MDC HOLDINGS INC
Form 10-Q
July 30, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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	**84-0622967**
(State or other jurisdiction	**(I.R.S. employer**
of incorporation or organization)	**identification no.)**
4350 South Monaco Street, Suite 500	**80237**

Denver, Colorado	
(Address of principal executive offices)	**(Zip code)**

(303) 773-1100

(Registrant s telephone number, including area code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

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

Large Accelerated Filer	**x**	**Accelerated Filer**	**¨**
Non-Accelerated Filer	**¨ (Do not check if a smaller reporting company)**	**Smaller Reporting Company**	**¨**

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2010, 47,139,000 shares of M.D.C. Holdings, Inc. common stock were outstanding.

M.D.C. HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2010

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ITEM 1. Unaudited Consolidated Financial Statements

M.D.C. HOLDINGS, INC.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 692,132	$ 1,234,252
Marketable securities	941,403	327,944
Restricted cash	713	476
Receivables		
Home sales receivables	34,096	10,056
Income taxes receivable	641	145,144
Other receivables	17,412	5,844
Mortgage loans held-for-sale, net	112,065	62,315
Inventories, net		
Housing completed or under construction	382,971	260,324
Land and land under development	370,352	262,860
Property and equipment, net	41,188	38,421
Deferred tax asset, net of valuation allowance of $217,455 and $208,144 at June 30, 2010 and December 31, 2009, respectively	-	-
Related party assets	7,856	7,856
Prepaid expenses and other assets, net	80,369	73,816
Total Assets	$ 2,681,198	$ 2,429,308
Liabilities		
Accounts payable	$ 51,888	$ 36,087
Accrued liabilities	289,614	291,969
Related party liabilities	86	1,000
Mortgage repurchase facility	65,305	29,115
Senior notes, net	1,242,325	997,991
Total Liabilities	1,649,218	1,356,162
Commitments and Contingencies	-	-
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; 47,195,000 and 47,139,000 issued and outstanding, respectively, at June 30, 2010 and 47,070,000 and 47,017,000 issued and outstanding, respectively, at December 31, 2009	472	471
Additional paid-in-capital	810,929	802,675
Retained earnings	222,532	270,659
Accumulated other comprehensive loss	(1,294)	-
Treasury stock, at cost; 56,000 and 53,000 shares at June 30, 2010 and December 31, 2009, respectively	(659)	(659)
Total Stockholders Equity	1,031,980	1,073,146

Total Liabilities and Stockholders Equity	$ 2,681,198	$ 2,429,308

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

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M.D.C. HOLDINGS, INC.

Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue				
Home sales revenue	$ 311,276	$ 185,554	$ 452,219	$ 352,536
Land sales revenue	5,699	1,954	5,714	4,572
Other revenue	9,355	7,758	15,475	14,090
Total Revenue	326,330	195,266	473,408	371,198
Costs and Expenses				
Home cost of sales	255,062	152,118	364,452	293,443
Land cost of sales	4,974	1,500	5,165	2,841
Asset impairments, net	-	1,243	-	15,812
Marketing expenses	11,475	7,930	18,535	16,762
Commission expenses	11,611	6,953	16,740	13,311
General and administrative expenses	44,588	37,800	84,791	76,181
Other operating expenses	529	292	1,020	557
Related party expenses	-	4	9	9
Total Operating Costs and Expenses	328,239	207,840	490,712	418,916
Loss from Operations	(1,909)	(12,574)	(17,304)	(47,718)
Other income (expense)				
Interest income	7,541	2,968	11,969	7,039
Interest expense	(9,436)	(9,838)	(19,810)	(19,578)
Other income	105	381	204	121
Loss before income taxes	(3,699)	(19,063)	(24,941)	(60,136)
Benefit from (provision for) income taxes, net	15	(10,519)	384	(10,299)
NET LOSS	$ (3,684)	$ (29,582)	$ (24,557)	$ (70,435)
LOSS PER SHARE				
Basic	$ (0.08)	$ (0.64)	$ (0.53)	$ (1.52)
Diluted	$ (0.08)	$ (0.64)	$ (0.53)	$ (1.52)
DIVIDENDS DECLARED PER SHARE	$ 0.25	$ 0.25	$ 0.50	$ 0.50

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

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M.D.C. HOLDINGS, INC.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2010	2009
Operating Activities		
Net loss	$ (24,557)	$ (70,435)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities Asset impairments, net	-	15,812
Amortization of deferred marketing costs	5,528	3,804
Write-offs of land option deposits and pre-acquisition costs	873	557
Depreciation and amortization of long-lived assets	2,573	2,920
Stock-based compensation expense	8,202	7,325
Gain on sale of assets, net	(550)	(1,531)
Other non-cash expenses	872	1,223
Net changes in assets and liabilities:		
Restricted cash	(237)	51
Home sales and other receivables	(35,608)	7,620
Income taxes receivable	144,503	169,862
Mortgage loans held-for-sale, net	(49,750)	17,575
Housing completed or under construction	(122,647)	114,079
Land and land under development	(105,669)	16,506
Prepaid expenses and other assets, net	(14,629)	(4,235)
Accounts payable	15,801	(211)
Accrued liabilities	(3,639)	(29,104)
Net cash (used in) provided by operating activities	(178,934)	251,818
Investing Activities		
Purchase of marketable securities	(722,159)	(81,926)
Maturity of marketable securities	88,287	64,864
Sale of marketable securities	19,119	-
Proceeds from redemption requests on unsettled trades	1,678	55,554
Purchase of property and equipment	(5,072)	(4,549)
Net cash (used in) provided by investing activities	(618,147)	33,943
Financing Activities		
Proceeds from issuance of senior notes	242,288	-
Payment on mortgage repurchase facility	(45,470)	(34,873)
Advances on mortgage repurchase facility	81,660	24,175
Dividend payments	(23,570)	(23,437)
Proceeds from exercise of stock options	53	3,471
Net cash provided in (used in) financing activities	254,961	(30,664)
Net (decrease in) increase in cash and cash equivalents	(542,120)	255,097
Cash and cash equivalents		

Beginning of period	1,234,252	1,304,728
End of period	$ 692,132	$ 1,559,825

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

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. (MDC or the Company, 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 accounting principles generally accepted in the United States of America for complete financial statements. The Company has evaluated subsequent events for recognition or disclosure through the date the Unaudited Consolidated Financial Statements were filed with the SEC. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at June 30, 2010 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, 2009, filed with the SEC on February 5, 2010.

