MDC HOLDINGS INC
Form 10-Q
August 01, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 Denver, Colorado (Address of principal executive offices)	**80237 (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 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 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		**Accelerated Filer**
Non-Accelerated Filer	**(Do not check if a smaller reporting company)**	**Smaller Reporting Company**
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, 51,877,619 shares of M.D.C. Holdings, Inc. common stock were outstanding.

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FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

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PART I

ITEM 1. Unaudited Consolidated Financial Statements

M.D.C. HOLDINGS, INC.

Consolidated Balance Sheets.

	June 30, 2017	December 31, 2016
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$314,814	$259,087
Marketable securities	65,268	59,770
Restricted cash	5,027	3,778
Trade and other receivables	37,747	42,492
Inventories:		
Housing completed or under construction	909,911	874,199
Land and land under development	846,825	884,615
Total inventories	1,756,736	1,758,814
Property and equipment, net	27,194	28,041
Deferred tax asset, net	62,446	74,888
Metropolitan district bond securities (related party)	31,864	30,162
Prepaid and other assets	67,009	60,463
Total homebuilding assets	2,368,105	2,317,495
Financial Services:		
Cash and cash equivalents	23,162	23,822
Marketable securities	38,666	36,436
Mortgage loans held-for-sale, net	95,283	138,774
Other assets	11,195	12,062
Total financial services assets	168,306	211,094
Total Assets	$2,536,411	$2,528,589
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	$48,327	$42,088

Accrued liabilities	148,199	144,566
Revolving credit facility	15,000	15,000
Senior notes, net	842,232	841,646
Total homebuilding liabilities	1,053,758	1,043,300
Financial Services:		
Accounts payable and accrued liabilities	49,873	50,734
Mortgage repurchase facility	69,127	114,485
Total financial services liabilities	119,000	165,219
Total Liabilities	1,172,758	1,208,519
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; 51,862,230 and 51,485,090 issued and outstanding at June 30, 2017 and December 31, 2016, respectively	519	515
Additional paid-in-capital	992,870	983,532
Retained earnings	344,263	313,952
Accumulated other comprehensive income	26,001	22,071
Total Stockholders' Equity	1,363,653	1,320,070
Total Liabilities and Stockholders' Equity	$2,536,411	$2,528,589

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 and Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share amounts) (Unaudited)			
Homebuilding:				
Home sale revenues	$647,620	$571,195	$1,211,099	$965,615
Land sale revenues	1,351	316	1,598	2,640
Total home and land sale revenues	648,971	571,511	1,212,697	968,255
Home cost of sales	(539,077)	(475,836)	(1,008,019)	(805,862)
Land cost of sales	(1,202)	(216)	(1,413)	(1,879)
Inventory impairments	-	(1,600)	(4,850)	(1,600)
Total cost of sales	(540,279)	(477,652)	(1,014,282)	(809,341)
Gross margin	108,692	93,859	198,415	158,914
Selling, general and administrative expenses	(70,709)	(64,440)	(137,007)	(120,717)
Interest and other income	2,847	2,553	5,174	3,489
Other expense	(666)	(278)	(1,017)	(905)
Other-than-temporary impairment of marketable securities	(1)	(288)	(51)	(719)
Homebuilding pretax income	40,163	31,406	65,514	40,062
Financial Services:				
Revenues	19,073	15,823	37,052	26,840
Expenses	(8,500)	(7,543)	(16,398)	(13,784)
Interest and other income	1,238	772	2,217	1,613
Other-than-temporary impairment of marketable securities	(80)	-	(131)	-
Financial services pretax income	11,731	9,052	22,740	14,669
Income before income taxes	51,894	40,458	88,254	54,731
Provision for income taxes	(18,023)	(13,545)	(32,134)	(18,255)
Net income	$33,871	$26,913	$56,120	$36,476
Other comprehensive income related to available for sale securities, net of tax	1,944	895	3,930	2,843
Comprehensive income	$35,815	$27,808	$60,050	$39,319
Earnings per share:				
Basic	$0.65	$0.52	$1.09	$0.71
Diluted	$0.64	$0.52	$1.07	$0.71
Weighted average common shares outstanding				
Basic	51,514,309	51,293,917	51,428,079	51,281,643

Diluted	52,444,123	51,304,829	52,065,968	51,291,359
Dividends declared per share	$0.25	$0.24	$0.50	$0.48

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

	Six Months Ended June 30,	
	2017	2016
	(Dollars in thousands) (Unaudited)	
Operating Activities:		
Net income	$56,120	$36,476
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	2,038	6,163
Depreciation and amortization	2,704	2,367
Inventory impairments	4,850	1,600
Other-than-temporary impairment of marketable securities	182	719
Gain on sale of marketable securities	(1,758)	(262)
Deferred income tax expense	10,033	7,873
Net changes in assets and liabilities:		
Restricted cash	(1,249)	(196)
Trade and other receivables	5,419	(26,235)
Mortgage loans held-for-sale	43,491	(3,029)
Housing completed or under construction	(39,707)	(186,805)
Land and land under development	37,521	122,701
Prepaid expenses and other assets	(7,602)	(2,975)
Accounts payable and accrued liabilities	8,845	19,517
Net cash provided by (used in) operating activities	120,887	(22,086)
Investing Activities:		
Purchases of marketable securities	(12,043)	(15,426)
Sales of marketable securities	11,450	50,765
Purchases of property and equipment	(1,364)	(3,117)
Net cash provided by (used in) investing activities	(1,957)	32,222
Financing Activities:		
Advances (payments) on mortgage repurchase facility, net	(45,358)	4,686
Dividend payments	(25,809)	(24,504)
Proceeds from exercise of stock options	7,304	-
Net cash used in financing activities	(63,863)	(19,818)
Net increase (decrease) in cash and cash equivalents	55,067	(9,682)
Cash and cash equivalents:		
Beginning of period	282,909	180,988
End of period	$337,976	$171,306

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

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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," “the Company," “we,” “us,” or “our,” which refers to M.D.C. Holdings, Inc. and its subsidiaries) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at June 30, 2017 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, 2016.

