

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 March 31, 2021

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

84-0622967
(I.R.S. employer
identification no.)

80237
(Zip code)

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

| Securities registered pursuant to | Title of each class | to | Section 12(b) | of | the | Act: |
|-----------------------------------|---------------------|-------------------|---------------|---|-----|------|
| | | 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 April 27, 2021, 70,267,325 shares of M.D.C. Holdings, Inc. common stock were outstanding.

M.D.C. HOLDINGS, INC.
FORM 10-Q
FOR THE QUARTER ENDED March 31, 2021

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PART I

Item 1. Unaudited Consolidated Financial Statements

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

| | March 31, 2021 | December 31, 2020 |
|---|-------------------|----------------------|
| (Dollars in thousands, except per share amounts) | | |
| ASSETS | | |
| Homebuilding: | | |
| Cash and cash equivalents | \$ 678,194 | \$ 411,362 |
| Restricted cash | 17,314 | 15,343 |
| Trade and other receivables | 107,823 | 72,466 |
| Inventories: | | |
| Housing completed or under construction | 1,705,424 | 1,486,587 |
| Land and land under development | 1,310,721 | 1,345,643 |
| Total inventories | 3,016,145 | 2,832,230 |
| Property and equipment, net | 60,394 | 61,880 |
| Deferred tax asset, net | 12,802 | 11,454 |
| Prepays and other assets | 107,428 | 101,685 |
| Total homebuilding assets | 4,000,100 | 3,506,420 |
| Financial Services: | | |
| Cash and cash equivalents | 81,100 | 77,267 |
| Mortgage loans held-for-sale, net | 230,789 | 232,556 |
| Other assets | 70,941 | 48,677 |
| Total financial services assets | 382,830 | 358,500 |
| Total Assets | \$ 4,382,930 | \$ 3,864,920 |
| LIABILITIES AND EQUITY | | |
| Homebuilding: | | |
| Accounts payable | \$ 120,496 | \$ 98,862 |
| Accrued and other liabilities | 333,880 | 300,735 |
| Revolving credit facility | 10,000 | 10,000 |
| Senior notes, net | 1,384,475 | 1,037,391 |
| Total homebuilding liabilities | 1,848,851 | 1,446,988 |
| Financial Services: | | |
| Accounts payable and accrued liabilities | 101,725 | 95,630 |
| Mortgage repurchase facility | 217,482 | 202,390 |
| Total financial services liabilities | 319,207 | 298,020 |
| Total Liabilities | 2,168,058 | 1,745,008 |
| Stockholders' Equity | | |
| Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock, \$0.01 par value; 250,000,000 shares authorized; 70,265,205 and 64,851,126 issued and outstanding at March 31, 2021 and December 31, 2020, respectively | 703 | 649 |
| Additional paid-in-capital | 1,698,109 | 1,407,597 |
| Retained earnings | 516,060 | 711,666 |
| Total Stockholders' Equity | 2,214,872 | 2,119,912 |
| Total Liabilities and Stockholders' Equity | \$ 4,382,930 | \$ 3,864,920 |

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 March 31, | |
|--|---------------------------------|------------|
| | 2021 | 2020 |
| (Dollars in thousands, except per share amounts) | | |
| Homebuilding: | | |
| Home sale revenues | \$ 1,041,858 | \$ 697,085 |
| Home cost of sales | (813,888) | (558,647) |
| Gross profit | 227,970 | 138,438 |
| Selling, general and administrative expenses | (114,993) | (89,321) |
| Interest and other income | 967 | 1,889 |
| Other expense | (437) | (1,337) |
| Homebuilding pretax income | 113,507 | 49,669 |
| Financial Services: | | |
| Revenues | 45,023 | 21,886 |
| Expenses | (15,105) | (10,929) |
| Other income (expense), net | 887 | (12,064) |
| Financial services pretax income (loss) | 30,805 | (1,107) |
| Income before income taxes | 144,312 | 48,562 |
| Provision for income taxes | (33,622) | (11,802) |
| Net income | \$ 110,690 | \$ 36,760 |
| Comprehensive income | \$ 110,690 | \$ 36,760 |
| Earnings per share: | | |
| Basic | \$ 1.58 | \$ 0.54 |
| Diluted | \$ 1.51 | \$ 0.52 |
| Weighted average common shares outstanding: | | |
| Basic | 69,790,927 | 67,490,537 |
| Diluted | 72,788,177 | 70,125,723 |
| Dividends declared per share | \$ 0.37 | \$ 0.31 |

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)

| | Three Months Ended March 31, 2021 | | | | |
|--|-----------------------------------|---------------|----------------------------------|----------------------|---------------------|
| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Total |
| | Shares | Amount | | | |
| Balance at December 31, 2020 | 64,851,126 | \$ 649 | \$ 1,407,597 | \$ 711,666 | \$ 2,119,912 |
| Net Income | — | — | — | 110,690 | 110,690 |
| Shares issued under stock-based compensation programs, net | 221,303 | 2 | 1,007 | — | 1,009 |
| Cash dividends declared | — | — | — | (25,978) | (25,978) |
| Stock dividend declared | 5,192,776 | 52 | 279,579 | (280,318) | (687) |
| Stock-based compensation expense | — | — | 9,926 | — | 9,926 |
| Balance at March 31, 2021 | <u>70,265,205</u> | <u>\$ 703</u> | <u>\$ 1,698,109</u> | <u>\$ 516,060</u> | <u>\$ 2,214,872</u> |

| | Three Months Ended March 31, 2020 | | | | |
|--|-----------------------------------|---------------|----------------------------------|----------------------|---------------------|
| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Total |
| | Shares | Amount | | | |
| Balance at December 31, 2019 | 62,574,961 | \$ 626 | \$ 1,348,733 | \$ 433,126 | \$ 1,782,485 |
| Cumulative effect of newly adopted accounting standards | — | — | — | (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 | <u>63,052,495</u> | <u>\$ 631</u> | <u>\$ 1,361,362</u> | <u>\$ 449,084</u> | <u>\$ 1,811,077</u> |