The Consolidated Statements of Operations for the three and six months ended June 30, 2010 and Consolidated Statement of Cash Flows for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year. Refer to the economic conditions described under the caption Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q and Risk Factors Relating to our Business in Item 1A of the Company s December 31, 2009 Annual Report on Form 10-K.

2. Asset Impairment

The Company s held-for-development inventory is included as a component of housing completed or under construction and land and land under development in the Consolidated Balance Sheets.

The Company evaluates its held-for-development inventory for impairment at each quarter end. The Company did not have any impairments of its homebuilding inventory during the three and six months ended June 20, 2010. The following table sets forth, by reportable segment, the asset impairments recorded during the three and six months ended June 30, 2009 (in thousands).

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Land and Land Under Development (Held-for-Development)		
West	$ -	$ 9,791
Mountain	-	254
East	1,450	1,600
Other Homebuilding	-	17
Subtotal	1,450	11,662
Housing Completed or Under Construction (Held-for-Development)		
West	-	3,276
Mountain	-	-
East	275	875
Other Homebuilding	-	267
Subtotal	275	4,418
Land and Land Under Development (Held-for-Sale)		
West	(557)	(557)
Mountain	-	-
East	-	-
Other Homebuilding	-	-
Subtotal	(557)	(557)
Other Assets	75	289
Consolidated Asset Impairments	$ 1,243	$ 15,812

During the 2009 second quarter, the Company s impairments were concentrated in two subdivisions in the East segment and primarily resulted from declines in the demand for homes in these subdivisions.

The 2009 first quarter impairments of the Company s held-for-development inventories were concentrated in the Nevada market of the West segment. These impairments resulted from a significant decrease in the average selling prices of closed homes during the 2009 first quarter, compared with the 2008 fourth quarter, in response to increased levels of competition in this market and continued high levels of home foreclosures. The impairments in the Mountain, East and Other Homebuilding segments primarily resulted from lower forecasted average selling prices for communities that are in the close out phase.

3. Fair Value Measurements

ASC 820 Fair Value Measurements and Disclosures (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 methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. For cash and cash equivalents, the fair value approximates carrying value.

Marketable securities. The Company s marketable securities consist of both held-to-maturity and available-for-sale securities. The Company s held-to-maturity marketable securities consist of both fixed rate and floating rate interest earning securities, primarily: (1) debt securities, which may include, among others, United States government and government agency debt and corporate debt; and (2) deposit securities, which may include, among others, certificates of deposit and time deposits. For those debt securities that the Company has both the ability and intent to hold to their maturity dates, the Company classifies such debt securities as held-to-maturity. The Company s held-to-maturity debt securities are reported at amortized cost in the Consolidated Balance Sheets.

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Notes to Unaudited Consolidated Financial Statements (continued)

The following table shows the Company s carrying value of its held-to-maturity marketable securities by both security type and maturity date as well as the estimated fair value for each security type (in thousands).

	June 30, 2010		December 31, 2009	
	Recorded Amount	Estimated Fair Value	Recorded Amount	Estimated Fair Value
Debt securities - maturity less than 1 year	$ 472,106	$ 472,380	$ 160,765	$ 159,752
Debt securities - maturity 1 to 5 years	140,529	141,733	64,679	64,844
Deposit securities - maturity less than 1 year	2,500	2,508	2,500	2,558
Total held-to-maturity securities	$ 615,135	$ 616,621	$ 227,944	$ 227,154

Included in the Company s June 30, 2010 held-to-maturity investment balances are $560.3 million of debt securities that were in a gross unrealized gain position of $1.8 million and $54.8 million of debt securities that were in a gross unrealized loss position of $0.3 million. Because the Company has the intent and ability to hold these securities to maturity and ultimately expects to receive the contractual amounts due to it, the Company has concluded that the decrease in fair value of these securities is not indicative of an other-than-temporary-impairment. Accordingly, the Company has continued to record each of these securities at its amortized cost.

For certain debt securities, primarily corporate debt, the Company may not have the intent to hold them until their maturity date and, as such, the Company classifies such debt securities as available-for-sale. The Company s available-for-sale securities also include holdings in a fund that invests predominantly in fixed income securities. The Company records all of its available-for-sale marketable securities at fair value with changes in fair value being recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. The fair value of the Company s marketable securities are based upon Level 1 fair value inputs.

The following table sets forth the amortized cost and estimated fair value of the Company s available-for-sale marketable securities (in thousands).

	June 30, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Equity security	$ 101,388	$ 101,209	$ 100,000	$ 100,000
Debt securities	226,174	225,059	-	-
Total available-for-sale securities	$ 327,562	$ 326,268	$ 100,000	$ 100,000

Mortgage Loans Held-for-Sale, Net. As of June 30, 2010, the primary components of the Company s mortgage loans held-for-sale that are measured at fair value on a recurring basis are: (1) mortgage loans held-for-sale under commitments to sell; and (2) mortgage loans held-for-sale not under commitments to sell. At June 30, 2010 and December 31, 2009, the Company had $79.1 million and $42.8 million, respectively, of mortgage loans held-for-sale under commitments to sell for which fair value was based upon a Level 1 input being the quoted market prices for those mortgage loans. At June 30, 2010 and December 31, 2009, the Company had $31.3 million and $19.4 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell and, as such, their fair value was based upon Level 2 fair value inputs, primarily estimated market price received from an outside party.

Inventories. The Company records its homebuilding inventory (housing completed or under construction and land and land under development) at fair value only when the undiscounted future cash flow of a subdivision is less than its carrying value. For the Company s held-for-development subdivisions, the Company determines the estimated fair value of each subdivision by calculating the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation. These estimates are dependent on specific market or sub-market conditions for each subdivision. Local market-specific conditions that may impact these estimates for a subdivision include, among other things: (1) forecasted base selling prices and home sales incentives; (2) estimated land development costs and home cost of construction; (3) the current sales pace for active subdivisions; (4) changes by management in the sales strategy of a given subdivision; and (5) the intensity of competition within a market or sub-market, including publicly available home sales prices and home sales incentives offered by our competitors. The Company did not record any impairment to subdivisions during the three and six months ended June 30, 2010.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Related Party Asset. The Company s related party assets are debt security bonds that it acquired from a quasi-municipal corporation in the state of Colorado. The Company has estimated the fair value of the related party assets based upon discounted cash flows as the Company does not believe there is a readily available market for such assets. The Company used a 15% discount rate in determining the present value of the estimated future cash flows from the bonds. The estimated cash flows from the bonds are ultimately based upon the Company s estimated cash flows associated with the building, selling and closing of homes in one of its Colorado subdivisions. The estimated fair values of these assets are based upon Level 3 cash flow inputs. Based upon this evaluation, the estimated fair value of the related party assets approximates its carrying value.

