

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

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**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**  
**(State or other jurisdiction)**

**84-0622967**  
**(I.R.S.**  
**employer**

of incorporation or organization)      identification  
no.)

4350 South Monaco Street, Suite 500      80237  
Denver, Colorado      (Zip code)  
(Address of principal executive offices)

(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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M.D.C. HOLDINGS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

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Table of Contents**PART I****ITEM 1. Unaudited Consolidated Financial Statements****M.D.C. HOLDINGS, INC.****Consolidated Balance Sheets.**

|                                                       | June 30,<br>2017                                                      | December<br>31,<br>2016 |
|-------------------------------------------------------|-----------------------------------------------------------------------|-------------------------|
|                                                       | (Dollars in thousands,<br>except<br>per share amounts)<br>(Unaudited) |                         |
| <b>ASSETS</b>                                         |                                                                       |                         |
| <b>Homebuilding:</b>                                  |                                                                       |                         |
| 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               |
| <b>Financial Services:</b>                            |                                                                       |                         |
| 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            |
| <b>LIABILITIES AND EQUITY</b>                         |                                                                       |                         |
| <b>Homebuilding:</b>                                  |                                                                       |                         |
| Accounts payable                                      | \$ 48,327                                                             | \$ 42,088               |

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|                                                                                                                                                                      |             |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| 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   |
| <b>Financial Services:</b>                                                                                                                                           |             |             |
| 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   |
| <b>Stockholders' Equity</b>                                                                                                                                          |             |             |
| Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding                                                                          | -           | -           |
| Common stock, \$0.01 par value; 250,000,000 shares authorized; 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.

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

|                                                                                 | Three Months Ended<br>June 30,                   |            | Six Months Ended<br>June 30, |            |
|---------------------------------------------------------------------------------|--------------------------------------------------|------------|------------------------------|------------|
|                                                                                 | 2017                                             | 2016       | 2017                         | 2016       |
|                                                                                 | (Dollars in thousands, except per share amounts) |            |                              |            |
|                                                                                 | (Unaudited)                                      |            |                              |            |
| <b>Homebuilding:</b>                                                            |                                                  |            |                              |            |
| 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     |
| <b>Financial Services:</b>                                                      |                                                  |            |                              |            |
| 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 |

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|                              |            |            |            |            |
|------------------------------|------------|------------|------------|------------|
| 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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|                                                                                             | Six Months Ended<br>June 30, |            |
|---------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                             | 2017                         | 2016       |
|                                                                                             | (Dollars in thousands)       |            |
|                                                                                             | (Unaudited)                  |            |
| <b>Operating Activities:</b>                                                                |                              |            |
| 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 )  |
| <b>Investing Activities:</b>                                                                |                              |            |
| 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     |
| <b>Financing Activities:</b>                                                                |                              |            |
| 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," "believes," "estimates," "predicts," "potential" or "continue," or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this section are reasonable, we cannot guarantee future results. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be considered.

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

**Notes to Unaudited Consolidated Financial Statements**

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

**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

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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<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-----------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                   | 2017                           | 2016      | 2017                         | 2016      |
| <b>Homebuilding</b>               | (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 |
| <b>Financial Services</b>         |                                |           |                              |           |
| 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  |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements**

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

|                                        | Three Months Ended     |          | Six Months Ended |          |
|----------------------------------------|------------------------|----------|------------------|----------|
|                                        | June 30, 2017          | 2016     | June 30, 2017    | 2016     |
| <b>Homebuilding</b>                    | (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 |
| <b>Financial Services</b>              |                        |          |                  |          |
| 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, 2017          | December 31, 2016 |
|----------------------------|------------------------|-------------------|
| <b>Homebuilding assets</b> | (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       |
| <br>Total assets                | <br>\$2,536,411 | <br>\$2,528,589 |

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Table of Contents**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<br>June 30,                   |            | Six Months Ended<br>June 30, |            |
|-----------------------------------------------------------------------------------------|--------------------------------------------------|------------|------------------------------|------------|
|                                                                                         | 2017                                             | 2016       | 2017                         | 2016       |
|                                                                                         | (Dollars in thousands, except per share amounts) |            |                              |            |
| <b>Numerator</b>                                                                        |                                                  |            |                              |            |
| 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   |
| <b>Denominator</b>                                                                      |                                                  |            |                              |            |
| Weighted-average common shares outstanding                                              | 51,514,309                                       | 51,293,917 | 51,428,079                   | 51,281,643 |

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|                                                                   |            |            |            |            |
|-------------------------------------------------------------------|------------|------------|------------|------------|
| 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.