On November 21, 2016, MDC’s board of directors declared a 5% stock dividend that was distributed on December 20, 2016 to shareholders of record on December 6, 2016. 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 periods 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,” “belie “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.

2. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") and created ASC Topic 606 (“ASC 606”), which is a comprehensive new revenue recognition model. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be adopted using either a full retrospective or modified retrospective transition method. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We expect to adopt the new standard under the modified retrospective approach in the 2018 first quarter. Although we are still in the process of evaluating our contracts and updating our accounting policies, we do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our recognition of revenues. While we are still evaluating the accounting for marketing costs under ASC 606, there is a possibility that the adoption of ASU 2014-09 will impact the timing of recognition and classification in our consolidated financial statements of certain marketing costs we incur to obtain sales contracts from our customers. For example, there are various marketing costs that we currently capitalize and amortize with each home delivered in a community. Under the new guidance, these costs may need to be expensed immediately. We are continuing to evaluate the exact impact ASU 2014-09 will have on recording revenue and our marketing costs in our consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”), which makes a number of changes to the current GAAP model, including changes to the accounting for equity investments and financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under ASU 2016-01, we will primarily be impacted by the changes to accounting for equity instruments with readily determinable fair values as they will no longer be permitted to be classified as available-for-sale (changes in fair value reported through other comprehensive income) and instead, all changes in fair value will be reported in earnings. ASU 2016-01 is effective for our interim and annual reporting periods beginning January 1, 2018 and is to be applied using a modified retrospective transition method. Early adoption of the applicable guidance from ASU 2016-01 is not permitted. Given the significant amount of our investments in equity securities, and assuming we have a similar level of investments when this guidance is adopted, we would expect that the impact to our consolidated statements of operations and comprehensive income from this update could be material. Furthermore, depending on trends in the stock market, we may see increased volatility in our consolidated statements of operations and comprehensive income.

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In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which requires a lessee to recognize a right-of-use asset and a corresponding lease liability for virtually all leases. The liability will be equal to the present value of the remaining lease payments while the right-of-use asset will be based on the liability, subject to adjustment, such as for initial direct costs. In addition, ASU 2016-02 expands the disclosure requirements for lessees. Upon adoption, we will be required to record a lease asset and lease liability related to our operating leases. ASU 2016-02 is effective for our interim and annual reporting periods beginning January 1, 2019 and is to be applied using a modified retrospective transition method. Early adoption is permitted. We do not plan to early adopt the guidance and we are currently evaluating the impact the update will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which amends ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities, and classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 became effective for us in the 2017 first quarter. The primary impact from this guidance, on a prospective basis, will be to our provision for income taxes line item on our consolidated statements of operations and comprehensive income. Any excess tax benefits or deficiencies from (1) the exercise or expiration of options or (2) the vesting of stock awards will now be recognized through our income tax provision as opposed to additional paid-in capital (to the extent we had a sufficient pool of windfall tax benefits). As a result of exercises of stock options and vesting of stock awards during the three and six months ended June 30, 2017, $0.1 million in excess tax benefits were recognized in our tax provision for each period. Furthermore, as of June 30, 2017, we had options covering approximately 567,000 shares (1) with exercise prices above the MDC closing share price at June 30, 2017 and (2) that will have their ability to exercise expire at some point during the 2017 fourth quarter. If the exercise price continues to be greater than the share price of MDC throughout 2017, these options will likely expire unexercised and as a result, we could recognize approximately $2.6 million in additional expense in our provision for income taxes line item on our consolidated statements of operations and comprehensive income in 2017. Another provision of ASU 2016-09 that is relevant to the Company is the classification of excess tax benefits on the statement of cash flows, which was adopted on a prospective basis. This provision did not have a material effect on the statement of cash flows and is not expected to have a material impact on the statement of cash flows in future quarterly or annual filings. Adoption of ASU 2016-09 was not material to our statement of cash flows for the periods presented and we do not anticipate it will be material in 2017.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires measurement and recognition of expected

credit losses for financial assets held. The amendments in ASU 2016-13 eliminate the probable threshold for initial recognition of a credit loss in current GAAP and reflect an entity's current estimate of all expected credit losses. ASU 2016-13 is effective for our interim and annual reporting periods beginning January 1, 2021, and is to be applied using a modified retrospective transition method. Earlier adoption is permitted. We do not plan to early adopt ASU 2016-13 and with our current holdings of financial instruments that are subject to credit losses, we do not believe adoption of this guidance will be material to our financial statements.

In August 2016, the FASB issued ASU 2016-15, S*tatement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* ("ASU 2016-15"), which amends ASC Topic 230*, Statement of Cash Flows*, to clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amendments in ASU 2016-15 are intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be applied using a retrospective transition method. Earlier adoption is permitted. We do not plan to early adopt ASU 2016-15 and do not believe the guidance will have a material impact on our financial statements upon adoption.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a *consensus of the FASB Emerging Issues Task Force* ("ASU 2016-18"), which requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the statement of cash flows. ASU 2016-18 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be applied using a retrospective transition method. Earlier adoption is permitted. We do not plan to early adopt ASU 2016-18 and do not believe the guidance will have a material impact on our financial statements upon adoption.