Mortgage Repurchase Facility. The Company s Mortgage Repurchase Facility (as defined below) is at floating rates or at fixed rates that approximate current market rates and have relatively short-term maturities. The fair value approximates carrying value.

Senior Notes. The estimated fair values of the senior notes in the following table are considered to be Level 2 fair value inputs pursuant to ASC 820 and are an estimated fair value of the bonds when compared with bonds in the homebuilding sector (in thousands).

	June 30, 2010		December 31, 2009	
	Recorded Amount	Estimated Fair Value	Recorded Amount	Estimated Fair Value
7% Senior Notes due 2012	$ 149,553	$ 161,977	$ 149,460	$ 161,550
5 1/2 % Senior Notes due 2013	349,694	361,270	349,642	360,500
5 3/8 % Medium Term Senior Notes due 2014	249,183	255,242	249,102	240,050
5 3/8 % Medium Term Senior Notes due 2015	249,804	253,450	249,787	236,800
5 5/8 % Senior Notes due 2020	244,091	236,508	-	-
Total	$ 1,242,325	$ 1,268,447	$ 997,991	$ 998,900

4. Derivative Financial Instruments

The Company utilizes certain derivative instruments in the normal course of business, which primarily include forward sales securities commitments and private investor sales commitments to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2010, the Company had $99.8 million in interest rate lock commitments, which consisted of $70.1 million in loan locks and $29.7 million in 4.25% promotional program commitments. Additionally, the Company had $105.2 million in forward sales of mortgage-backed securities.

The Company records its mortgage loans held-for-sale at fair value to achieve matching of the changes in the fair value of its derivative instruments with the changes in fair values of the loans it is hedging, without having to designate its derivatives as hedging instruments. For forward sales commitments, as well as commitments to originate mortgage loans that are still outstanding at the end of a reporting period, the Company records the fair value of the derivatives in other revenue in the Consolidated Statements of Operations with an offset to either prepaid and other assets or accrued liabilities in the Consolidated Balance Sheets, depending on the nature of the change. The changes in fair value of the Company s derivatives were not material during the three and six months ended June 30, 2010 and 2009.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

5. Balance Sheet Components

The following table sets forth information relating to accrued liabilities (in thousands).

	June 30, 2010	December 31, 2009
Accrued liabilities		
Liability for unrecognized tax benefits	$ 60,197	$ 60,226
Warranty reserves	51,986	59,022
Insurance reserves	48,312	51,606
Land development and home construction accruals	20,042	21,236
Accrued compensation and related expenses	19,535	20,297
Accrued executive deferred compensation	19,163	17,782
Accrued interest payable	17,879	12,023
Legal accruals	14,910	14,489
Loan loss reserves	8,069	9,641
Customer and escrow deposits	6,610	5,524
Other accrued liabilities	22,911	20,123
Total accrued liabilities	$ 289,614	$ 291,969

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

6. Loss Per Share

For purposes of calculating loss per share (EPS), as the Company has participating security holders (security holders who receive non-forfeitable dividends on unvested restricted stock) it is required to utilize the two-class method for calculating earnings per share. The two-class method is an allocation of earnings between the holders of common stock and the Company s participating security holders. Under the two-class method, earnings 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 or loss). Currently, the Company has one class of security and has participating security holders consisting of shareholders of unvested restricted stock. The basic and diluted EPS calculations are shown below (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic and Diluted Loss Per Common Share				
Net loss	$ (3,684)	$ (29,582)	$ (24,557)	$ (70,435)
Less: distributed and undistributed earnings allocated to participating securities	(135)	(100)	(259)	(201)
Net loss attributable to common stockholders	$ (3,819)	$ (29,682)	$ (24,816)	$ (70,636)
Basic and diluted weighted-average shares outstanding	46,617	46,548	46,615	46,474
Basic Loss Per Common Share	$ (0.08)	$ (0.64)	$ (0.53)	$ (1.52)
Dilutive Loss Per Common Share	$ (0.08)	$ (0.64)	$ (0.53)	$ (1.52)

Diluted EPS includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Common stock equivalents include stock options and unvested restricted stock. Diluted EPS for the three and six months ended June 30, 2010 and 2009 excluded common stock equivalents because the effect of their inclusion would be anti-dilutive, or would decrease the reported loss per share. Using the treasury stock method, the weighted-average common stock equivalents excluded from diluted EPS were 0.4 million shares during the three and six months ended June 30, 2010 and were 0.4 million shares during the three and six months ended June 30, 2009.

7. Interest Activity

The Company capitalizes interest on its senior notes associated with its qualifying assets. The Company has determined that inventory is a qualifying asset during the period of active development and through the completion of construction of a home. When construction of a home is complete, such home is no longer considered to be a qualifying asset and interest is no longer capitalized on that home.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Interest activity is shown below (in thousands).

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Total Interest Incurred				
Corporate and homebuilding segments	$ 18,158	$ 14,455	$ 35,089	$ 28,948
Financial Services and Other	127	83	206	174
Total interest incurred	$ 18,285	$ 14,538	$ 35,295	$ 29,122
Total Interest Capitalized				
Interest capitalized, beginning of period	$ 31,773	$ 36,050	$ 28,339	$ 39,239
Interest capitalized	8,849	4,700	15,485	9,544
Previously capitalized interest included in home cost of sales	(8,202)	(8,661)	(11,404)	(16,694)
Interest capitalized, end of period	$ 32,420	$ 32,089	$ 32,420	$ 32,089

8. Warranty Reserves

Warranty reserves presented in the table below relate to general and structural reserves, as well as reserves for known, unusual warranty-related expenditures. Warranty payments incurred for an individual house may differ from the related reserve established for the home at the time it home was closed. The actual disbursements for warranty claims are evaluated in the aggregate to determine if an adjustment to the historical warranty reserve should be recorded, that would result in a corresponding adjustment to home cost of sales. During the 2010 second quarter, in light of a continued decrease in the Company s warranty payments, and similar to its procedure in prior years, the Company engaged a third-party actuary to assist in its analysis of estimated future warranty payments. Based upon the actuarial analysis, the Company refined its methodology of estimating a reasonable range for warranty reserves. The Company believes the refined methodology will result in a better estimate of warranty cost exposure especially in periods of declining payment activity and provide better visibility to the sensitivity of the estimate in the current environment. The Company will continue to periodically engage a third-party actuary for purposes of assisting us in evaluating and determining the reasonableness of our warranty reserves.