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2021 | 2020 |
| (Dollars in thousands) | | |
| Operating Activities: | | |
| Net income | \$ 110,690 | \$ 36,760 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation expense | 9,926 | 4,440 |
| Depreciation and amortization | 7,003 | 5,152 |
| Net (gain) loss on marketable equity securities | — | 13,268 |
| Deferred income tax expense | (1,348) | 1,131 |
| Net changes in assets and liabilities: | | |
| Trade and other receivables | (40,282) | (1,611) |
| Mortgage loans held-for-sale, net | 1,767 | 63,100 |
| Housing completed or under construction | (218,655) | (178,873) |
| Land and land under development | 34,978 | 29,051 |
| Prepays and other assets | (23,594) | (8,460) |
| Accounts payable and accrued and other liabilities | 61,558 | (1,131) |
| Net cash used in operating activities | (57,957) | (37,173) |
| Investing Activities: | | |
| Purchases of marketable securities | — | (9,782) |
| Sales of marketable securities | — | 9,276 |
| Purchases of property and equipment | (5,749) | (6,512) |
| Net cash used in investing activities | (5,749) | (7,018) |
| Financing Activities: | | |
| Payments on mortgage repurchase facility, net | 15,092 | (40,872) |
| Repayment of senior notes | — | (250,000) |
| Proceeds from issuance of senior notes | 347,725 | 298,050 |
| Dividend payments | (26,665) | (20,768) |
| Payments of deferred financing costs | (819) | — |
| Issuance of shares under stock-based compensation programs, net | 1,009 | 8,194 |
| Net cash provided by (used in) financing activities | 336,342 | (5,396) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 272,636 | (49,587) |
| Cash, cash equivalents and restricted cash: | | |
| Beginning of period | 503,972 | 474,212 |
| End of period | \$ 776,608 | \$ 424,625 |
| Reconciliation of cash, cash equivalents and restricted cash: | | |
| Homebuilding: | | |
| Cash and cash equivalents | \$ 678,194 | \$ 386,704 |
| Restricted cash | 17,314 | 15,762 |
| Financial Services: | | |
| Cash and cash equivalents | 81,100 | 22,159 |
| Total cash, cash equivalents and restricted cash | \$ 776,608 | \$ 424,625 |

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 March 31, 2021 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, 2020.

On January 25, 2021, MDC's board of directors declared an 8% stock dividend that was distributed on March 17, 2021 to shareholders of record on March 3, 2021. In accordance with Accounting Standards Codification ("ASC") Topic 260, *Earnings Per Share* ("ASC 260"), basic and diluted earnings per share amounts, share amounts and dividends declared per share have been restated for any period or dates prior to the stock dividend record date.

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.

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 Executive Chairman and the Chief Executive Officer (“CEO”).

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, Idaho 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.

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

| | Three Months Ended March 31, | |
|-----------------------------------|---------------------------------|-------------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Homebuilding | | |
| West | \$ 616,611 | \$ 405,498 |
| Mountain | 324,717 | 222,858 |
| East | 100,530 | 68,729 |
| Total homebuilding revenues | <u>\$ 1,041,858</u> | <u>\$ 697,085</u> |
| Financial Services | | |
| Mortgage operations | \$ 35,165 | \$ 14,625 |
| Other | 9,858 | 7,261 |
| Total financial services revenues | <u>\$ 45,023</u> | <u>\$ 21,886</u> |

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

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Homebuilding | | |
| West | \$ 77,187 | \$ 36,576 |
| Mountain | 45,858 | 21,512 |
| East | 7,835 | 900 |
| Corporate | (17,373) | (9,319) |
| Total homebuilding pretax income | \$ 113,507 | \$ 49,669 |
| Financial Services | | |
| Mortgage operations | \$ 26,039 | \$ 8,243 |
| Other | 4,766 | (9,350) |
| Total financial services pretax income | \$ 30,805 | \$ (1,107) |
| Total pretax income | \$ 144,312 | \$ 48,562 |

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 and mortgage loans held-for-sale.

| | March 31, | December 31, |
|----------------------------------|------------------------|--------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Homebuilding assets | | |
| West | \$ 1,968,336 | \$ 1,855,567 |
| Mountain | 983,488 | 905,007 |
| East | 309,571 | 274,937 |
| Corporate | 738,705 | 470,909 |
| Total homebuilding assets | \$ 4,000,100 | \$ 3,506,420 |
| Financial services assets | | |
| Mortgage operations | \$ 297,801 | \$ 279,649 |
| Other | 85,029 | 78,851 |
| Total financial services assets | \$ 382,830 | \$ 358,500 |
| Total assets | \$ 4,382,930 | \$ 3,864,920 |

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 March 31, | |
|---|---------------------------------|------------|
| | 2021 | 2020 |
| (Dollars in thousands, except per share amounts) | | |
| Numerator | | |
| Net income | \$ 110,690 | \$ 36,760 |
| Less: distributed earnings allocated to participating securities | (158) | (135) |
| Less: undistributed earnings allocated to participating securities | (463) | (96) |
| Net income attributable to common stockholders (numerator for basic earnings per share) | 110,069 | 36,529 |
| Add back: undistributed earnings allocated to participating securities | 463 | 96 |
| Less: undistributed earnings reallocated to participating securities | (447) | (93) |
| Numerator for diluted earnings per share under two class method | \$ 110,085 | \$ 36,532 |
| Denominator | | |
| Weighted-average common shares outstanding | 69,790,927 | 67,490,537 |
| Add: dilutive effect of stock options | 2,367,394 | 2,011,629 |
| Add: dilutive effect of performance share units | 629,856 | 623,557 |
| Denominator for diluted earnings per share under two class method | 72,788,177 | 70,125,723 |
| Basic Earnings Per Common Share | \$ 1.58 | \$ 0.54 |
| Diluted Earnings Per Common Share | \$ 1.51 | \$ 0.52 |

Diluted EPS for the three months ended March 31, 2021 and 2020 excluded options to purchase zero and 0.4 million shares of common stock, respectively, because the effect of their inclusion would be anti-dilutive.

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 | |
|-----------------------------------|-----------|------------------------|----------------------|
| | | March 31, 2021 | December 31, 2020 |
| | | (Dollars in thousands) | |
| Mortgage loans held-for-sale, net | Level 2 | \$ 230,789 | \$ 232,556 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of March 31, 2021 and December 31, 2020.

Cash and cash equivalents (excluding debt securities with an original maturity of three months or less), restricted cash, trade and other receivables, prepaids 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 and 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 months ended March 31, 2021 and 2020 on equity securities to the unrealized gain recognized during the periods on equity securities still held at the reporting date.

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Net loss recognized during the period on equity securities | \$ — | \$ (13,268) |
| Less: Net gain recognized during the period on equity securities sold during the period | — | 609 |
| Unrealized loss recognized during the reporting period on equity securities still held at the reporting date | \$ — | \$ (13,877) |

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 March 31, 2021 and December 31, 2020, we had \$164.3 million and \$137.3 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 March 31, 2021 and December 31, 2020, we had \$66.5 million and \$95.3 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 months ended March 31, 2021, we recorded net gains on the sales of mortgage loans of \$23.5 million, compared to \$16.7 million for the same period in the prior year.