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Notes to Unaudited Consolidated Financial Statements

3. Segment Reporting

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

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 and Washington)
Mountain (Colorado and Utah)
East (Virginia, Florida and Maryland)

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 home and land sale revenues for our homebuilding operations and revenues for our financial services operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Homebuilding	(Dollars in thousands)			
West	$323,758	$270,031	$632,837	$461,406
Mountain	224,356	190,334	397,492	328,158
East	100,857	111,146	182,368	178,691
Total homebuilding revenues	$648,971	$571,511	$1,212,697	$968,255
Financial Services				
Mortgage operations	$12,697	$10,702	$24,880	$17,572
Other	6,376	5,121	12,172	9,268
Total financial services revenues	$19,073	$15,823	$37,052	$26,840

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Notes to Unaudited Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Homebuilding	(Dollars in thousands)			
West	$21,134	$15,740	$36,589	$25,438
Mountain	24,541	20,748	42,771	30,832
East	4,734	4,500	7,376	5,867
Corporate	(10,246)	(9,582)	(21,222)	(22,075)
Total homebuilding pretax income	$40,163	$31,406	$65,514	$40,062
Financial Services				
Mortgage operations	$7,670	$6,445	$15,236	$9,768
Other	4,061	2,607	7,504	4,901
Total financial services pretax income	$11,731	$9,052	$22,740	$14,669
Total pretax income	$51,894	$40,458	$88,254	$54,731

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

	June 30,	December 31,
	2017	2016
Homebuilding assets	(Dollars in thousands)	
West	$1,005,590	$1,035,033
Mountain	630,621	571,139
East	230,096	256,816
Corporate	501,798	454,507
Total homebuilding assets	$2,368,105	$2,317,495

Financial services assets		
Mortgage operations	$107,904	$153,182
Other	60,402	57,912
Total financial services assets	$168,306	$211,094
Total assets	$2,536,411	$2,528,589

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

4. 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 participating security holders consisting of shareholders of unvested restricted stock. Basic EPS is calculated by dividing income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding, excluding participating shares in accordance with ASC 260. To calculate diluted EPS, basic EPS is further adjusted to include the effect of potential dilutive stock options outstanding. The following table shows our basic and diluted EPS calculations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share amounts)			
Numerator				
Net income	$33,871	$26,913	$56,120	$36,476
Less: distributed earnings allocated to participating securities	(61)	(39)	(128)	(79)
Less: undistributed earnings allocated to participating securities	(98)	(47)	(140)	(36)
Net income attributable to common stockholders (numerator for basic earnings per share)	33,712	26,827	55,852	36,361
Add back: undistributed earnings allocated to participating securities	98	47	140	36
Less: undistributed earnings reallocated to participating securities	(96)	(47)	(138)	(36)
Numerator for diluted earnings per share under two class method	$33,714	$26,827	$55,854	$36,361
Denominator				
Weighted-average common shares outstanding	51,514,309	51,293,917	51,428,079	51,281,643

Add: dilutive effect of stock options	929,814	10,912	637,889	9,716
Denominator for diluted earnings per share under two class method	52,444,123	51,304,829	52,065,968	51,291,359
Basic Earnings Per Common Share	$0.65	$0.52	$1.09	$0.71
Diluted Earnings Per Common Share	$0.64	$0.52	$1.07	$0.71

Diluted EPS for the three and six months ended June 30, 2017 excluded options to purchase approximately 0.9 million and 1.4 million shares of common stock, respectively, because the effect of their inclusion would be anti-dilutive. For the same periods in 2016, diluted EPS excluded options to purchase approximately 6.4 million and 6.5 million shares, respectively. The year-over-year decreases for the three and six months ended June 30, 2017 in anti-dilutive shares and the year-over-year increases in dilutive shares were primarily the result of year-over-year increases in the average price of MDC stock.

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Notes to Unaudited Consolidated Financial Statements

5. Accumulated Other Comprehensive Income

The following table sets forth our changes in accumulated other comprehensive income ("AOCI"):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Unrealized gains on available-for-sale marketable securities [1] :				
Beginning balance	$ 9,479	$ 5,016	$ 7,730	$ 3,657
Other comprehensive income before reclassifications	2,389	880	4,423	1,404
Amounts reclassified from AOCI [2]	(692)	(552)	(977)	283
Ending balance	$ 11,176	$ 5,344	$ 11,176	$ 5,344
Unrealized gains on available-for-sale metropolitan district bond securities [1] :				
Beginning balance	$ 14,578	$ 12,647	$ 14,341	$ 12,058
Other comprehensive income before reclassifications	247	567	484	1,156
Amounts reclassified from AOCI	-	-	-	-
Ending balance	$ 14,825	$ 13,214	$ 14,825	$ 13,214
Total ending AOCI	$ 26,001	$ 18,558	$ 26,001	$ 18,558

(1) All amounts net-of-tax.
(2) See separate table below for details about these reclassifications

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

Affected Line Item in the Statements of Operations	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(Dollars in thousands)			
Homebuilding: Interest and other income	$889	$1,177	$1,411	$262
Homebuilding: Other-than-temporary impairment of marketable securities	(1)	(288)	(51)	(719)
Financial services: Interest and other income	308	-	347	-
Financial services: Other-than-temporary impairment of marketable securities	(80)	-	(131)	-
Income before income taxes	1,116	889	1,576	(457)
Provision for income taxes	(424)	(337)	(599)	174
Net income	$692	$552	$977	$(283)

6. 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.

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

Financial Instrument	Hierarchy	Fair Value	
		June 30, 2017	December 31, 2016
		(Dollars in thousands)	
Marketable equity securities (available-for-sale)	Level 1	$103,934	$96,206
Mortgage loans held-for-sale, net	Level 2	$95,283	$138,774
Metropolitan district bond securities (related party) (available-for-sale)	Level 3	$31,864	$30,162

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of June 30, 2017 and December 31, 2016.

Cash and cash equivalents, restricted cash, trade and other receivables, prepaid and other assets, accounts payable, accrued liabilities and borrowings on our revolving credit facility. Fair value approximates carrying value.

Marketable securities. As of June 30, 2017 and December 31, 2016, we held marketable equity securities, which consist of holdings in corporate equities, preferred stock and exchange traded funds. As of June 30, 2017 and December 31, 2016, all of our equity securities were treated as available-for-sale investments and as such, are recorded at fair value with all changes in fair value initially recorded through AOCI, subject to an assessment to determine if an unrealized loss, if applicable, is other-than-temporary.