The following table summarizes the warranty reserve activity for the three and six months ended June 30, 2010 and 2009 (in thousands).

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Warranty reserve balance at beginning of period	$ 54,054	$ 84,911	$ 59,022	$ 89,318
Warranty expense provisions	2,220	1,872	3,210	3,346
Warranty cash payments	(2,611)	(2,327)	(4,640)	(4,565)
Warranty reserve adjustments	(1,677)	(10,904)	(5,606)	(14,547)
Warranty reserve balance at end of period	$ 51,986	$ 73,552	$ 51,986	$ 73,552

The warranty adjustments recorded during the three and six months ended June 30, 2010 and 2009, primarily were recorded as a reduction to home cost of sales in the Consolidated Statements of Operations and resulted from the improvement in historical warranty payment trends on previously closed homes.

9. Insurance Reserves

The Company records expenses and liabilities for losses and loss adjustment expenses for claims associated with: (1) insurance policies and re-insurance agreements issued by Allegiant Insurance Company, Inc., A Risk Retention Group (Allegiant) and StarAmerican Insurance Ltd. (StarAmerican); (2) self-insurance, including workers compensation; and (3) deductible amounts under the Company s insurance policies. The establishment of the provisions for outstanding losses and loss adjustment expenses is based on actuarial studies that include known facts and interpretations of circumstances, including the Company s experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns such as those caused by natural disasters, fires or accidents, depending on the business conducted, and changing regulatory and legal environments.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

The following table summarizes the insurance reserve activity for the three and six months ended June 30, 2010 and 2009 (in thousands).

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Insurance reserve balance at beginning of period	$ 51,390	$ 59,695	$ 51,606	$ 59,171
Insurance expense provisions	1,231	929	1,814	1,827
Insurance cash payments	(4,309)	(222)	(5,108)	(596)
Insurance reserve adjustments	-	(1,007)	-	(1,007)
Insurance reserve balance at end of period	$ 48,312	$ 59,395	$ 48,312	$ 59,395

The insurance payments incurred during the three and six months ended June 30, 2010, primarily related to payments for certain insurance claims for which a separate case reserve was previously established.

10. Information on Business Segments

The Company s operating segments are defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. The Company has identified its chief operating decision-makers (CODMs) as three key executives the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

The Company has identified each homebuilding subdivision as an operating segment as each homebuilding subdivision engages in business activities from which it earns revenue, primarily from the sale of single-family detached homes, generally to first-time and first-time move-up homebuyers. Subdivisions in the reportable segments noted below have been aggregated 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. The Company s homebuilding reportable segments are as follows:

(1) West (Arizona, California and Nevada)

(2) Mountain (Colorado and Utah)

(3) East (Delaware Valley, Maryland and Virginia)

(4) Other Homebuilding (Florida and Illinois)

The Company s Financial Services and Other reportable segment consists of the operations of the following operating segments: (1) HomeAmerican Mortgage Corporation (HomeAmerican); (2) Allegiant; (3) StarAmerican; (4) American Home Insurance Agency, Inc.; and (5) American Home Title and Escrow Company. These operating segments have been aggregated into one reportable segment 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. The Company s Corporate reportable segment incurs general and administrative expenses that are not identifiable specifically to another operating segment, earns interest income on its cash, cash equivalents and marketable securities, and incurs interest expense on its senior notes.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

The following table summarizes revenue for each of the Company s six reportable segments (in thousands). Inter-company adjustments noted in the revenue table below relate to Mortgage Loan Origination fees paid by the Company s homebuilding subsidiaries to HomeAmerican on behalf of homebuyers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Homebuilding				
West	$ 123,193	$ 81,758	$ 180,330	$ 156,440
Mountain	110,112	57,658	156,794	101,775
East	72,657	39,479	104,162	79,971
Other Homebuilding	16,757	13,117	25,793	26,800
Total Homebuilding	322,719	192,012	467,079	364,986
Financial Services and Other	9,143	7,006	14,764	12,569
Corporate	-	-	-	50
Intercompany adjustments	(5,532)	(3,752)	(8,435)	(6,407)
Consolidated	$ 326,330	$ 195,266	$ 473,408	$ 371,198

The following table summarizes (loss) income before income taxes for each of the Company s six reportable segments (in thousands). Inter-company supervisory fees (Supervisory Fees), which are included in (loss) income before income taxes for each reportable segment in the table below, are charged by the Company s Corporate segment to the homebuilding segments and the Financial Services and Other segment. Supervisory Fees represent costs incurred by the Company s Corporate segment associated with certain resources that support the Company s other reportable segments. Transfers, if any, between operating segments are recorded at cost.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Homebuilding				
West	$ 6,357	$ 10,075	$ 8,711	$ (228)
Mountain	4,962	(2,308)	6,132	(7,119)
East	1,455	(4,626)	(64)	(6,997)
Other Homebuilding	295	(677)	(224)	(1,508)
Total Homebuilding	13,069	2,464	14,555	(15,852)
Financial Services and Other	4,089	2,615	5,935	4,236
Corporate	(20,857)	(24,142)	(45,431)	(48,520)
Consolidated	$ (3,699)	$ (19,063)	$ (24,941)	$ (60,136)

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

The following table summarizes total assets for each of the Company s six reportable segments (in thousands). Inter-company adjustments noted in the table below relate to loans from the Company s Financial Services and Other segment to its Corporate segment. The assets in the Company s Corporate segment primarily include cash, cash equivalents and marketable securities.

	June 30, 2010	December 31, 2009
Homebuilding		
West	$ 300,848	$ 190,204
Mountain	328,696	237,702
East	170,525	112,964
Other Homebuilding	36,457	26,778
Total Homebuilding	836,526	567,648
Financial Services and Other	183,478	133,957
Corporate	1,663,851	1,773,660
Intercompany adjustments	(2,657)	(45,957)
Consolidated	$ 2,681,198	$ 2,429,308

The following table summarizes depreciation and amortization of long-lived assets and amortization of deferred marketing costs for each of the Company s six reportable segments (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Homebuilding				
West	$ 2,211	$ 771	$ 3,285	$ 2,517
Mountain	1,091	640	1,554	1,202
East	639	443	951	946
Other Homebuilding	237	72	398	180
Total Homebuilding	4,178	1,926	6,188	4,845
Financial Services and Other	170	167	339	386
Corporate	821	738	1,574	1,493
Consolidated	$ 5,169	$ 2,831	$ 8,101	$ 6,724

11. Commitments and Contingencies

The Company often is required to obtain bonds and letters of credit in support of its obligations for land development and subdivision improvements, homeowner association dues and start-up expenses, warranty work, contractor license fees and earnest money deposits. At June 30, 2010, the Company had issued and outstanding performance bonds and letters of credit totaling $90.7 million and $19.8 million, respectively, including $5.3 million in letters of credit issued by HomeAmerican. In the event any such bonds or letters of credit issued by third parties are called, MDC could be obligated to reimburse the issuer of the bond or letter of credit.

