothing in the Plan is intended to abrogate the rights of any Covered Employee under any contract or agreement existing between the Covered Employee and the Company, or any subsequent amendments or modifications of such contract or agreement, and all awards granted under the Plan and actions taken with respect to the Plan shall be subject to the terms of any contract or agreement between the Covered Employee and the Company. No obligation of the Company under the Plan shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

## Article VI

### Section 409A

Notwithstanding anything contained in the Plan to the contrary, the time and form of payment that is subject to the limitations imposed by Section 409A of the Code shall comply with the requirements of Section 409A of the Code. Amounts payable pursuant to this Plan are intended to constitute “short-term deferrals” within the meaning of Code Section 409A, and the Plan shall be interpreted and administered consistent with this intent.

*[Approved by the Board of Directors, December 10, 2018.]*

*[Amended by the Compensation Committee, September 4, 2020.]*



## 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: October 29, 2020

/s/ Larry A. Mizel

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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: October 29, 2020

/s/ Robert N. Martin

Robert N. Martin  
Senior Vice President, Chief Financial 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 September 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: October 29, 2020

/s/ Larry A. Mizel

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Larry A. Mizel  
Chief Executive Officer  
(principal executive officer)

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Title 18, United States Code, and is not being filed as part of the report or as a separate disclosure document.

**CERTIFICATION**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned 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 September 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: October 29, 2020

/s/ Robert N. Martin

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Robert N. Martin  
Senior Vice President, Chief Financial 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.