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.

| | March 31, 2021 | | December 31, 2020 | |
|---|------------------------|---------------------|---------------------|---------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (Dollars in thousands) | | | |
| \$250 million 5.500% Senior Notes due January 2024, net | \$ 249,292 | \$ 275,306 | \$ 249,233 | \$ 275,463 |
| \$300 million 3.850% Senior Notes due January 2030, net | 297,518 | 314,825 | 297,458 | 331,384 |
| \$350 million 2.500% Senior Notes due January 2031, net | 346,916 | 332,168 | — | — |
| \$500 million 6.000% Senior Notes due January 2043, net | 490,749 | 628,353 | 490,700 | 667,288 |
| Total | <u>\$ 1,384,475</u> | <u>\$ 1,550,652</u> | <u>\$ 1,037,391</u> | <u>\$ 1,274,135</u> |

6. Inventories

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

| | March 31, | December 31, |
|---|------------------------|---------------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Housing completed or under construction: | | |
| West | \$ 1,018,436 | \$ 902,842 |
| Mountain | 547,831 | 464,501 |
| East | 139,157 | 119,244 |
| Subtotal | <u>1,705,424</u> | <u>1,486,587</u> |
| Land and land under development: | | |
| West | 788,753 | 822,504 |
| Mountain | 380,923 | 391,054 |
| East | 141,045 | 132,085 |
| Subtotal | <u>1,310,721</u> | <u>1,345,643</u> |
| Total inventories | <u>\$ 3,016,145</u> | <u>\$ 2,832,230</u> |

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.

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 March 31, | |
|--|---------------------------------|------------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Homebuilding interest incurred | \$ 17,332 | \$ 16,534 |
| Less: Interest capitalized | (17,332) | (16,534) |
| Homebuilding interest expensed | <u>\$ —</u> | <u>\$ —</u> |
| Interest capitalized, beginning of period | \$ 52,777 | \$ 55,310 |
| Plus: Interest capitalized during period | 17,332 | 16,534 |
| Less: Previously capitalized interest included in home cost of sales | (14,841) | (12,767) |
| Interest capitalized, end of period | <u>\$ 55,268</u> | <u>\$ 59,077</u> |

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 March 31, | |
|-----------------------------------|---------------------------------|-----------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Operating lease cost ¹ | \$ 1,977 | \$ 2,046 |
| Less: Sublease income (Note 19) | (39) | (38) |
| Net lease cost | <u>\$ 1,938</u> | <u>\$ 2,008</u> |

¹ Includes variable lease costs, which are immaterial.

Supplemental cash flow information related to leases was as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2021 | 2020 |
| (Dollars in thousands) | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 1,858 | \$ 1,906 |
| Leased assets obtained in exchange for new operating lease liabilities | \$ 830 | \$ 2,645 |

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

| | March 31, 2021 |
|--|----------------|
| Weighted-average remaining lease term (in years) | 5.1 |
| Weighted-average discount rate | 5.5 % |

Maturities of operating lease liabilities were as follows:

| | Year Ended December 31, | |
|---|-------------------------|--------|
| | (Dollars in thousands) | |
| 2021 (excluding the three months ended March 31, 2021) | \$ | 5,051 |
| 2022 | | 7,387 |
| 2023 | | 6,416 |
| 2024 | | 5,717 |
| 2025 | | 5,493 |
| Thereafter | | 4,869 |
| Total operating lease payments | \$ | 34,933 |
| Less: Interest | | 4,561 |
| Present value of operating lease liabilities ¹ | \$ | 30,372 |

¹ Homebuilding and financial services operating lease liabilities of \$29.7 million and \$0.6 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 March 31, 2021.

9. Homebuilding Prepays and Other Assets

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

| | March 31, 2021 | December 31, 2020 |
|--|------------------------|----------------------|
| | (Dollars in thousands) | |
| Operating lease right-of-use asset (Note 8) | \$ 28,737 | \$ 29,226 |
| Land option deposits | 37,138 | 29,987 |
| Prepays | 26,505 | 26,929 |
| Goodwill | 6,008 | 6,008 |
| Deferred debt issuance costs on revolving credit facility, net | 8,529 | 9,043 |
| Other | 511 | 492 |
| Total prepaids and other assets | \$ 107,428 | \$ 101,685 |

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:

| | March 31, 2021 | December 31, 2020 |
|---|------------------------|-------------------|
| | (Dollars in thousands) | |
| Customer and escrow deposits | \$ 82,824 | \$ 67,022 |
| Income taxes payable | 43,057 | 8,285 |
| Accrued compensation and related expenses | 41,541 | 56,682 |
| Warranty accrual | 33,873 | 33,664 |
| Lease liability (Note 8) | 29,734 | 30,221 |
| Accrued interest | 16,110 | 27,650 |
| Land development and home construction accruals | 12,258 | 10,824 |
| Construction defect claim reserves | 8,744 | 8,479 |
| Other accrued liabilities | 65,739 | 57,908 |
| Total accrued and other liabilities | \$ 333,880 | \$ 300,735 |

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

| | March 31, 2021 | December 31, 2020 |
|---|------------------------|-------------------|
| | (Dollars in thousands) | |
| Insurance reserves | \$ 65,259 | \$ 61,575 |
| Accounts payable and other accrued liabilities | 36,466 | 34,055 |
| Total accounts payable and accrued liabilities | \$ 101,725 | \$ 95,630 |

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 months ended March 31, 2021 and 2020. The warranty accrual increased due to the increase in the number of home closings.

| | Three Months Ended March 31, | |
|--------------------------------|---------------------------------|-----------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ 33,664 | \$ 31,386 |
| Expense provisions | 4,385 | 3,165 |
| Cash payments | (4,176) | (3,664) |
| Balance at end of period | \$ 33,873 | \$ 30,887 |

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 months ended March 31, 2021 and 2020. 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 March 31, | |
|----------------------------------|---------------------------------|-----------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ 70,054 | \$ 60,415 |
| Expense provisions | 4,283 | 2,918 |
| Cash payments, net of recoveries | (334) | (1,883) |
| Balance at end of period | \$ 74,003 | \$ 61,450 |

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 months ended March 31, 2021 and 2020 are not necessarily indicative of what future cash payments will be for subsequent periods.

13. Income Taxes

Our overall effective income tax rates were 23.3% and 24.3% for the three months ended March 31, 2021 and 2020, respectively, resulting in income tax expense of \$33.6 million and \$11.8 million for the same periods, respectively. The year-over-year decrease in our effective tax rate for the three months ended March 31, 2021 was primarily due to an increase in the estimated amount of energy tax credits to be recognized during the year. This benefit was partially offset by a decrease in the windfall on non-qualifying stock options exercised and lapsed restricted stock awards and a decrease in the amount of executive compensation that is deductible under Internal Revenue Code Section 162(m) during the period.