Legal Reserves. Litigation has been filed by homeowners in West Virginia against MDC, its subsidiary Richmond American Homes of West Virginia, Inc. (RAH West Virginia) and various subcontractors alleging a failure to install functional passive radon mitigation systems in their homes. The plaintiffs seek compensatory and punitive damages and medical monitoring costs for alleged negligent construction, failure to warn, breach of warranty or contract, breach of implied warranty of habitability, fraud, and intentional and negligent infliction of emotional distress based upon alleged exposure to radon gas. The litigation includes the following actions:

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Joy, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-204, Circuit Court of Jefferson County, West Virginia (Joy). This action was filed on May 16, 2008, by sixty-six plaintiffs from sixteen households. The Company and RAH West Virginia have answered and asserted claims against the subcontractors for contractual and implied indemnity and contribution.

Bauer, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-431, Circuit Court of Jefferson County, West Virginia (Bauer). This action was filed on October 24, 2008, by eighty-six plaintiffs from twenty-one households. This action has been consolidated for discovery and pre-trial proceedings with the Joy action.

Saliba, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-447, Circuit Court, Jefferson County, West Virginia (Saliba). This action was filed on November 7, 2008, by thirty-five plaintiffs from nine households. This action has been consolidated for discovery and pre-trial proceedings with the Joy action.

By orders dated November 4 and 18, 2009, the trial court struck the answers filed by the Company and RAH West Virginia and entered judgment by default in favor of the plaintiffs on liability, with damages to be determined in a subsequent jury trial. On December 7, 2009, the Company and RAH West Virginia filed with the West Virginia Supreme Court of Appeals a motion seeking to stay the proceedings and a petition for writ of prohibition to vacate the default judgment. On January 15, 2010, the West Virginia Supreme Court of Appeals entered an order agreeing to consider the request to vacate the default judgment. The hearing to consider this request occurred on March 31, 2010.

On June 16, 2010, the West Virginia Supreme Court of Appeals rendered its opinion holding that imposition of a default judgment sanction will be upheld if a trial court s findings adequately demonstrate and establish willfulness, bad faith or fault. The Supreme Court of Appeals found that the sanctions orders lacked the required specificity. The Supreme Court of Appeals noted that the trial court is authorized to impose sanctions if the action taken is based on specific factual findings of serious misconduct in light of the standards set forth in the opinion. The Supreme Court of Appeals granted the Company and RAH West Virginia a writ of prohibition and vacated the trial court s sanctions orders.

Pursuant to the rules of the Supreme Court, the underlying proceedings in the Circuit Court had been stayed pending the Supreme Court s decision. Under the Supreme Court s applicable rules, the stay expired on July 19, 2010.

Also, a new lawsuit has been filed by homeowners in West Virginia against the Company, RAH West Virginia and individual superintendants who had worked for RAH West Virginia. The new litigation consists of the following:

Thorin, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 10-C-154, Circuit Court of Jefferson County, West Virginia (*Thorin*). This action was filed on May 12, 2010, by forty plaintiffs from eleven households in Jefferson and Berkeley Counties. To date, this action has not been consolidated for any purposes with the prior three actions. The claims asserted and the relief sought in the Thorin case are substantially similar to the Joy, Bauer and Saliba cases.

MDC and RAH West Virginia believe that they have meritorious defenses to each of the lawsuits and intend to vigorously defend the actions.

Additionally, in the normal course of business, the Company is a defendant in claims primarily relating to construction defects, product liability and personal injury claims. These claims seek relief from the Company under various theories, including breach of implied and express warranty, negligence, strict liability, misrepresentation and violation of consumer protection statutes. The Company has accrued for losses that may be incurred with respect to legal claims based upon information provided to it by its legal counsel, including counsels on-going evaluation of the merits of the claims and defenses. Due to uncertainties in the estimation process, actual results could vary from those accruals. The Company had legal accruals of $14.9 million and $14.5 million at June 30, 2010 and December 31, 2009, respectively.

Mortgage Loan Loss Reserves. In the normal course of business, the Company establishes reserves for potential losses associated with HomeAmerican s loan sale agreements pursuant to which mortgage loans are sold to third-parties. These reserves are created to address repurchase and indemnity claims by third-party purchasers of the mortgage loans, which claims arise primarily out of allegations of homebuyer fraud at the time of origination of the loan. These reserves are based upon, among other matters: (1) pending claims received from third-party purchasers associated with previously sold mortgage loans; (2) a current assessment of the potential exposure associated with future claims of homebuyer fraud in mortgage loans originated in prior period loans; and (3) historical loss experience. The Company s mortgage loan loss reserves of $8.1 million and $9.6 million at June 30, 2010 and December 31, 2009, respectively, are reflected as a component of accrued liabilities in the Consolidated Balance Sheets, and the associated expenses are included as a component of general and administrative expenses in the Consolidated Statements of Operations. The Company made cash payments associated with its mortgage loan loss reserve of $1.3 million during the six months ended June 30, 2010.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

12. Lines of Credit and Total Debt Obligations

Homebuilding. On June 30, 2010, the Company terminated its homebuilding line of credit (Homebuilding Line), which was an unsecured revolving line of credit with a group of lenders that had a maturity date of March 21, 2011. The Company used this facility to provide letters of credit required in the ordinary course of its business and financing in support of its homebuilding segments. There were no penalties associated with the termination of the credit facility and the Company believes that at the time of termination it was in compliance with the covenants under the Homebuilding Line credit agreement. Prior to the termination of the Homebuilding Line, the Company transferred or replaced all letters of credit that had been outstanding. At the time of the termination, the Homebuilding Line had an aggregate commitment of $12.0 million and the Company had no letters of credit and no borrowings outstanding under the line. The Homebuilding Line was terminated as the Company believes that it does not need the Homebuilding Line to meet its liquidity needs.