Table of Contents**M.D.C. HOLDINGS, INC.****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<br>June 30,<br>2017 |           | Six Months Ended<br>June 30,<br>2017 |           |
|---------------------------------------------------------------------------------------------|----------------------------------------|-----------|--------------------------------------|-----------|
|                                                                                             | 2016                                   |           | 2016                                 |           |
|                                                                                             | (Dollars in thousands)                 |           |                                      |           |
| Unrealized gains on available-for-sale marketable securities <sup>1</sup> :                 |                                        |           |                                      |           |
| 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 <sup>2</sup>                                                 | (692 )                                 | (552 )    | (977 )                               | 283       |
| Ending balance                                                                              | \$ 11,176                              | \$ 5,344  | \$ 11,176                            | \$ 5,344  |
| Unrealized gains on available-for-sale metropolitan district bond securities <sup>1</sup> : |                                        |           |                                      |           |
| 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<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |         |
|------------------------------------------------------------------------------|-----------------------------------|---------|---------------------------------|---------|
|                                                                              | 2017                              | 2016    | 2017                            | 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,<br>2017       | December<br>31,<br>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,

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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<br>Basis | OTTI    | Net<br>Cost<br>Basis | Fair<br>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<br>Basis | OTTI      | Net<br>Cost<br>Basis | Fair<br>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 Fair Value of Securities in a Loss Position | Number of Securities in a 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, 2017 |         | Six Months Ended June 30, 2016 |         |
|----------------------------------------------------------------|----------------------------------|---------|--------------------------------|---------|
|                                                                | 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 |

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|                                                                 |         |         |         |          |
|-----------------------------------------------------------------|---------|---------|---------|----------|
| 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.

| Unobservable Input                         | Quantitative Data |                |                  | Sensitivity Analysis Movement in Fair Value |                                               |
|--------------------------------------------|-------------------|----------------|------------------|---------------------------------------------|-----------------------------------------------|
|                                            | Range             |                | Weighted Average | 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 |

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|                                                                 | (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  |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****7. Inventories**

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

|                                          | June 30,<br>2017       | December<br>31,<br>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<br>June 30,<br>2017 |          | Six Months Ended<br>June 30,<br>2017 |          |
|-----------------------------|----------------------------------------|----------|--------------------------------------|----------|
|                             | 2016                                   | 2017     | 2016                                 | 2017     |
|                             | (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 Inventory Subdivisions Tested | 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<br>Ended<br>June 30, |           | Six Months Ended<br>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 |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****9. Homebuilding Prepaid and Other Assets**

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

|                                                                | June 30,<br>2017          | December<br>31,<br>2016 |
|----------------------------------------------------------------|---------------------------|-------------------------|
|                                                                | (Dollars in<br>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,<br>2017          | December<br>31,<br>2016 |
|-------------------------------------------------|---------------------------|-------------------------|
|                                                 | (Dollars in<br>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,<br>2017       | December<br>31,<br>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.

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements**

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, 2017          | 2016     | June 30, 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<br>Ended<br>June 30,<br>2017 |          | Six Months Ended<br>June 30,<br>2017 |          |
|----------------------------------|-------------------------------------------|----------|--------------------------------------|----------|
|                                  | 2016                                      |          | 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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**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**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

## 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 |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements**

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.

| Awardee | Date of | Performance | Base Period | Base | Threshold Goal |      | Target Goal |      | Maximum Goal |      | Fair Value |
|---------|---------|-------------|-------------|------|----------------|------|-------------|------|--------------|------|------------|
|         |         |             |             |      | PSUs           | Home | PSUs        | Home | PSUs         | Home |            |