14. Senior Notes

The carrying values of our senior notes as of March 31, 2021 and December 31, 2020, net of any unamortized debt issuance costs or discount, were as follows:

| | March 31, 2021 | December 31, 2020 |
|---|------------------------|---------------------|
| | (Dollars in thousands) | |
| 5.500% Senior Notes due January 2024, net | \$ 249,292 | \$ 249,233 |
| 3.850% Senior Notes due January 2030, net | 297,518 | 297,458 |
| 2.500% Senior Notes due January 2031, net | 346,916 | — |
| 6.000% Senior Notes due January 2043, net | 490,749 | 490,700 |
| Total | \$ 1,384,475 | \$ 1,037,391 |

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 months ended March 31, 2021 and 2020, 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 March 31, | |
|---------------------------------------|---------------------------------|-----------------|
| | 2021 | 2020 |
| | (Dollars in thousands) | |
| Stock option grants expense | \$ 864 | \$ 495 |
| Restricted stock awards expense | 2,469 | 1,517 |
| Performance share units expense | 6,593 | 2,428 |
| Total stock-based compensation | \$ 9,926 | \$ 4,440 |

On August 20, 2020, August 5, 2019, May 23, 2018 and June 20, 2017, the Company granted long term performance share unit awards (“PSUs”) to each of the Executive Chairman, the CEO, 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 | | | |
| Jun 20, 2017 | April 1, 2017 - March 31, 2020 | April 1, 2016 - March 31, 2017 | \$2.426 billion | 155,889 | \$2.547 billion | 311,779 | \$2.669 billion | 623,557 | \$2.911 billion | \$ 25.77 | \$ 16,070 | \$ — |
| May 23, 2018 | April 1, 2018 - March 31, 2021 | April 1, 2017 - March 31, 2018 | \$2.543 billion | 157,464 | \$2.670 billion | 314,928 | \$2.797 billion | 629,856 | \$3.052 billion | \$ 23.68 | \$ 14,915 | \$ — |
| Aug 5, 2019 | January 1, 2019 - December 31, 2021 | January 1, 2018 - December 31, 2018 | \$2.982 billion | 145,800 | \$3.131 billion | 291,600 | \$3.280 billion | 583,200 | \$3.578 billion | \$ 30.19 | \$ 17,604 | \$ 5,505 |
| Aug 20, 2020 | January 1, 2020 - December 31, 2022 | January 1, 2019 - December 31, 2019 | \$3.205 billion | 145,800 | \$3.366 billion | 291,600 | \$3.526 billion | 583,200 | \$3.846 billion | \$ 39.79 | \$ 23,205 | \$ 19,755 |

* 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.

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 three months ended March 31, 2020, the Company recorded share-based award expense of \$1.4 million related to these awards.

2018 PSU Grants. As of March 31, 2021, 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 for the three months ended March 31, 2021. As of March 31, 2020, the Company determined that achievement between the Target and Maximum Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$1.0 million for the three months ended March 31, 2020.

2019 PSU Grants. As of March 31, 2021, 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 \$1.8 million for the three months ended March 31, 2021. As of March 31, 2020, 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 was recognized.

2020 PSU Grants. As of March 31, 2021, the Company determined that achievement between the Target and Maximum Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$3.5 million for the three months ended March 31, 2021.

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 March 31, 2021, we had outstanding surety bonds and letters of credit totaling \$306.7 million and \$145.3 million, respectively, including \$108.0 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$122.4 million and \$86.2 million, respectively. All letters of credit as of March 31, 2021, 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 March 31, 2021, we had cash deposits and letters of credit totaling \$33.6 million and \$9.6 million, respectively, at risk associated with the option to purchase 9,487 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 many of these restrictions have been or are in the process of being eased, there is still significant uncertainty as a result of the pandemic and its potential to continue to negatively impact the U.S. economy and consumer confidence. 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 March 31, 2021, we had interest rate lock commitments with an aggregate principal balance of \$490.0 million. Additionally, we had \$65.1 million of mortgage loans held-for-sale at March 31, 2021 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 \$320.5 million at March 31, 2021.

For the three months ended March 31, 2021 and 2020, we recorded net gains on derivatives of \$9.0 million and \$1.0 million, respectively, in revenues in the financial services section of our consolidated statements of operations and comprehensive income.

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 December 28, 2020 to (1) increase the aggregate commitment from \$1.0 billion to \$1.2 billion (the “Commitment”), (2) extend the Revolving Credit Facility maturity of \$1.125 billion of the Commitments to December 18, 2025 with the remaining Commitment continuing to termination on December 18, 2023 and (3) provide that the aggregate amount of the commitments may increase to an amount not to exceed \$1.7 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 March 31, 2021.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At March 31, 2021 and December 31, 2020, there were \$37.3 million and \$25.1 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. At March 31, 2021 and December 31, 2020, we had \$10.0 million and \$10.0 million, respectively, outstanding under the Revolving Credit Facility. As of March 31, 2021, availability under the Revolving Credit Facility was approximately \$1.15 billion.

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. The Mortgage Repurchase Facility was amended on September 24, 2020 and again on March 25, 2021 to adjust the commitments to purchase for specific time periods. As part of the amendments, the commitments to purchase were increased to \$200 million for the period December 22, 2020 through February 4, 2021 and \$175 million for the period March 25, 2021 through April 22, 2021.

The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$75 million on March 29, 2021 effective through April 26, 2021. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$50 million on December 28, 2020 effective through January 27, 2021. At March 31, 2021 and December 31, 2020 HomeAmerican had \$217.5 million and \$202.4 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 March 31, 2021.

19. Related Party Transactions

We contributed \$2.2 million in cash to the MDC/Richmond American Homes Foundation (the “Foundation”) during the three months ended March 31, 2021. 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 March 31, 2021, all of whom serve without compensation:

| <u>Name</u> | <u>MDC Title</u> |
|--------------------|--------------------|
| Larry A. Mizel | Executive Chairman |
| David D. Mandarich | President and CEO |

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 Executive Chairman 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 Idaho, Inc. (formerly known as 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 March 31, 2021 and December 31, 2020, amounts due to non-guarantor subsidiaries from the Obligor Group totaled \$65.4 million and \$65.8 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, 2020 and this Quarterly Report on Form 10-Q.

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2021 | 2020 |
| (Dollars in thousands, except per share amounts) | | |
| Homebuilding: | | |
| Home sale revenues | \$ 1,041,858 | \$ 697,085 |
| Home cost of sales | (813,888) | (558,647) |
| Gross profit | 227,970 | 138,438 |
| Gross margin | 21.9 % | 19.9 % |
| Selling, general and administrative expenses | (114,993) | (89,321) |
| Interest and other income | 967 | 1,889 |
| Other expense | (437) | (1,337) |
| Homebuilding pretax income | 113,507 | 49,669 |
| Financial Services: | | |
| Revenues | 45,023 | 21,886 |
| Expenses | (15,105) | (10,929) |
| Other income (expense), net | 887 | (12,064) |
| Financial services pretax income (loss) | 30,805 | (1,107) |
| Income before income taxes | 144,312 | 48,562 |
| Provision for income taxes | (33,622) | (11,802) |
| Net income | 110,690 | 36,760 |
| Earnings per share: | | |
| Basic | \$ 1.58 | \$ 0.54 |
| Diluted | \$ 1.51 | \$ 0.52 |
| Weighted average common shares outstanding: | | |
| Basic | 69,790,927 | 67,490,537 |
| Diluted | 72,788,177 | 70,125,723 |
| Dividends declared per share | \$ 0.37 | \$ 0.31 |
| Cash provided by (used in): | | |
| Operating Activities | \$ (57,957) | \$ (37,173) |
| Investing Activities | \$ (5,749) | \$ (7,018) |
| Financing Activities | \$ 336,342 | \$ (5,396) |