Mortgage Lending. As of June 30, 2010 HomeAmerican had, and continues to have, a Master Repurchase Agreement (the Mortgage Repurchase Facility) with U.S. Bank National Association (USBNA) and other banks that may be parties to the Mortgage Repurchase Facility (collectively with USBNA, the Buyers). As of June 30, 2010, USBNA was the only Buyer under the Mortgage Repurchase Facility. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of eligible mortgage loans to USBNA (as agent for the Buyers) 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 agent for the Buyers and as custodian, pursuant to the Custody Agreement (Custody Agreement), dated as of November 12, 2008, by and between HomeAmerican and USBNA. The Mortgage Repurchase Facility has a maximum aggregate commitment of $70 million and includes an accordion feature that permits the maximum aggregate commitment to be increased to $150 million, subject to the availability of additional commitments. The Mortgage Repurchase Facility expires on October 28, 2010. Advances under the Mortgage Repurchase Facility carry a Pricing Rate equal to the greater of (i) the LIBOR Rate (as defined in the Mortgage Repurchase Facility) plus 2.5%, or (ii) 4.5%. At HomeAmerican s option the Balance Funded Rate (equal to 4.5%) may be applied to certain advances under the Mortgage Repurchase Facility provided the applicable Buyer is holding sufficient Qualifying Balances. The foregoing terms are defined in the Mortgage Repurchase Facility. At June 30, 2010 and December 31, 2009, the Company had $65.3 million and $29.1 million, respectively, of mortgage loans that it was obligated to repurchase under the Mortgage Repurchase Facility.

The Mortgage Repurchase Facility is accounted for as a debt financing arrangement. Accordingly, at June 30, 2010 and December 31, 2009, amounts advanced under the Mortgage Repurchase Facility, which were used to finance mortgage loan originations, have been reported as a liability in Mortgage Repurchase Facility in the Consolidated Balance Sheets.

General. The agreement for the Company s Mortgage Repurchase Facility requires compliance with certain representations, warranties and covenants. The Company believes that it is in compliance with these representations, warranties and covenants and the Company is not aware of any covenant violations.

The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants customary for agreements of this type. The negative covenants include, among others, (i) an Adjusted Tangible Net Worth (as defined) requirement, (ii) a minimum Adjusted Tangible Net Worth Ratio, (iii) an Adjusted Net Income requirement, and (iv) a minimum Liquidity (as defined) requirement (the foregoing terms are defined in the Mortgage Repurchase Facility). Adjusted Tangible Net Worth means the sum of (a) all assets of HomeAmerican less (b) the sum of (i) all Debt and all Contingent Indebtedness of HomeAmerican, (ii) all assets of HomeAmerican that would be classified as intangible assets under generally accepted accounting principles, and (iii) receivables from Affiliates. HomeAmerican s Adjusted Tangible Net Worth Ratio is the ratio of HomeAmerican s total liabilities (excluding Permitted Letters of Credit) to the Adjusted Tangible Net Worth. HomeAmerican s Adjusted Net Income is a rolling twelve consecutive months of net income for HomeAmerican. HomeAmerican s Liquidity is defined as its unencumbered and unrestricted cash and Cash Equivalents plus the amount by which the aggregate Purchase Value of all Purchased Mortgage Loans at such time exceeds the aggregate Purchase Price outstanding for all Open Transactions at such time. The foregoing terms are defined in the Mortgage Repurchase Facility.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Failure to meet the foregoing negative covenants would constitute an event of default. In the event of default, USBNA may, at its option, declare the Repurchase Date for any or all Transactions to be deemed immediately to occur. Upon such event of default, and if USBNA exercises its right to terminate any Transactions, then (a) HomeAmerican s obligation to repurchase all Purchased Loans in such Transactions will become immediately due and payable; (b) the Repurchase Price for each such Transaction shall be increased by the aggregate amount obtained by daily multiplication of (i) the greater of the Pricing Rate for such Transaction and the Default Pricing Rate by (ii) the Purchase Price for the Transaction as of the Repurchase Date, (c) all Income paid after the event of default will be payable to and retained by USBNA and applied to the aggregate unpaid Repurchase Prices owed by HomeAmerican, and (d) HomeAmerican shall deliver any documents relating to Purchased Loans subject to such Transactions to USBNA. Upon the occurrence of an event of default, USBNA may (a) sell any or all Purchased Loans subject to such Transactions on a servicing released or servicing retained basis and apply the proceeds to the unpaid amounts owed by HomeAmerican, (b) give HomeAmerican credit for such Purchased Loans in an amount equal to the Market Value and apply such credit to the unpaid amounts owed by HomeAmerican, (c) replace HomeAmerican as Servicer, (d) exercise its right under the Mortgage Repurchase Facility with respect to the Income Account and Escrow Account, and (e) with notice to HomeAmerican, declare the Termination Date to have occurred. The foregoing terms are defined in the Mortgage Repurchase Facility.

In January 2010, the Company completed a public offering of $250 million principal amount of 5 5/8% senior notes due February 2020 (the 2020 Notes). The 2020 Notes, which pay interest in February and August of each year, are general unsecured obligations of MDC and rank equally and ratably with its other general unsecured and unsubordinated indebtedness. The Company is not required to make any principal payments until February 2020. In addition, the Notes are fully guaranteed on an unsecured basis, jointly and severally, by most of the Company s homebuilding subsidiaries. The 2020 Notes may be redeemed, at the election of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of (1) 100% of their principal amount; or (2) the present value of the remaining scheduled payments on the notes being redeemed on the redemption date discounted on a semiannual basis at the Treasury Rate (as defined) plus 0.35%, plus, in each case, accrued and unpaid interest. Upon the occurrence of both a change of control and a below investment grade rating event, the Company is required to offer to repurchase the 2020 Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the notes. The Company received proceeds of $242.3 million, net of discounts and issuance costs of $6.1 million and $1.6 million, respectively. The Company is using the proceeds of the offering for general corporate purposes.

The Company s 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. The Company s senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by most of its homebuilding segment subsidiaries. The Company s debt obligations at June 30, 2010 and December 31, 2009 are as follows (in thousands):

	June 30, 2010	December 31, 2009
7% Senior Notes due 2012	$ 149,553	$ 149,460
5 1/2 % Senior Notes due 2013	349,694	349,642
5 3/8 % Medium-Term Senior Notes due 2014	249,183	249,102
5 3/8 % Medium-Term Senior Notes due 2015	249,804	249,787
5 5/8 % Senior Notes due 2020	244,091	-
Total Senior Notes, net	$ 1,242,325	$ 997,991
Mortgage repurchase facility	65,305	29,115
Total Debt	$ 1,307,630	$ 1,027,106

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

13. Income Taxes

The Company is required, at the end of each interim period, to estimate its annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. Based on these estimates, the Company s overall effective income tax rates were 0.4% and 1.5% during the three and six months ended June 30, 2010, respectively, and -55.2% and -17.1% during the three and six months ended June 30, 2009, respectively. The change in the effective tax rates during the 2010 second quarter and first six months, compared with the same periods during 2009, resulted primarily from recording during the 2009 second quarter a $9.7 million income tax expense related to an IRS examination of the Company s 2008 net operating loss carryback to 2006.