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|     | Award            | Period            |                   | Period          | Sale     |                 | Sale     |                 | Sale     |                 | per    |
|-----|------------------|-------------------|-------------------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|--------|
|     |                  |                   |                   |                 | Revenues | Revenues        | Revenues | Revenues        | Revenues | Revenues        | Share  |
| CEO | July 25,<br>2016 | July 1,<br>2016   | July 1,<br>2015   |                 | 52,500   |                 | 105,000  |                 | 210,000  |                 |        |
| COO |                  | to                | to                | \$1.975 billion | 52,500   | \$2.074 billion | 105,000  | \$2.173 billion | 210,000  | \$2.370 billion | \$22.0 |
| CFO |                  | June 30,<br>2019  | June 30,<br>2016  |                 | 13,125   |                 | 26,250   |                 | 52,500   |                 |        |
| CEO | June 20,<br>2017 | April 1,<br>2017  | April 1,<br>2016  |                 | 55,000   |                 | 110,000  |                 | 220,000  |                 |        |
| COO |                  | to                | to                | \$2.426 billion | 55,000   | \$2.547 billion | 110,000  | \$2.669 billion | 220,000  | \$2.911 billion | \$30.0 |
| CFO |                  | March 31,<br>2020 | March 31,<br>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.

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**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.

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****Supplemental Condensed Combining Balance Sheet**

|                                                       | June 30, 2017          |                           |                                   |                        |                     |
|-------------------------------------------------------|------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                       | MDC                    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                                                       | (Dollars in thousands) |                           |                                   |                        |                     |
| <b>ASSETS</b>                                         |                        |                           |                                   |                        |                     |
| <b>Homebuilding:</b>                                  |                        |                           |                                   |                        |                     |
| 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           |
| <b>Financial Services:</b>                            |                        |                           |                                   |                        |                     |
| 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:**

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|                                                       |         |           |        |             |           |
|-------------------------------------------------------|---------|-----------|--------|-------------|-----------|
| 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 |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****Supplemental Condensed Combining Balance Sheet**

|                                                       | December 31, 2016      |                           |                                   |                        |                     |
|-------------------------------------------------------|------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                       | MDC                    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                                                       | (Dollars in thousands) |                           |                                   |                        |                     |
| <b>ASSETS</b>                                         |                        |                           |                                   |                        |                     |
| <b>Homebuilding:</b>                                  |                        |                           |                                   |                        |                     |
| 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           |
| <b>Financial Services:</b>                            |                        |                           |                                   |                        |                     |
| 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:**

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|                                                       |         |           |        |             |           |
|-------------------------------------------------------|---------|-----------|--------|-------------|-----------|
| 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 |

Table of Contents**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<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|---------------------------------------------------------------------------------|------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                                                 | (Dollars in thousands) |                           |                                   |                        |                     |
| <b>Homebuilding:</b>                                                            |                        |                           |                                   |                        |                     |
| 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              |
| <b>Financial Services:</b>                                                      |                        |                           |                                   |                        |                     |
| 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<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|-----------------------|------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                       | (Dollars in thousands) |                           |                                   |                        |                     |
| <b>Homebuilding:</b>  |                        |                           |                                   |                        |                     |
| Revenues              | \$-                    | \$ 571,511                | \$ -                              | \$ -                   | \$ 571,511          |
| Cost of sales         | -                      | (476,052 )                | -                                 | -                      | (476,052 )          |
| Inventory impairments | -                      | (1,600 )                  | -                                 | -                      | (1,600 )            |
| Gross margin          | -                      | 93,859                    | -                                 | -                      | 93,859              |

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|                                                                                 |          |           |          |             |           |
|---------------------------------------------------------------------------------|----------|-----------|----------|-------------|-----------|
| Selling, general, and administrative expenses                                   | (11,228) | (53,024 ) | -        | (188 )      | (64,440 ) |
| Equity income of subsidiaries                                                   | 32,909   | -         | -        | (32,909 )   | -         |
| Interest and other income                                                       | 2,020    | 423       | 2        | 108         | 2,553     |
| Interest expense                                                                | -        | -         | -        | -           | -         |
| Other expense                                                                   | (1 )     | (277 )    | -        | -           | (278 )    |
| Other-than-temporary impairment of marketable securities                        | (288 )   | -         | -        | -           | (288 )    |
| Homebuilding pretax income (loss)                                               | 23,412   | 40,981    | 2        | (32,989 )   | 31,406    |
| <b>Financial Services:</b>                                                      |          |           |          |             |           |
| Financial services pretax income                                                | -        | -         | 8,972    | 80          | 9,052     |
| Income before income taxes                                                      | 23,412   | 40,981    | 8,974    | (32,909 )   | 40,458    |
| (Provision) benefit for income taxes                                            | 3,501    | (13,746 ) | (3,300 ) | -           | (13,545 ) |
| Net income                                                                      | \$26,913 | \$27,235  | \$5,674  | \$(32,909 ) | \$26,913  |
| Other comprehensive income related to available-for-sale securities, net of tax | 895      | -         | 371      | (371 )      | 895       |
| Comprehensive income                                                            | \$27,808 | \$27,235  | \$6,045  | \$(33,280 ) | \$27,808  |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****Supplemental Condensed Combining Statement of Operations**