Each quarter we assess all of our securities in an unrealized loss position for a potential other-than-temporary impairment (“OTTI”). If the unrealized loss is determined to be other-than-temporary, an OTTI is recorded in other-than-temporary impairment of marketable securities in the homebuilding or financial services sections of our consolidated statements of operations and comprehensive income. During the three and six months ended June 30,

2017, we recorded pretax OTTI’s of $0.1 million and $0.2 million, respectively, for certain of our equity securities that were in an unrealized loss position as of the end of each respective period. For the same periods in 2016, we recorded pretax OTTI’s of $0.3 million and $0.7 million, respectively.

The following tables set forth the cost and estimated fair value of our available-for-sale marketable securities:

	June 30, 2017			
	Cost Basis	OTTI	Net Cost Basis	Fair Value
	(Dollars in thousands)			
Homebuilding equity securities	$50,676	$(556)	$50,120	$65,268
Financial services equity securities	36,125	(337)	35,788	38,666
Total marketable equity securities	$86,801	$(893)	$85,908	$103,934

	December 31, 2016			
	Cost Basis	OTTI	Net Cost Basis	Fair Value
	(Dollars in thousands)			
Homebuilding equity securities	$48,910	$(685)	$48,225	$59,770
Financial services equity securities	35,885	(373)	35,512	36,436
Total marketable equity securities	$84,795	$(1,058)	$83,737	$96,206

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As of June 30, 2017 and December 31, 2016, our marketable equity securities were in net unrealized gain positions totaling $18.0 million and $12.5 million, respectively. Our individual marketable equity securities that were in unrealized loss positions, excluding those that were impaired as part of any OTTI, aggregated to an unrealized loss of $0.7 million and $0.5 million as of June 30, 2017 and December 31, 2016, respectively. The table below sets forth the aggregated unrealized losses for individual equity securities that were in unrealized loss positions but did not have OTTIs recognized. We do not believe the decline in the value of these marketable securities as of June 30, 2017 is other-than-temporary.

	June 30, 2017			December 31, 2016		
	Number of Securities in a Loss Position	Aggregate Loss Position	Aggregate Fair Value of Securities in a Loss Position	Number of Securities in a Loss Position	Aggregate Loss Position	Aggregate Fair Value of Securities in a Loss Position
	(Dollars in thousands)					
Marketable equity securities	1	$ (703)	$ 1,296	5	$ (457)	$ 6,045

The following table sets forth gross realized gains and losses from the sale of available-for-sale marketable securities. We record the net amount of these gains and losses to either other expense or interest and other income, dependent upon whether there is a net realized loss or gain, respectively, in the homebuilding section or financial services section of our consolidated statements of operations and comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Gross realized gains on sales of available-for-sale securities	$1,198	$1,379	$1,788	$1,470

Gross realized losses on sales of available-for-sale securities	(1)	(202)	(30)	(1,208)
Net realized gain on sales of available-for-sale securities	$1,197	$1,177	$1,758	$262

Mortgage loans held-for-sale, net. Our mortgage loans held-for-sale, which are measured at fair value on a recurring basis, include (1) mortgage loans held-for-sale that are under commitments to sell and (2) mortgage loans held-for-sale that are not under commitments to sell. At June 30, 2017 and December 31, 2016, we had $76.1 million and $96.2 million, respectively, of mortgage loans held-for-sale under commitments to sell. The fair value for those loans was based on quoted market prices for those mortgage loans, which are Level 2 fair value inputs. At June 30, 2017 and December 31, 2016, we had $19.2 million and $42.6 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party, which is a Level 2 fair value input.

Gains on sales of mortgage loans, net, are included as a component of revenues in the financial services section of our consolidated statements of operations and comprehensive income. For the three and six months ended June 30, 2017, we recorded net gains on the sales of mortgage loans of $10.2 million and $18.7 million, respectively, compared to $6.9 million and $12.5 million for the same periods in the prior year, respectively.

Metropolitan district bond securities (related party). The metropolitan district bond securities (the “Metro Bonds”) are included in the homebuilding section of our consolidated balance sheets. We acquired the Metro Bonds from a quasi-municipal corporation in the state of Colorado (the “Metro District”), which was formed to help fund and maintain the infrastructure associated with a master-planned community being developed by our Company. Cash flows received by the Company from these securities reflect principal and interest payments from the Metro District, which are generally received in the fourth quarter, and are supported by an annual levy on the taxable assessed value of real estate and personal property within the Metro District’s boundaries. The stated year of maturity for the Metro Bonds is 2037. However, if the unpaid principal and all accrued interest are not paid off by the year 2037, the Company will continue to receive principal and interest payments in perpetuity until the unpaid principal and accrued interest is paid in full.

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In accordance with ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), we adjust the bond principal balance using an interest accretion model that utilizes future cash flows expected to be collected. Furthermore, as this investment is accounted for as an available-for-sale asset, we update its fair value on a quarterly basis, with the adjustment being recorded through AOCI. The fair value is based upon a discounted future cash flow model, which uses Level 3 inputs. The primary unobservable inputs used in our discounted cash flow model are (1) the forecasted number of homes to be closed, as they drive increases to the tax paying base for the Metro District, (2) the forecasted assessed value of those closed homes and (3) the discount rate. Cash receipts, which are scheduled to be received in the fourth quarter, reduce the carrying value of the Metro Bonds. The increases in the value of the Metro Bonds during the past two years are primarily based on a larger percentage of future cash flows coming from homes that have closed, which utilize a lower discount rate as those cash flows have a reduced amount of risk. The table below provides quantitative data, as of June 30, 2017, regarding each unobservable input and the sensitivity of fair value to potential changes in those unobservable inputs.