The Company is required to recognize the financial statement effects of a tax position when it is more likely than not (defined as a likelihood of more than 50%), based on the technical merits, that the position will be sustained upon examination. Any difference between the income tax return position and the benefit recognized in the financial statements results in a liability for unrecognized tax benefits. During the three and six months ended June 30, 2010, there have been no material changes in the Company s liability for unrecognized tax benefits.

During the 2010 first quarter, the Company reached a settlement with the IRS on the audit of its 2004 and 2005 federal income tax returns, which settlement is subject to review by the Joint Committee on Taxation (Joint Committee). The settlement is expected to result in a decrease of approximately $35 million in the Company s gross unrecognized tax benefits. The settlement is also expected to result in an increase of approximately $13 million to additional paid-in-capital in the Company s Consolidated Statements of Stockholders Equity and an income tax benefit of approximately $1 million in the Company s Consolidated Statement of Operations. Finally, since the Company made a deposit of $35.6 million, included in Prepaid Expenses and Other Assets in the Consolidated Balance Sheets, with the IRS during 2008 related to this audit, the settlement is expected to result in an increase of approximately $12 million to cash in the Company s Consolidated Balance Sheets. At June 30, 2010, the Company was still awaiting final review by the Joint Committee.

Also during the 2010 first quarter, the Company received a $142.1 million federal income tax refund, which was generated by a 2009 federal net operating loss carry back to the 2004 and 2005 tax years in accordance with the provisions contained in the Worker, Homeownership, and Business Assistance Act of 2009.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The increase in the Company s total deferred tax asset at June 30, 2010 (per the table below) resulted primarily from an increase in the Company s federal and state net operating loss carry forwards, offset by a decrease in the Company s asset impairment charges.

A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. The Company had a valuation allowance of $217.5 million and $208.1 million at June 30, 2010 and December 31, 2009, respectively, resulting in a net deferred tax asset of zero. The Company s future realization of its deferred tax assets ultimately depends upon the existence of sufficient taxable income in the carryback or carryforward periods under the tax laws. The Company will continue analyzing, in subsequent reporting periods, the positive and negative evidence in determining the expected realization of its deferred tax assets.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

The tax effects of significant temporary differences that give rise to the net deferred tax asset are as follows (in thousands).

	June 30, 2010	December 31, 2009
Deferred tax assets		
Asset impairment charges	$ 55,245	$ 87,121
State net operating loss carryforward	45,676	41,845
Federal net operating loss carryforward	43,688	5,716
Warranty, litigation and other reserves	35,282	38,789
Stock-based compensation expense	20,392	17,510
Alternative minimum tax credit carryforward	9,679	9,679
Accrued liabilities	8,628	7,921
Inventory, additional costs capitalized for tax purposes	6,961	7,317
Property, equipment and other assets, net	2,151	2,622
Charitable contribution carryforward	932	934
Deferred revenue	351	321
Total deferred tax assets	228,985	219,775
Valuation allowance	(217,455)	(208,144)
Total deferred tax assets, net of valuation allowance	11,530	11,631
Deferred tax liabilities		
Deferred revenue	6,256	5,820
Inventory, additional costs capitalized for financial statement purposes	627	681
Accrued liabilities	406	926
Other, net	4,241	4,204
Total deferred tax liabilities	11,530	11,631
Net deferred tax asset	$ -	$ -

14. Variable Interest Entities

In the normal course of business, the Company enters into lot option purchase contracts (Option Contracts), generally through a deposit of cash or 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 allows the Company to reduce the risks associated with direct land ownership and development, reduces the Company s capital and financial commitments, including interest and other carrying costs, and minimizes the amount of the Company s land inventories on its consolidated balance sheets.

In compliance with ASC 810, the Company analyzes its land option contracts and other contractual arrangements to determine whether the corresponding land sellers are variable interest entities (VIE) and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the optioned land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. As a result of its analyses, the Company determined that as of June 30, 2010 it was not the primary beneficiary of any VIEs from which it is purchasing land under land option contracts. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of, or the right to receive benefits from, the VIE.

The Company s financial exposure with respect to VIEs is limited to the forfeiture of non-refundable deposit of cash or letters of credit. As of June 30, 2010 the Company had cash deposits and letters of credit totaling $7.9 million and $2.7 million, respectively, associated with the right to acquire 3,606 lots under Option Contracts.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

The Company cash deposits for Option Contracts are included in Prepaid Expenses and Other Assets in the Consolidated Balance Sheets.

15. Other Comprehensive Loss

Total other comprehensive loss includes net loss plus $2.4 million and $1.3 million, respectively, during the three and six months ended June 30, 2010 of unrealized loss on the Company s available-for-sale marketable securities. Accordingly, the Company s other comprehensive loss was $6.1 million and $25.9 million, respectively, during the three and six months ended June 30, 2010.

16. Supplemental Guarantor Information

The Company s 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 Delaware, Inc.
Richmond American Homes of Florida, LP
Richmond American Homes of Illinois, Inc.
Richmond American Homes of Maryland, Inc.
Richmond American Homes of Nevada, Inc.
Richmond American Homes of New Jersey, Inc.
Richmond American Homes of Pennsylvania, Inc.
Richmond American Homes of Utah, Inc.
Richmond American Homes of Virginia, Inc.
Richmond American Homes of West Virginia, Inc.