Overview*Industry Conditions and Outlook for MDC**

The U.S. economy continued its recovery during the first quarter of 2021 as state and local governments eased COVID-19 related restrictions, and the federal government provided additional economic stimulus to many consumers. Meanwhile, demand for new homes remained strong during the quarter, driven by factors such as a continued undersupply of affordable homes, a renewed focus on homeownership, and low interest rates. This strong demand helped to drive an 81% year-over-year increase in the dollar value of our homes in backlog to \$3.93 billion as of March 31, 2021. The improvement in our backlog provides us with the opportunity for significant year-over-year increases in home sale revenues and pretax income for the remainder of 2021. We continue to closely monitor building costs, which have increased as a result of the pandemic. However, we have been successful to this point in offsetting most of these increased costs through home price increases. We are also monitoring our construction cycle times, which are at risk of increasing due to longer lead times for various building products and high demand for the labor required to build homes.

Our land pipeline remains strong and continues to give us confidence in our goal of growing our year-end active community count by at least 10% (from December 31, 2020 to December 31, 2021). To that end, we acquired over 3,200 lots during the quarter across 60 subdivisions, which is a 90% increase from the prior year quarter. This included the acquisition of our first lots within our newly-formed division in the Boise market. In addition, we approved over 4,300 lots for purchase, representing a 108% increase from the prior year quarter.

In preparation for continued growth, we issued \$350 million of 10-year senior notes in January of this year at a rate of 2.500%, which is the lowest rate for any senior note issuance in our Company's history. Our financial position remains strong as of March 31, 2021 with a debt to capital ratio of 38.6% and total liquidity of \$1.94 billion. In addition, our credit rating was recently raised to BBB- from BB+ by S&P Global Ratings. Importantly, even as we plan for growth, we continue to closely monitor developments related to COVID-19, which are highly uncertain and could adversely impact our operations and financial results in future periods.

Three Months Ended March 31, 2021

For the three months ended March 31, 2021, our net income was \$110.7 million, or \$1.51 per diluted share, a 201% increase compared to net income of \$36.8 million, or \$0.52 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 \$63.8 million, or 129%, and our financial services pretax income increased \$31.9 million to \$30.8 million, compared to a loss of \$1.1 million in the first quarter of 2020. The increase in homebuilding pretax income was the result of a 49% increase in home sale revenues and a 380 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 see strong results in our more traditional markets and the results of better scale within some of our smaller markets. The increase in financial services pretax income was primarily 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 increased profit margin on loans originated during the quarter. Additionally, \$13.9 million of unrealized losses on equity securities were recognized in the prior year quarter, further impacting the year-over-year increase in financial services pretax income.

The dollar value of our net new home orders increased 50% from the prior year period, due to a 34% increase in the number of net new orders and a 12% 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 from Nevada to Colorado.

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

Homebuilding
Pretax Income:

| | Three Months Ended | | Change | |
|---|------------------------|------------------|------------------|--------------|
| | March 31, | | Amount | % |
| | 2021 | 2020 | | |
| | (Dollars in thousands) | | | |
| West | \$ 77,187 | \$ 36,576 | \$ 40,611 | 111 % |
| Mountain | 45,858 | 21,512 | 24,346 | 113 % |
| East | 7,835 | 900 | 6,935 | 771 % |
| Corporate | (17,373) | (9,319) | (8,054) | (86)% |
| Total Homebuilding pretax income | \$ 113,507 | \$ 49,669 | \$ 63,838 | 129 % |

For the three months ended March 31, 2021, we recorded homebuilding pretax income of \$113.5 million, an increase of 129% from \$49.7 million for the same period in the prior year. The increase was due to a 49% increase in home sale revenues, a 200 basis point increase in our gross margin from home sales and a 180 basis point decrease in our selling, general and administrative expenses as a percentage of revenue.

Our West segment experienced a \$40.6 million year-over-year increase in pretax income, due to a 52% increase in home sales revenue and an improved gross margin. Our Mountain segment experienced a \$24.3 million increase in pretax income from the prior year, as a result of a 46% increase in home sales revenue and an improved gross margin. Our East segment experienced a \$6.9 million increase in pretax income from the prior year, due primarily to an improved gross margin and a 46% increase in home sales revenue. Each of our homebuilding segments also benefited from decreased selling, general and administrative expenses as a percentage of revenue driven by improved operating leverage. Our Corporate segment experienced an \$8.1 million decrease in pretax income, due primarily to an increase in both stock-based and deferred compensation expenses.

Assets:

| | March 31, 2021 | December 31, 2020 | Change | |
|----------------------------------|---------------------|----------------------|-------------------|-------------|
| | | | Amount | % |
| | | | | |
| West | \$ 1,968,336 | \$ 1,855,567 | 112,769 | 6 % |
| Mountain | 983,488 | 905,007 | 78,481 | 9 % |
| East | 309,571 | 274,937 | 34,634 | 13 % |
| Corporate | 738,705 | 470,909 | 267,796 | 57 % |
| Total homebuilding assets | \$ 4,000,100 | \$ 3,506,420 | \$ 493,680 | 14 % |

Total homebuilding assets increased 14% from December 31, 2020 to March 31, 2021. 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. Corporate assets increased as a result of operating cash inflows during the quarter as well as the issuance of \$350 million of 2.500% senior notes in January of this year.

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 March 31, | | | | | | | | | | | |
|----------|------------------------------|--------------------|---------------|-------|--------------------|---------------|----------|--------------------|---------------|---|----|---|
| | 2021 | | | 2020 | | | % Change | | | | | |
| | Homes | Home Sale Revenues | Average Price | Homes | Home Sale Revenues | Average Price | Homes | Home Sale Revenues | Average Price | | | |
| | (Dollars in thousands) | | | | | | | | | | | |
| West | 1,276 | \$ 616,611 | \$ 483.2 | 871 | \$ 405,498 | \$ 465.6 | 46 | % | 52 | % | 4 | % |
| Mountain | 612 | 324,717 | 530.6 | 435 | 222,858 | 512.3 | 41 | % | 46 | % | 4 | % |
| East | 290 | 100,530 | 346.7 | 241 | 68,729 | 285.2 | 20 | % | 46 | % | 22 | % |
| Total | 2,178 | \$ 1,041,858 | \$ 478.4 | 1,547 | \$ 697,085 | \$ 450.6 | 41 | % | 49 | % | 6 | % |

West Segment Commentary

For the three months ended March 31, 2021, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the period. This increase was partially offset by a decrease in backlog conversion rates in most of our markets within this segment. This decrease was due to the construction status of homes in beginning backlog, which on average were at a more preliminary stage of construction as compared to the prior year. The average selling price of homes delivered increased as a result of price increases implemented over the last twelve months as well as a shift in geographic mix of homes delivered from Arizona to Southern California. These increases were slightly offset by a shift in mix to lower priced communities.