	Quantitative Data				Sensitivity Analysis	
Unobservable Input	Range			Weighted Average	Movement in Fair Value from Increase in Input	Movement in Fair Value from Decrease in Input
Forecasted number of homes closed per year	0	to	120	107	Increase	Decrease
Forecasted assessed value	$465,000	to	$1,200,000	$567,000	Increase	Decrease
Discount rates	5%	to	12%	7.5%	Decrease	Increase

The table set forth below summarizes the activity for our Metro Bonds:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016

	(Dollars in thousands)			
Balance at beginning of period	$31,004	$27,277	$30,162	$25,911
Increase in fair value (recorded in other comprehensive income)	398	915	780	1,865
Change due to accretion of principal	462	412	922	828
Cash receipts	-	-	-	-
Balance at end of period	$31,864	$28,604	$31,864	$28,604

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 which were provided by multiple sources.

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
5 % Senior Notes due February 2020, net	$247,377	$267,406	$246,915	$265,611
5½% Senior Notes due January 2024, net	248,487	266,958	248,391	258,800
6% Senior Notes due January 2043, net	346,368	326,285	346,340	297,087
Total	$842,232	$860,649	$841,646	$821,498

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7. Inventories

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

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Housing Completed or Under Construction:		
West	$464,759	$470,503
Mountain	308,177	277,922
East	136,975	125,774
Subtotal	909,911	874,199
Land and Land Under Development:		
West	475,237	499,186
Mountain	292,074	271,252
East	79,514	114,177
Subtotal	846,825	884,615
Total Inventories	$1,756,736	$1,758,814

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, in accordance with ASC 360, we measure it at the lower of the carrying value or fair value less estimated costs to sell. In determining fair value, we primarily rely upon the most recent negotiated price which is a Level 2 input. If a negotiated price is not available, we will consider several factors including, but not limited to, current market conditions, recent comparable sales transactions and market analysis studies. If the fair value less estimated costs to sell is lower than the current carrying value, the land is impaired down to its estimated fair value less costs to sell.

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Impairments of homebuilding inventory by segment for the three and six months ended June 30, 2017 and 2016 are shown in the table below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
West	$ -	$ 1,400	$ 4,100	$ 1,400
Mountain	-	-	-	-
East	-	200	750	200
Total Inventory Impairments	$ -	$ 1,600	$ 4,850	$ 1,600

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

	Impairment Data				Quantitative Data
Three Months Ended	Total Subdivisions Tested	Inventory Impairments	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired	Discount Rate
	(Dollars in thousands)				
March 31, 2017	33	$ 4,850	$ 19,952	2	12% to 18%
June 30, 2017	35	$ -	$ -	-	N/A
March 31, 2016	14	$ -	$ -	-	N/A
June 30, 2016	17	$ 1,600	$ 6,415	2	12% to 15%

8. 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		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Homebuilding interest incurred	$13,194	$13,106	$26,382	$26,324
Less: Interest capitalized	(13,194)	(13,106)	(26,382)	(26,324)
Homebuilding interest expensed	$-	$-	$-	$-
Interest capitalized, beginning of period	$66,076	$79,783	$68,085	$77,541
Plus: Interest capitalized during period	13,194	13,106	26,382	26,324
Less: Previously capitalized interest included in home and land cost of sales	(17,179)	(15,739)	(32,376)	(26,715)
Interest capitalized, end of period	$62,091	$77,150	$62,091	$77,150

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9. Homebuilding Prepaid and Other Assets

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

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Deferred marketing costs	$36,322	$ 35,313
Land option deposits	15,727	8,683
Goodwill	6,008	6,008
Prepaid expenses	3,713	4,735
Deferred debt issuance costs on revolving credit facility, net	3,786	4,340
Other	1,453	1,384
Total	$67,009	$ 60,463

10. Homebuilding Accrued Liabilities and Financial Services Accounts Payable and Accrued Liabilities

The following table sets forth information relating to homebuilding accrued liabilities:

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Customer and escrow deposits	$37,156	$27,183
Warranty accrual	20,965	20,678
Accrued compensation and related expenses	20,127	27,830
Accrued interest	23,234	23,234
Land development and home construction accruals	7,009	8,695
Other accrued liabilities	39,708	36,946

Total accrued liabilities	$148,199	$144,566

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

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Insurance reserves	$41,705	$ 42,204
Accounts payable and other accrued liabilities	8,168	8,530
Total accounts payable and accrued liabilities	$49,873	$ 50,734

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 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.

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The table set forth below summarizes accrual, adjustment and payment activity related to our warranty accrual for the three and six months ended June 30, 2017 and 2016. For the six months ended June 30, 2017, we recorded adjustments to increase our warranty accrual of $0.1 million. No such adjustments were recorded during the three months ended June 30, 2017. For the three and six months ended June 30, 2016, we increased our warranty reserve by $0.3 million and $3.2 million, respectively. The adjustments made during 2016 were due to higher than expected recent warranty related expenditures.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Balance at beginning of period	$20,770	$16,852	$20,678	$15,328
Expense provisions	2,836	2,305	5,243	3,757
Cash payments	(2,641)	(2,190)	(5,006)	(5,105)
Adjustments	-	250	50	3,237
Balance at end of period	$20,965	$17,217	$20,965	$17,217

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 established for our insurance reserves. It is possible that changes in the payment experience used in estimating our ultimate losses

for construction defect claims could have a material impact on our reserves.

The table set forth below summarizes our insurance and construction defect claim reserves activity for the three and six months ended June 30, 2017 and 2016. These reserves are included as a component of accrued liabilities in either the financial services or homebuilding sections of the consolidated balance sheets.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Balance at beginning of period	$51,851	$46,379	$50,954	$45,811
Expense provisions	2,385	1,946	4,501	3,334
Cash payments, net of recoveries	(4,589)	(1,425)	(5,808)	(2,245)
Balance at end of period	$49,647	$46,900	$49,647	$46,900

In the ordinary course of business, we make payments from our insurance and construction defect claim reserves to settle litigation claims arising from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments, net of recoveries shown for the three and six months ended June 30, 2017 and 2016 are not necessarily indicative of what future cash payments will be for subsequent periods.