Subsidiaries that do not guarantee the Company s senior notes (collectively, the Non-Guarantor Subsidiaries) primarily include:

American Home Insurance
American Home Title
HomeAmerican
StarAmerican
Allegiant

The Company has determined that separate, full financial statements of the Guarantor Subsidiaries would not be material to investors and, accordingly, supplemental financial information for the Guarantor Subsidiaries is presented.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Balance Sheet

June 30, 2010

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
Asset					
Cash and cash equivalents	$ 655,241	$ 5,485	$ 31,406	$ -	$ 692,132
Marketable securities	911,863	-	29,540	-	941,403
Restricted cash	-	713	-	-	713
Receivables	11,371	40,832	2,603	(2,657)	52,149
Mortgage loans held-for-sale, net	-	-	112,065	-	112,065
Inventories, net					
Housing completed or under construction	-	382,971	-	-	382,971
Land and land under development	-	370,352	-	-	370,352
Investment in subsidiaries	106,192	-	-	(106,192)	-
Other assets, net	87,049	36,396	5,968	-	129,413
Total Assets	$ 1,771,716	$ 836,749	$ 181,582	$ (108,849)	$ 2,681,198
Liabilities					
Accounts payable and related party liabilities	$ 2,743	$ 51,331	$ 557	$ (2,657)	$ 51,974
Accrued liabilities	135,367	91,493	62,754	-	289,614
Advances and notes payable to parent and subsidiaries	(640,699)	638,903	1,796	-	-
Mortgage repurchase facility	-	-	65,305	-	65,305
Senior notes, net	1,242,325	-	-	-	1,242,325
Total Liabilities	739,736	781,727	130,412	(2,657)	1,649,218
Stockholders Equity	1,031,980	55,022	51,170	(106,192)	1,031,980
Total Liabilities and Stockholders Equity	$ 1,771,716	$ 836,749	$ 181,582	$ (108,849)	$ 2,681,198

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Balance Sheet

December 31, 2009

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
Asset					
Cash and cash equivalents	$ 1,210,123	$ 3,258	$ 20,871	$ -	$ 1,234,252
Marketable securities	327,944	-	-	-	327,944
Restricted cash	-	476	-	-	476
Receivables	137,688	24,740	44,573	(45,957)	161,044
Mortgage loans held-for-sale, net	-	-	62,315	-	62,315
Inventories, net					
Housing completed or under construction	-	260,324	-	-	260,324
Land and land under development	-	262,860	-	-	262,860
Investment in subsidiaries	90,413	-	-	(90,413)	-
Other assets, net	87,121	29,629	3,343	-	120,093
Total Assets	$ 1,853,289	$ 581,287	$ 131,102	$ (136,370)	$ 2,429,308
Liabilities					
Accounts payable and related party liabilities	$ 48,331	$ 34,017	$ 696	$ (45,957)	$ 37,087
Accrued liabilities	133,226	95,705	63,038	-	291,969
Advances and notes payable to parent and subsidiaries	(399,405)	410,285	(10,880)	-	-
Mortgage repurchase facility	-	-	29,115	-	29,115
Senior notes, net	997,991	-	-	-	997,991
Total Liabilities	780,143	540,007	81,969	(45,957)	1,356,162
Stockholders Equity	1,073,146	41,280	49,133	(90,413)	1,073,146
Total Liabilities and Stockholders Equity	$ 1,853,289	$ 581,287	$ 131,102	$ (136,370)	$ 2,429,308

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Statements of Operations

Three Months Ended June 30, 2010

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
REVENUE					
Home sales revenue	$ -	$ 316,809	$ -	$ (5,533)	$ 311,276
Land sales and other revenue	-	5,910	9,144	-	15,054
Equity in (loss) income of subsidiaries	15,307	-	-	(15,307)	-
Total Revenue	15,307	322,719	9,144	(20,840)	326,330
COSTS AND EXPENSES					
Home cost of sales	-	260,614	(19)	(5,533)	255,062
Asset impairments, net	-	-	-	-	-
Marketing and commission expenses	-	23,086	-	-	23,086
General and administrative and other expenses	18,607	25,828	5,656	-	50,091
Total Operating Costs and Expenses	18,607	309,528	5,637	(5,533)	328,239
(Loss) income from Operations	(3,300)	13,191	3,507	(15,307)	(1,909)
Other income (expense)	(2,422)	28	604	-	(1,790)
(Loss) income before income taxes	(5,722)	13,219	4,111	(15,307)	(3,699)
Provision for income taxes	2,038	(245)	(1,778)	-	15
NET (LOSS) INCOME	$ (3,684)	$ 12,974	$ 2,333	$ (15,307)	$ (3,684)

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Statements of Operations

Three Months Ended June 30, 2009

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
REVENUE					
Home sales revenue	$ -	$ 189,306	$ -	$ (3,752)	$ 185,554
Land sales and other revenue	-	2,706	7,006	-	9,712
Equity in (loss) income of subsidiaries	(4,778)	-	-	4,778	-
Total Revenue	(4,778)	192,012	7,006	1,026	195,266
COSTS AND EXPENSES					
Home cost of sales	-	155,876	(6)	(3,752)	152,118
Asset impairments	-	1,243	-	-	1,243
Marketing and commission expenses	-	14,883	-	-	14,883
General and administrative and other expenses	16,851	17,909	4,836	-	39,596
Total Operating Costs and Expenses	16,851	189,911	4,830	(3,752)	207,840
(Loss) income from Operations	(21,629)	2,101	2,176	4,778	(12,574)
Other income (expense)	(7,046)	147	410	-	(6,489)
(Loss) income before income taxes	(28,675)	2,248	2,586	4,778	(19,063)
Benefit from (provision for) income taxes	(907)	(8,443)	(1,169)	-	(10,519)
NET (LOSS) INCOME	$ (29,582)	$ (6,195)	$ 1,417	$ 4,778	$ (29,582)

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Statements of Operations

Six Months Ended June 30, 2010

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
REVENUE					
Home sales revenue	$ -	$ 460,655	$ -	$ (8,436)	$ 452,219
Land sales and other revenue	-	6,424	14,765	-	21,189
Equity in (loss) income of subsidiaries	17,661	-	-	(17,661)	-
Total Revenue	17,661	467,079	14,765	(26,097)	473,408
COSTS AND EXPENSES					
Home cost of sales	-	372,925	(37)	(8,436)	364,452
Asset impairments, net	-	-	-	-	-
Marketing and commission expenses	-	35,275	-	-	35,275
General and administrative and other expenses	36,789	44,451	9,745	-	90,985
Total Operating Costs and Expenses	36,789	452,651	9,708	(8,436)	490,712
(Loss) income from Operations	(19,128)	14,428	5,057	(17,661)	(17,304)
Other income (expense)	(8,630)	76	917	-	(7,637)
(Loss) income before income taxes	(27,758)	14,504	5,974	(17,661)	(24,941)
Provision for income taxes	3,201	(223)	(2,594)	-	384
NET (LOSS) INCOME	$ (24,557)	$ 14,281	$ 3,380	$ (17,661)	$ (24,557)

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements (continued)

Supplemental Condensed Combining Statements of Operations

Six Months Ended June 30, 2009

(In thousands)

	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
REVENUE					
Home sales revenue	$ -	$ 358,943	$		