|                                                                                 | Six Months Ended June 30, 2017 |                           |                                   |                        |                     |
|---------------------------------------------------------------------------------|--------------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                                                 | MDC                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                                                                                 | (Dollars in thousands)         |                           |                                   |                        |                     |
| <b>Homebuilding:</b>                                                            |                                |                           |                                   |                        |                     |
| Revenues                                                                        | \$-                            | \$ 1,212,697              | \$ -                              | \$ -                   | \$ 1,212,697        |
| Home and land cost of sales                                                     | -                              | (1,009,432)               | -                                 | -                      | (1,009,432 )        |
| Inventory impairments                                                           | -                              | (4,850 )                  | -                                 | -                      | (4,850 )            |
| Gross margin                                                                    | -                              | 198,415                   | -                                 | -                      | 198,415             |
| Selling, general, and administrative expenses                                   | (24,628)                       | (112,005 )                | -                                 | (374 )                 | (137,007 )          |
| Equity income of subsidiaries                                                   | 69,140                         | -                         | -                                 | (69,140 )              | -                   |
| Interest and other income                                                       | 4,008                          | 1,340                     | 4                                 | (178 )                 | 5,174               |
| Other expense                                                                   | 16                             | (1,033 )                  | -                                 | -                      | (1,017 )            |
| Other-than-temporary impairment of marketable securities                        | (51 )                          | -                         | -                                 | -                      | (51 )               |
| Homebuilding pretax income (loss)                                               | 48,485                         | 86,717                    | 4                                 | (69,692 )              | 65,514              |
| <b>Financial Services:</b>                                                      |                                |                           |                                   |                        |                     |
| Financial services pretax income                                                | -                              | -                         | 22,188                            | 552                    | 22,740              |
| Income before income taxes                                                      | 48,485                         | 86,717                    | 22,192                            | (69,140 )              | 88,254              |
| (Provision) benefit for income taxes                                            | 7,635                          | (31,574 )                 | (8,195 )                          | -                      | (32,134 )           |
| Net income                                                                      | \$56,120                       | \$55,143                  | \$ 13,997                         | \$ (69,140 )           | \$56,120            |
| Other comprehensive income related to available for sale securities, net of tax | 3,930                          | -                         | 1,290                             | (1,290 )               | 3,930               |
| Comprehensive income                                                            | \$60,050                       | \$55,143                  | \$ 15,287                         | \$ (70,430 )           | \$60,050            |

|                             | Six Months Ended June 30, 2016 |                           |                                   |                        |                     |
|-----------------------------|--------------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                             | MDC                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                             | (Dollars in thousands)         |                           |                                   |                        |                     |
| <b>Homebuilding:</b>        |                                |                           |                                   |                        |                     |
| Revenues                    | \$-                            | \$ 968,255                | \$ -                              | \$ -                   | \$ 968,255          |
| Home and land cost of sales | -                              | (807,441 )                | (300 )                            | -                      | (807,741 )          |
| Inventory impairments       | -                              | (1,600 )                  | -                                 | -                      | (1,600 )            |
| Gross margin                | -                              | 159,214                   | (300 )                            | -                      | 158,914             |