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13. Income Taxes

At the end of each interim period, we are required to estimate our 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. Our overall effective income tax rates were 34.7% and 36.4% for the three and six months ended June 30, 2017, respectively, compared to 33.5% and 33.4% for the three and six months ended June 30, 2016, respectively. The rates for the three and six months ended June 30, 2017 resulted in income tax expense of $18.0 million and $32.1 million, respectively, compared to income tax expense of $13.5 million and $18.3 million for the three and six months ended June 30, 2016. The year-over-year increase in our effective tax rate for the three months ended June 30, 2017 was primarily the result of our estimate of the full year effective tax rate for 2016 including an estimate for energy credits whereas our estimate for the 2017 full year includes no such energy credit as the credit has not been approved by the U.S. Congress. For the six months ended June 30, 2017, the year-over-year increase in our effective tax rate was due to the foregoing energy credits matter coupled with an establishment of a valuation allowance in the 2017 first quarter against certain state net operating loss carryforwards where realization was more uncertain at the time.

At June 30, 2017 and December 31, 2016 we had deferred tax assets, net of valuation allowances and deferred tax liabilities, of $62.4 million and $74.9 million, respectively. The valuation allowances were related to: (1) various state net operating loss carryforwards where realization is more uncertain at this time due to the limited carryforward periods that exist in certain states; and (2) the portion of the amount by which the carrying value of our Metro Bonds for tax purposes exceeds our carrying value for book purposes, as we believe realization of that portion is more uncertain at this time.

14. Senior Notes

The carrying value of our senior notes as of June 30, 2017 and December 31, 2016, net of any unamortized debt issuance costs or discount, were as follows:

	June 30,	December 31,

	2017	2016
	(Dollars in thousands)	
5 % Senior Notes due February 2020, net	$247,377	$246,915
5½% Senior Notes due January 2024, net	248,487	248,391
6% Senior Notes due January 2043, net	346,368	346,340
Total	$842,232	$841,646

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

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15. Stock-Based Compensation

We account for share-based awards in accordance with ASC 718, which requires the fair value of stock-based compensation awards to be amortized as an expense over the vesting period. Stock-based compensation awards are valued at fair value on the date of grant. The following table sets forth share-based award expense activity for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Stock option grants expense	$80	$2,643	$356	$5,293
Restricted stock awards expense	460	533	779	870
Performance share units expense	903	-	903	-
Total stock based compensation	$1,443	$3,176	$2,038	$6,163

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On May 18, 2015, the Company granted a non-qualified stock option to each of the Chief Executive Officer and the Chief Operating Officer for 1,050,000 shares of common stock under the Company's 2011 Equity Incentive Plan. The terms of each option provide that, over a five year period, one third of the option shares will vest as of each of the third, fourth, and fifth anniversary dates of the grant of the option; provided that all unvested option shares will vest immediately in the event the closing price of the Company's stock, as reported by the New York Stock Exchange, in any 20 out of 30 consecutive trading days closes at a price equal to or greater than 120% of the closing price on the date of grant (the "market-based condition"). The option exercise price is equal to the closing price of the Company's common stock on the date of grant, which was $27.10 and the expiration date of each option is May 18, 2025. In accordance with ASC 718, the market-based awards were assigned a fair value of $5.35 per share (total value of $11.2 million) on the date of grant using a Monte Carlo simulation model and, as calculated under that model, all expense was recorded on a straight-line basis through the end of the 2016 second quarter. Included in the stock option grant expense for the three and six months ended June 30, 2016, shown in the table above, was $2.5 million and $5.0 million, respectively, of stock option grant expense related to these market-based option grants. During the 2017 second quarter, the market-based condition was achieved and, as a result, the shares fully vested and became exercisable.

On July 25, 2016 and June 20, 2017, the Company granted long term performance stock unit awards ("PSUs") to each of the Chief Executive Officer ("CEO"), the Chief Operating Officer ("COO"), and the Chief Financial Officer ("CFO") under the Company's 2011 Equity Incentive Plan. The PSUs will be earned based upon the Company's performance, over a three year period (the "Performance Period"), measured by increasing home sale revenues over a "Base Period". Each award is conditioned upon the Company achieving an average gross margin from home sales percentage (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% ("Threshold Goals"), 50% of the Target Goals will be earned. 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, the number of PSUs earned shall be adjusted to be proportional to the partial performance between the Threshold Goals, Target Goals and Maximum Goals. Details for each defined term above for both grants have been provided in the table below.

					Threshold Goal		Target Goal		Maximum Goal		
Awardee	Date of	Performa	Base Period	Base	PSUs	Home	PSUs	Home	PSUs	Home	Fair Valu

	Award	Period		Period Revenues		Sale Revenues		Sale Revenues		Sale Revenues	per Share
CEO		July 1, 2016	July 1, 2015		52,500		105,000		210,000		
COO	July 25, 2016	to	to	$1.975 billion	52,500	$2.074 billion	105,000	$2.173 billion	210,000	$2.370 billion	$22.9
CFO		June 30, 2019	June 30, 2016		13,125		26,250		52,500		
CEO		April 1, 2017	April 1, 2016		55,000		110,000		220,000		
COO	June 20, 2017	to	to	$2.426 billion	55,000	$2.547 billion	110,000	$2.669 billion	220,000	$2.911 billion	$30.9
CFO		March 31, 2020	March 31, 2017		13,750		27,500		55,000		