Mountain Segment Commentary

For the three months ended March 31, 2021, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the period. This increase was partially offset by a decrease in backlog conversion rates as a result of (1) a lower percentage of homes both sold and delivered in the current quarter as compared to the first quarter of 2020 and (2) the construction status of homes in beginning backlog, which on average were at a more preliminary stage of construction as compared to the prior year. These items, which negatively impacted backlog conversion rates, were partially offset by improved cycle times in our Colorado markets. The increase in the average selling price of homes delivered was the result of price increases implemented over the past twelve months.

East Segment Commentary

For the three months ended March 31, 2021, the increase in new home deliveries was the result of an increase in the number of homes in backlog to begin the period. This increase was partially offset by a decrease in backlog conversion rates due to a (1) a lower percentage of homes in backlog to start the 2021 first quarter that were under construction at that time and (2) the construction status of homes in beginning backlog, which on average were at a more preliminary stage of construction as compared to the prior year. The average selling price of homes delivered increased as a result of price increases implemented over the last twelve months as well as a shift in geographic mix of homes delivered to our mid-Atlantic market.

Gross Margin from Home Sales:

Our gross margin from home sales for the three months ended March 31, 2021, increased 200 basis points year-over-year from 19.9% to 21.9%. 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 in the 2021 first quarter was also positively impacted by a 40 basis point improvement in our capitalized interest in cost of sales as a percentage of home sale revenues. These increases were partially offset by an increase in building costs year-over-year.

Selling, General and Administrative Expenses:

| | Three Months Ended March 31, | | | | | |
|---|------------------------------|---------|------|----|--------|------------|
| | 2021 | | 2020 | | Change | |
| | (Dollars in thousands) | | | | | |
| General and administrative expenses | \$ | 57,163 | | \$ | 45,089 | \$ 12,074 |
| <i>General and administrative expenses as a percentage of home sale revenues</i> | | 5.5 | % | | 6.5 | % -100 bps |
| Marketing expenses | \$ | 25,703 | | \$ | 21,446 | \$ 4,257 |
| <i>Marketing expenses as a percentage of home sale revenues</i> | | 2.5 | % | | 3.1 | % -60 bps |
| Commissions expenses | \$ | 32,127 | | \$ | 22,786 | \$ 9,341 |
| <i>Commissions expenses as a percentage of home sale revenues</i> | | 3.1 | % | | 3.3 | % -20 bps |
| Total selling, general and administrative expenses | \$ | 114,993 | | \$ | 89,321 | \$ 25,672 |
| <i>Total selling, general and administrative expenses as a percentage of home sale revenues</i> | | 11.0 | % | | 12.8 | % -180 bps |

General and administrative expenses increased for the three months ended March 31, 2021 due to (1) increased stock-based and deferred compensation expenses and (2) increased expenses related to higher average headcount during the quarter.

Marketing expenses increased for the three months ended March 31, 2021 as a result of (1) increased deferred selling amortization and master marketing fees resulting from increased closings and (2) increased online advertising costs due in part to a shift in marketing spend from signage to online advertising.

Commissions expenses increased for the three months ended March 31, 2021 due to the increase in homes sale revenues year-over-year.

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.

| | 2021 | | | | 2020 | | | | Homes | % | Dol |
|----------|-------|--------------|---------------|---------------------------|-------|--------------|---------------|---------------------------|-------|---|-----|
| | Homes | Dollar Value | Average Price | Monthly Absorption Rate * | Homes | Dollar Value | Average Price | Monthly Absorption Rate * | | | |
| | | | | | | | | | | | |
| West | 1,775 | \$ 904,691 | \$ 509.7 | 5.80 | 1,382 | \$ 655,892 | \$ 474.6 | 5.13 | 28 | % | 38 |
| Mountain | 1,011 | 562,753 | 556.6 | 5.91 | 693 | 339,132 | 489.4 | 3.54 | 46 | % | 66 |
| East | 423 | 168,021 | 397.2 | 4.62 | 324 | 97,723 | 301.6 | 3.66 | 31 | % | 72 |
| Total | 3,209 | \$ 1,635,465 | \$ 509.6 | 5.64 | 2,399 | \$ 1,092,747 | \$ 455.5 | 4.33 | 34 | % | 50 |

*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 | | |
|----------|---------------------|------|------|---|------|------|
| | March 31, | | % | March 31, | | % |
| | 2021 | 2020 | | 2021 | 2020 | |
| West | 97 | 92 | 5 | 102 | 90 | 13 |
| Mountain | 55 | 64 | (14) | 57 | 65 | (12) |
| East | 34 | 29 | 17 | 31 | 30 | 3 |
| Total | 186 | 185 | 1 | 190 | 185 | 3 |

West Segment Commentary

For the three months ended March 31, 2021, the increase in net new orders was due to an increase in the monthly sales absorption rate as well as an increase in average active subdivisions year-over-year. The increase in average selling price was due to price increases implemented over the past twelve months within nearly all of our communities. These increases were slightly offset by a shift in mix to lower priced communities.

Mountain Segment Commentary

For the three months ended March 31, 2021, the increase in net new orders was due to an increase in the monthly sales absorption rates in each of our Colorado and Utah markets. This increase was partially offset by a decrease in average active subdivisions within our Colorado 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 March 31, 2021, 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. 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 within several markets to higher priced communities.

Cancellation Rate:

| | Cancellations as a Percentage of Homes in Beginning Backlog | | | |
|----------|---|---|-----------|---|
| | 2021 | | 2020 | |
| | Three Months Ended | | | |
| | March 31, | | March 31, | |
| West | 7 | % | 15 | % |
| Mountain | 8 | % | 22 | % |
| East | 13 | % | 23 | % |
| Total | 8 | % | 18 | % |

Our cancellations as a percentage of homes in beginning backlog to start the quarter ("cancellation rate") decreased year-over-year in each of our segments. The cancellation rate in the first quarter of 2020 was negatively impacted by the pandemic.