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|                                                                                 |          |           |          |              |            |
|---------------------------------------------------------------------------------|----------|-----------|----------|--------------|------------|
| Selling, general, and administrative expenses                                   | (23,330) | (97,040 ) | -        | (347 )       | (120,717 ) |
| Equity income of subsidiaries                                                   | 50,279   | -         | -        | (50,279 )    | -          |
| Interest and other income                                                       | 2,492    | 1,152     | 3        | (158 )       | 3,489      |
| Other expense                                                                   | (3 )     | (902 )    | -        | -            | (905 )     |
| Other-than-temporary impairment of marketable securities                        | (719 )   | -         | -        | -            | (719 )     |
| Homebuilding pretax income (loss)                                               | 28,719   | 62,424    | (297 )   | (50,784 )    | 40,062     |
| <b>Financial Services:</b>                                                      |          |           |          |              |            |
| Financial services pretax income                                                | -        | -         | 14,164   | 505          | 14,669     |
| Income before income taxes                                                      | 28,719   | 62,424    | 13,867   | (50,279 )    | 54,731     |
| (Provision) benefit for income taxes                                            | 7,757    | (20,822 ) | (5,190 ) | -            | (18,255 )  |
| Net income                                                                      | \$36,476 | \$41,602  | \$ 8,677 | \$ (50,279 ) | \$ 36,476  |
| Other comprehensive income related to available for sale securities, net of tax | 2,843    | -         | 370      | (370 )       | 2,843      |
| Comprehensive income                                                            | \$39,319 | \$41,602  | \$ 9,047 | \$ (50,649 ) | \$ 39,319  |

Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****Supplemental Condensed Combining Statement of Cash Flows**

|                                                     | Six Months Ended June 30, 2017 |                           |                                   |                        |                     |
|-----------------------------------------------------|--------------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                     | MDC                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                                                     | (Dollars in thousands)         |                           |                                   |                        |                     |
| Net cash provided by (used in) operating activities | \$32,086                       | \$ 34,505                 | \$ 54,296                         | \$ -                   | \$ 120,887          |
| Net cash provided by (used in) investing activities | 41,069                         | (88 )                     | (59 )                             | (42,879 )              | (1,957 )            |
| Financing activities:                               |                                |                           |                                   |                        |                     |
| Payments from (advances to) subsidiaries            | -                              | (33,340 )                 | (9,539 )                          | 42,879                 | -                   |
| Mortgage repurchase facility                        | -                              | -                         | (45,358 )                         | -                      | (45,358 )           |
| Dividend payments                                   | (25,809 )                      | -                         | -                                 | -                      | (25,809 )           |
| Proceeds from exercise of stock options             | 7,304                          | -                         | -                                 | -                      | 7,304               |
| Net cash provided by (used in) financing activities | (18,505 )                      | (33,340 )                 | (54,897 )                         | 42,879                 | (63,863 )           |
| Net increase in cash and cash equivalents           | 54,650                         | 1,077                     | (660 )                            | -                      | 55,067              |
| Cash and cash equivalents:                          |                                |                           |                                   |                        |                     |
| Beginning of period                                 | 255,679                        | 3,408                     | 23,822                            | -                      | 282,909             |
| End of period                                       | \$310,329                      | \$ 4,485                  | \$ 23,162                         | \$ -                   | \$ 337,976          |

|                                                     | Six Months Ended June 30, 2016 |                           |                                   |                        |                     |
|-----------------------------------------------------|--------------------------------|---------------------------|-----------------------------------|------------------------|---------------------|
|                                                     | MDC                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminating<br>Entries | Consolidated<br>MDC |
|                                                     | (Dollars in thousands)         |                           |                                   |                        |                     |
| Net cash provided by (used in) operating activities | \$17,988                       | \$ (45,748 )              | \$ 5,674                          | \$ -                   | \$ (22,086 )        |
| Net cash provided by (used in) investing activities | (6,756 )                       | (1,132 )                  | (2,967 )                          | 43,077                 | 32,222              |
| Financing activities:                               |                                |                           |                                   |                        |                     |
| Payments from (advances to) subsidiaries            | -                              | 47,816                    | (4,739 )                          | (43,077 )              | -                   |
| Mortgage repurchase facility                        | -                              | -                         | 4,686                             | -                      | 4,686               |
| Dividend payments                                   | (24,504 )                      | -                         | -                                 | -                      | (24,504 )           |
| Proceeds from the exercise of stock options         | -                              | -                         | -                                 | -                      | -                   |

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|                                                     |            |          |           |           |            |
|-----------------------------------------------------|------------|----------|-----------|-----------|------------|
| Net cash provided by (used in) financing activities | (24,504 )  | 47,816   | (53 )     | (43,077 ) | (19,818 )  |
| Net increase in cash and cash equivalents           | (13,272 )  | 936      | 2,654     | -         | (9,682 )   |
| Cash and cash equivalents:                          |            |          |           |           |            |
| Beginning of period                                 | 141,245    | 3,097    | 36,646    | -         | 180,988    |
| End of period                                       | \$ 127,973 | \$ 4,033 | \$ 39,300 | \$ -      | \$ 171,306 |