In accordance with ASC 718, the PSUs were valued on the date of grant at their fair value. 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. As of June 30, 2017, the Company determined that achievement of the Threshold Goals was probable for the PSUs granted in 2016 and, as such, recorded share-based award expense of $0.9 million related to the awards. For the PSUs granted in 2017, the Company concluded that achievement of any of the performance metrics had not met the level of probability required to record compensation expense at that time and, as such, no expense related to the grant of these awards has been recognized as of June 30, 2017.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

16. Commitments and Contingencies

Surety Bonds and Letters of Credit. We are required to obtain surety bonds and letters of credit in support of our obligations for land development and subdivision improvements, homeowner association dues, warranty work, contractor license fees and earnest money deposits. At June 30, 2017, we had outstanding surety bonds and letters of credit totaling $175.8 million and $64.6 million, respectively, including $31.8 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately $24.1 million and $32.3 million, respectively. All letters of credit as of June 30, 2017, 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 Reserves. 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. Our obligation with respect to Option Contracts is generally limited to forfeiture of the related deposits. At June 30, 2017, we had cash deposits and letters of credit totaling $14.5 million and $3.1 million, respectively, at risk associated with the option to purchase 5,090 lots.

17. Derivative Financial Instruments

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

At June 30, 2017, we had interest rate lock commitments with an aggregate principal balance of $110.7 million. Additionally, we had $18.6 million of mortgage loans held-for-sale at June 30, 2017 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 $106.0 million at June 30, 2017.

For the three and six months ended June 30, 2017, we recorded a net gain of $0.2 million and a net loss of $0.0 million, respectively, on our derivatives, compared to net gains on of $0.4 million and $1.0 million for the same periods in 2016.

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 has an aggregate commitment of $550 million (the “Commitment”) and was amended on December 18, 2015 to extend the maturity to December 18, 2020. Each lender may issue letters of credit in an amount up to 50% of its commitment. The facility permits an increase in the maximum Commitment amount to $1.0 billion upon our request, subject to receipt of additional commitments from existing or additional lenders and the consent of the designated agent and the co-administrative agent. As defined in the Revolving Credit Facility agreement, interest rates on outstanding borrowings are equal to the highest of (1) 0.0% or (2) a specified eurocurrency rate, federal funds effective rate or prime 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.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

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 facility agreement. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a "term-out" of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) or a violation of anti-corruption or sanctions laws would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, a violation of anti-corruption or sanctions laws, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of June 30, 2017.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At June 30, 2017 and December 31, 2016, there were $32.8 million and $23.0 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. At both June 30, 2017 and December 31, 2016, we had $15.0 million outstanding under the Revolving Credit Facility. As of June 30, 2017, availability under the Revolving Credit Facility was approximately $502.2 million.

Mortgage Repurchase Facility. HomeAmerican entered into an Amended and Restated Master Repurchase Agreement (the "Mortgage Repurchase Facility") with U.S. Bank National Association ("USBNA"), effective September 16, 2016. The Mortgage Repurchase Facility amends and restates the prior Master Repurchase Agreement with USBNA dated as of November 12, 2008, as amended, which contained similar terms. The Mortgage Repurchase Facility increases the facility amount from $50 million to $75 million, extends the expiration date to September 15, 2017, adjusts the facility's sublimits, expands the types of eligible loans, and reduces the facility fee. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement ("Custody Agreement"), dated as of November 12, 2008, by and between HomeAmerican and USBNA. In the event that an eligible mortgage loan becomes ineligible, as defined under the Mortgage Repurchase Facility, HomeAmerican may be required to repurchase the ineligible mortgage loan immediately. The

maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased on June 28, 2017 from $75 million to $100 million and was effective through July 27, 2017. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from $75 million to $125 million from December 27, 2016 through January 25, 2017. At June 30, 2017 and December 31, 2016, HomeAmerican had $69.1 million and $114.5 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 LIBOR-based. The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth ratio, (iii) a minimum adjusted net income requirement, and (iv) a minimum Liquidity requirement. The foregoing capitalized terms are defined in the Mortgage Repurchase Facility. We believe HomeAmerican was in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of June 30, 2017.

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

19. Related Party Transactions

We contributed $1.5 million and $1.0 million in cash to the MDC/Richmond American Homes Foundation (the “Foundation”) during the six months ended June 30, 2017 and 2016, respectively. The Foundation is a Delaware non-profit corporation that was incorporated on September 30, 1999.

The Foundation is a non-profit organization operated exclusively for charitable, educational and other purposes beneficial to social welfare within the meaning of Section 501(c)(3) of the Internal Revenue Code. The following Directors and/or officers of the Company served as directors of the Foundation at June 30, 2017, all of whom serve without compensation:

Name	MDC Title
Larry A. Mizel	Chairman and Chief Executive Officer
David D. Mandarich	President

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

See Note 6 for related party information regarding the Metro District.

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 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 Washington, Inc.

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

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

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Balance Sheet

	June 30, 2017				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and cash equivalents	$310,329	$4,485	$ -	$-	$314,814
Marketable securities	65,268	-	-	-	65,268
Restricted cash	-	5,027	-	-	5,027
Trade and other receivables	5,490	34,378	-	(2,121)	37,747
Inventories:					
Housing completed or under construction	-	909,911	-	-	909,911
Land and land under development	-	846,825	-	-	846,825
Total inventories	-	1,756,736	-	-	1,756,736
Intercompany receivables	1,442,812	2,802	5,645	(1,451,259)	-
Investment in subsidiaries	354,952	-	-	(354,952)	-
Property and equipment, net	25,057	2,137	-	-	27,194
Deferred tax asset, net	63,094	-	-	(648)	62,446
Metropolitan district bond securities (related party)	31,864	-	-	-	31,864
Prepaid and other assets	3,464	63,545	-	-	67,009
Total homebuilding assets	2,302,330	1,869,110	5,645	(1,808,980)	2,368,105
Financial Services:					
Cash and cash equivalents	-	-	23,162	-	23,162
Marketable securities	-	-	38,666	-	38,666
Intercompany receivables	-	-	39,342	(39,342)	-
Mortgage loans held-for-sale, net	-	-	95,283	-	95,283
Other assets	-	-	10,547	648	11,195
Total financial services assets	-	-	207,000	(38,694)	168,306
Total Assets	$2,302,330	$1,869,110	$212,645	$(1,847,674)	$2,536,411