Backlog:

| | 2021 | | | March 31, 2020 | | | % Change | | | | |
|----------|------------------------|--------------|---------------|----------------|--------------|---------------|----------|--------------|---------------|---|----|
| | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | | |
| | (Dollars in thousands) | | | | | | | | | | |
| West | 4,209 | \$ 2,157,618 | \$ 512.6 | 2,534 | \$ 1,227,996 | \$ 484.6 | 66 | % | 76 | % | 6 |
| Mountain | 2,417 | 1,355,201 | 560.7 | 1,469 | 754,155 | 513.4 | 65 | % | 80 | % | 9 |
| East | 1,060 | 414,474 | 391.0 | 650 | 191,972 | 295.3 | 63 | % | 116 | % | 32 |
| Total | 7,686 | \$ 3,927,293 | \$ 511.0 | 4,653 | \$ 2,174,123 | \$ 467.3 | 65 | % | 81 | % | 9 |

At March 31, 2021, we had 7,686 homes in backlog with a total value of \$3.9 billion. This represented a 65% increase in the number of homes in backlog and an 81% increase in the dollar value of homes in backlog from March 31, 2020. 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 second half of 2020 and the first quarter of 2021. 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 segment as discussed above. These increases were slightly offset by a shift in mix to lower priced communities, most notably in our West segment, 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):

| | March 31, | | % Change |
|---|-----------|-------|----------|
| | 2021 | 2020 | |
| Unsold: | | | |
| Completed | 36 | 160 | (78) % |
| Under construction | 64 | 216 | (70) % |
| Total unsold started homes | 100 | 376 | (73) % |
| Sold homes under construction or completed | 5,854 | 3,259 | 80 % |
| Model homes under construction or completed | 502 | 502 | — % |
| Total homes completed or under construction | 6,456 | 4,137 | 56 % |

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):

| | March 31, 2021 | | | March 31, 2020 | | | Total | |
|----------|----------------|---------------|--------|----------------|---------------|--------|----------|---|
| | Lots Owned | Lots Optioned | Total | Lots Owned | Lots Optioned | Total | % Change | |
| West | 12,658 | 3,921 | 16,579 | 9,641 | 2,393 | 12,034 | 38 | % |
| Mountain | 6,790 | 3,418 | 10,208 | 6,540 | 4,007 | 10,547 | (3) | % |
| East | 3,088 | 2,148 | 5,236 | 2,410 | 2,133 | 4,543 | 15 | % |
| Total | 22,536 | 9,487 | 32,023 | 18,591 | 8,533 | 27,124 | 18 | % |

Our total owned and optioned lots at March 31, 2021 were 32,023, which was an 18% 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 | | Change | |
|---|--------------------|------------|-----------|-------|
| | 2021 | 2020 | Amount | % |
| (Dollars in thousands) | | | | |
| Financial services revenues | | | | |
| Mortgage operations | \$ 35,165 | \$ 14,625 | \$ 20,540 | 140 % |
| Other | 9,858 | 7,261 | 2,597 | 36 % |
| Total financial services revenues | \$ 45,023 | \$ 21,886 | \$ 23,137 | 106 % |
| Financial services pretax income | | | | |
| Mortgage operations | \$ 26,039 | \$ 8,243 | \$ 17,796 | 216 % |
| Other | 4,766 | (9,350) | 14,116 | N/M |
| Total financial services pretax income (loss) | \$ 30,805 | \$ (1,107) | \$ 31,912 | N/M |

For the three months ended March 31, 2021, our financial services pretax income increased to \$30.8 million compared to a pretax loss of \$1.1 million in the first quarter of 2020. The increase was due to both mortgage operations as well as other financial services, which saw increases in pretax income of \$17.8 million and \$14.1 million, respectively. The increase in our mortgage operations was due to (1) a higher interest rate lock volume driven by the year-over-year increase in homes in backlog, (2) an increased Capture Rate and (3) an increased profit margin on loans originated during the quarter. The increase in other financial services was primarily the result of \$13.9 million of unrealized losses on equity securities recognized during the prior year quarter.

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 |
|--|------------------------|---|-------------------|---|---------------------------|
| | 2021 | | March 31, 2020 | | |
| | (Dollars in thousands) | | | | |
| Total Originations (including transfer loans): | | | | | |
| Loans | 1,568 | | 1,029 | | 52 % |
| Principal | \$ 616,004 | | \$ 379,306 | | 62 % |
| Capture Rate Data: | | | | | |
| Capture rate as % of all homes delivered | 72 | % | 66 | % | 6 % |
| Capture rate as % of all homes delivered (excludes cash sales) | 74 | % | 69 | % | 5 % |
| Mortgage Loan Origination Product Mix: | | | | | |
| FHA loans | 20 | % | 22 | % | (2) % |
| Other government loans (VA & USDA) | 17 | % | 22 | % | (5) % |
| Total government loans | 37 | % | 44 | % | (7) % |
| Conventional loans | 63 | % | 56 | % | 7 % |
| | 100 | % | 100 | % | — % |
| Loan Type: | | | | | |
| Fixed rate | 100 | % | 99 | % | 1 % |
| ARM | — | % | 1 | % | (1) % |
| Credit Quality: | | | | | |
| Average FICO Score | 738 | | 735 | | — % |
| Other Data: | | | | | |
| Average Combined LTV ratio | 85 | % | 85 | % | — % |
| Full documentation loans | 100 | % | 100 | % | — % |
| Loans Sold to Third Parties: | | | | | |
| Loans | 1,586 | | 1,199 | | 32 % |
| Principal | \$ 610,897 | | \$ 438,101 | | 39 % |

Income Taxes

Our overall effective income tax rates were 23.3% and 24.3% for the three months ended March 31, 2021 and 2020, respectively, resulting in income tax expense of \$33.6 million and \$11.8 million for the same periods, respectively. The year-over-year decrease in our effective tax rate for the three months ended March 31, 2021 was primarily due to an increase in the estimated amount of energy tax credits to be recognized during the year. This benefit was partially offset by a decrease in the windfall on non-qualifying stock options exercised and lapsed restricted stock awards and a decrease in the amount of executive compensation that is deductible under Internal Revenue Code Section 162(m) during the period.

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 on-going basis and makes adjustments as deemed necessary. Actual results could differ from these estimates if conditions are significantly different in the future. See "**Forward-Looking Statements**" 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, 2020.

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, 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 \$350 million of 2.500% senior notes on January 11, 2021, \$1.35 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, 2.500% senior notes due 2031 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 December 28, 2020 to (1) increase the aggregate commitment from \$1.0 billion to \$1.2 billion (the “Commitment”), (2) extend the Revolving Credit Facility maturity of \$1.125 billion of the Commitments to December 18, 2025 with the remaining Commitment continuing to termination on December 18, 2023 and (3) provide that the aggregate amount of the commitments may increase to an amount not to exceed \$1.7 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 March 31, 2021.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At March 31, 2021 and December 31, 2020, there were \$37.3 million and \$25.1 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. At March 31, 2021 and December 31, 2020, we had \$10.0 million and \$10.0 million, respectively, outstanding under the Revolving Credit Facility. As of March 31, 2021, availability under the Revolving Credit Facility was approximately \$1.15 billion.

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. The Mortgage Repurchase Facility was amended on September 24, 2020 and again on March 25, 2021 to adjust the commitments to purchase for specific time periods. As part of the amendments, the commitments to purchase were increased to \$200 million for the period December 22, 2020 through February 4, 2021 and \$175 million for the period March 25, 2021 through April 22, 2021.

The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$75 million on March 29, 2021 effective through April 26, 2021. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased by \$50 million on December 28, 2020 effective through January 27, 2021. At March 31, 2021 and December 31, 2020, HomeAmerican had \$217.5 million and \$202.4 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 March 31, 2021.