LIABILITIES AND EQUITY

Homebuilding:

Accounts payable	$-	$48,327	$ -	$-	$48,327
Accrued liabilities	33,656	111,794	99	2,650	148,199
Advances and notes payable to parent and subsidiaries	47,789	1,412,036	27,016	(1,486,841)	-
Revolving credit facility	15,000	-	-	-	15,000
Senior notes, net	842,232	-	-	-	842,232
Total homebuilding liabilities	938,677	1,572,157	27,115	(1,484,191)	1,053,758
Financial Services:					
Accounts payable and other liabilities	-	-	54,644	(4,771)	49,873
Advances and notes payable to parent and subsidiaries	-	-	3,760	(3,760)	-
Mortgage repurchase facility	-	-	69,127	-	69,127
Total financial services liabilities	-	-	127,531	(8,531)	119,000
Total Liabilities	938,677	1,572,157	154,646	(1,492,722)	1,172,758
Equity:					
Total Stockholders' Equity	1,363,653	296,953	57,999	(354,952)	1,363,653
Total Liabilities and Stockholders' Equity	$2,302,330	$1,869,110	$ 212,645	$(1,847,674)	$2,536,411

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Balance Sheet

	December 31, 2016				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and cash equivalents	$255,679	$3,408	$ -	$-	$259,087
Marketable securities	59,770	-	-	-	59,770
Restricted cash	-	3,778	-	-	3,778
Trade and other receivables	5,380	39,247	-	(2,135)	42,492
Inventories:					
Housing completed or under construction	-	874,199	-	-	874,199
Land and land under development	-	884,615	-	-	884,615
Total inventories	-	1,758,814	-	-	1,758,814
Intercompany receivables	1,475,291	2,803	5,289	(1,483,383)	-
Investment in subsidiaries	295,214	-	-	(295,214)	-
Property and equipment, net	25,495	2,546	-	-	28,041
Deferred tax assets, net	74,119	-	-	769	74,888
Metropolitan district bond securities (related party)	30,162	-	-	-	30,162
Other assets	5,267	55,196	-	-	60,463
Total Homebuilding Assets	2,226,377	1,865,792	5,289	(1,779,963)	2,317,495
Financial Services:					
Cash and cash equivalents	-	-	23,822	-	23,822
Marketable securities	-	-	36,436	-	36,436
Intercompany receivables	-	-	40,042	(40,042)	-
Mortgage loans held-for-sale, net	-	-	138,774	-	138,774
Other assets	-	-	12,831	(769)	12,062
Total Financial Services Assets	-	-	251,905	(40,811)	211,094
Total Assets	$2,226,377	$1,865,792	$ 257,194	$(1,820,774)	$2,528,589

LIABILITIES AND EQUITY

Homebuilding:

Accounts payable	$-	$42,088	$ -	$-	$42,088
Accrued liabilities	1,527	136,615	143	6,281	144,566
Advances and notes payable to parent and subsidiaries	48,134	1,445,276	26,266	(1,519,676)	-
Revolving credit facility	15,000	-	-	-	15,000
Senior notes, net	841,646	-	-	-	841,646
Total Homebuilding Liabilities	906,307	1,623,979	26,409	(1,513,395)	1,043,300
Financial Services:					
Accounts payable and accrued liabilities	-	-	59,150	(8,416)	50,734
Advances and notes payable to parent and subsidiaries	-	-	3,749	(3,749)	-
Mortgage repurchase facility	-	-	114,485	-	114,485
Total Financial Services Liabilities	-	-	177,384	(12,165)	165,219
Total Liabilities	906,307	1,623,979	203,793	(1,525,560)	1,208,519
Equity:					
Total Stockholders' Equity	1,320,070	241,813	53,401	(295,214)	1,320,070
Total Liabilities and Stockholders' Equity	$2,226,377	$1,865,792	$ 257,194	$(1,820,774)	$2,528,589

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Statement of Operations

	Three Months Ended June 30, 2017				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Homebuilding:					
Revenues	$-	$ 648,971	$ -	$ -	$ 648,971
Cost of sales	-	(540,279)	-	-	(540,279)
Inventory impairments	-	-	-	-	-
Gross margin	-	108,692	-	-	108,692
Selling, general, and administrative expenses	(12,233)	(58,284)	-	(192)	(70,709)
Equity income of subsidiaries	40,109	-	-	(40,109)	-
Interest and other income	2,332	666	3	(154)	2,847
Other expense	8	(674)	-	-	(666)
Other-than-temporary impairment of marketable securities	(1)	-	-	-	(1)
Homebuilding pretax income (loss)	30,215	50,400	3	(40,455)	40,163
Financial Services:					
Financial services pretax income	-	-	11,385	346	11,731
Income before income taxes	30,215	50,400	11,388	(40,109)	51,894
(Provision) benefit for income taxes	3,656	(17,479)	(4,200)	-	(18,023)
Net income	$33,871	$ 32,921	$ 7,188	$ (40,109)	$ 33,871
Other comprehensive income related to available-for-sale securities, net of tax	1,944	-	456	(456)	1,944
Comprehensive income	$35,815	$ 32,921	$ 7,644	$ (40,565)	$ 35,815

	Three Months Ended June 30, 2016				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Homebuilding:					
Revenues	$-	$ 571,511	$ -	$ -	$ 571,511
Cost of sales	-	(476,052)	-	-	(476,052)
Inventory impairments	-	(1,600)	-	-	(1,600)
Gross margin	-	93,859			