Dividends

During the three months ended March 31, 2021 and 2020, we paid cash dividends of \$0.37 per share and \$0.31 per share, respectively. Additionally, during the three months ended March 31, 2021, we distributed an 8% stock dividend.

MDC Common Stock Repurchase Program

At March 31, 2021, 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 March 31, 2021.

Consolidated Cash Flow

During the three months ended March 31, 2021 and 2020, we used \$58.0 million and \$37.2 million of cash from operating activities, respectively. Cash used to increase housing completed or under construction for the three months ended March 31, 2021 and 2020 was \$218.7 million and \$178.9 million, respectively, as homes in inventory increased significantly during both periods. During the three months ended March 31, 2021, the most significant source of cash provided by operating activities was net income of \$110.7 million compared to net income of \$36.8 million during the three months ended March 31, 2020. The most significant source of cash provided by operating activities for the three months ended March 31, 2020 was \$63.1 million from the sale of mortgage loans compared to \$1.8 million during the three months ended March 31, 2021. This year-over-year decrease is due to the high volume of loan origination activity during the first quarter of 2021 driven by the increase in home deliveries. Cash provided by the change in accounts payable and accrued liabilities for the three months ended March 31, 2021 was \$61.6 million compared to cash use of \$1.1 million during the three months ended March 31, 2020. This year-over-year increase is due to the increased construction spend during the three months ended March 31, 2021 as a result of the year-over-year increase in home deliveries during the period as well as the increase in homes in inventory at period end.

During the three months ended March 31, 2021 and 2020, net cash used in investing activities was \$5.7 million and \$7.0 million, respectively. This primarily relates to cash used to purchase property and equipment, which remained consistent year-over-year.

During the three months ended March 31, 2021, net cash provided by financing activities was \$336.3 million compared with cash use of \$5.4 million in the prior year period. The primary driver of this increase in cash provided by financing activities was the proceeds from the issuance of senior notes of \$347.7 million during the three months ended March 31, 2021.

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 March 31, 2021, we had deposits of \$37.1 million in the form of cash and \$10.8 million in the form of letters of credit that secured option contracts to purchase 9,487 lots for a total estimated purchase price of \$682.0 million.

Surety Bonds and Letters of Credit. At March 31, 2021, we had outstanding surety bonds and letters of credit totaling \$306.7 million and \$145.3 million, respectively, including \$108.0 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately \$122.4 million and \$86.2 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, 2020 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, 2020 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.

As of March 31, 2021, 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 March 31, 2021 had an aggregate principal balance of \$490.0 million, all of which were under interest rate lock commitments at an average interest rate of 3.18%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of \$226.8 million at March 31, 2021, of which \$65.1 million had not yet been committed to a mortgage purchaser and had an average interest rate of 2.93%. 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 \$320.5 million and \$203.0 million at March 31, 2021 and December 31, 2020, respectively.

HomeAmerican provides mortgage loans that generally are sold forward and subsequently delivered to a third-party purchaser between 5 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 Executive Chairman (principal executive officer) and the Chief Financial Officer (principal financial officer). Based on that evaluation, our management, including the Executive Chairman 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 March 31, 2021 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 2020 Annual Report on Form 10-K. There are no material changes from the risk factors included within the Company's 2020 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 many of these restrictions have been or are in the process of being eased, there is still significant uncertainty as a result of the pandemic and its potential to continue to negatively impact 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 March 31, 2021:

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program ⁽²⁾ | Maximum Number of Shares that may yet be Purchased under the Plan or Program ⁽²⁾ |
|---------------------------------|--|---------------------------------|--|---|
| January 1 to January 31, 2021 | 215 | \$ 46.17 | — | 4,000,000 |
| February 1 to February 28, 2021 | 27,624 | \$ 54.85 | — | 4,000,000 |
| March 1 to March 31, 2021 | — | N/A | — | 4,000,000 |

⁽¹⁾ Represents shares of common stock withheld by us to cover withholding taxes due upon the vesting of restricted stock award shares, at the election of certain holders of nonvested shares, with market value approximating the amount of withholding taxes due.

⁽²⁾ We are authorized to repurchase up to 4,000,000 shares of our common stock. There were no shares of MDC common stock repurchased under this repurchase program during the three month period ended March 31, 2021.

Item 6. Exhibits

- 4.1 [Supplemental Indenture \(2,500% Senior Notes due 2031\), dated as of January 11, 2021, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee \(incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed January 11, 2021\).](#)*
- 10.1 [Sixth 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 March 25, 2021 \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 26, 2021\).](#)*
- 22 [Subsidiary Guarantors.](#)
- 31.1 [Certification of principal 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 principal 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 principal 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 principal 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 March 31, 2021 and December 31, 2020, (ii) Consolidated Statements of Operations for the three and three months ended March 31, 2021 and 2020, (iii) Consolidated Statements of Changes in Stockholders' Equity for the three and three months ended March 31, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020; 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: April 29, 2021

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)

Date: April 29, 2021

By: /s/ Staci M. Woolsey
Staci M. Woolsey
Vice President, Controller and Chief Accounting Officer (principal accounting officer and duly authorized officer)

EXHIBIT 22

SUBSIDIARY GUARANTORS

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

| <i>Name</i> | <i>State of Organization</i> | <i>Doing Business As</i> |
|--|------------------------------|---|
| M.D.C. Land Corporation | Colorado | MDC Land Flight Operations Co. Richmond Developments Limited |
| RAH of Florida, Inc. | Colorado | |
| Richmond American Construction, Inc. | Delaware | |
| Richmond American Homes of Arizona, Inc. | Delaware | |
| Richmond American Homes of Colorado, Inc. | Delaware | |
| Richmond American Homes of Florida, LP | Colorado | |
| Richmond American Homes of Idaho, Inc. (formerly known as Richmond American Homes of Illinois, Inc.) | Colorado | |
| Richmond American Homes of Maryland, Inc. | Maryland | Richmond American Homes of California, Inc. |
| Richmond American Homes of Nevada, Inc. | Colorado | |
| Richmond American Homes of New Jersey, Inc. | Colorado | |
| Richmond American Homes of Oregon, Inc. | Colorado | |
| Richmond American Homes of Pennsylvania, Inc. | Colorado | |
| Richmond American Homes of Utah, Inc. | Colorado | |
| Richmond American Homes of Virginia, Inc. | Virginia | |
| Richmond American Homes of Washington, Inc. | Colorado | |

CERTIFICATIONS

I, Larry A. Mizel, certify that:

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

Date: April 29, 2021

/s/ Larry A. Mizel
Larry A. Mizel
Executive Chairman
(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: April 29, 2021

/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 March 31, 2021 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: April 29, 2021

/s/ Larry A. Mizel

Larry A. Mizel
Executive Chairman
(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 March 31, 2021 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: April 29, 2021

/s/ Robert N. Martin

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.