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Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with, and is qualified in its entirety by, the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are based upon management's experiences, observations, and analyses. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Item 1A: Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016 and this Quarterly Report on Form 10-Q.*

|                                                          | Three Months Ended<br>June 30,                   |            | Six Months Ended<br>June 30, |            |
|----------------------------------------------------------|--------------------------------------------------|------------|------------------------------|------------|
|                                                          | 2017                                             | 2016       | 2017                         | 2016       |
|                                                          | (Dollars in thousands, except per share amounts) |            |                              |            |
| <b>Homebuilding:</b>                                     |                                                  |            |                              |            |
| 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    |
| Gross margin %                                           | 16.7 %                                           | 16.4 %     | 16.4 %                       | 16.4 %     |
| 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     |
| <b>Financial Services:</b>                               |                                                  |            |                              |            |
| 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   |

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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 |
|------------------------------|--------|--------|--------|--------|

Cash provided by (used in):

|                      |           |           |            |            |
|----------------------|-----------|-----------|------------|------------|
| Operating Activities | \$27,001  | \$(7,101) | \$120,887  | \$(22,086) |
| Investing Activities | \$(457)   | \$19,048  | \$(1,957)  | \$32,222   |
| Financing Activities | \$(8,630) | \$20,824  | \$(63,863) | \$(19,818) |

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*Overview*

*Industry Conditions*

The homebuilding industry has continued to be supported by robust economic fundamentals such as strong consumer confidence and improving levels of employment and personal income. These conditions, in addition to improvements in household formation and a low supply of new homes, drove favorable operating conditions for homebuilders in many markets. Despite three Federal Reserve interest rate increases since December 2016, mortgage interest rates have remained near historical lows, supporting affordability for new home purchases. Furthermore, many builders in the industry continue to focus on new, more affordable home plans designed to capture increasing demand from first-time homebuyers.

*Three Months Ended June 30, 2017*

For the three months ended June 30, 2017, our net income was \$33.9 million, or \$0.64 per diluted share, a 26% increase compared to net income of \$26.9 million, or \$0.52 per diluted share, for the same period in the prior year. The increase was primarily driven by an improvement in home sale revenues of 13%, a 40 basis point improvement in our gross margin from home sale revenues percentage, and a 40 basis point improvement in our selling, general and administrative (“SG&A”) expenses as a percentage of home sale revenues (“SG&A rate”), slightly offset by a 120 basis point increase in our effective tax rate.

Home sale revenues were up from \$571.2 million in the 2016 second quarter to \$647.6 million in the 2017 second quarter. This \$76.4 million improvement was primarily the result of an 11% increase in the number of homes delivered and, to a lesser extent, a 2% increase in our average selling price. Our improvement in the number of homes delivered was the result of an 8% year-over-year increase in our beginning homes in backlog and a stronger backlog conversion rate.

The dollar value of net new home orders decreased 2% from the prior year period, driven by a 4% decline in average active communities from 165 in the 2016 second quarter to 158 in the same period in the current year. The impact of the decrease in average active communities was partially offset by a slight improvement in our monthly sales absorption pace from 3.34 in the 2016 second quarter to 3.41 for the 2017 second quarter.

*Six Months Ended June 30, 2017*

For the six months ended June 30, 2017, our net income was \$56.1 million, or \$1.07 per diluted share, a 54% increase compared to net income of \$36.5 million, or \$0.71 per diluted share, for the same period in the prior year. The increase was primarily driven by an improvement in home sale revenues of 25% and a 120 basis point improvement in our SG&A rate, slightly offset by a \$3.3 million increase in inventory impairments.

*Outlook\**

We ended the second quarter with our active community count down 4% year-over-year, in part due to the strong rate of sales activity we experienced over the past year. However, we have made significant progress in the process of adding new communities to our operations. In the second quarter alone, we approved more than 3,300 lots for acquisition, far exceeding the activity for any other quarter over the past three years. We believe that the increase in approval activity gives us the opportunity to increase our active community count by the end of 2017, relative to our active community count at the end of the second quarter.

We continue to see robust demand for our new more affordable homes, which are generally smaller and less complex to build. We anticipate that these homes will become a larger percentage of our deliveries as the year progresses and this percentage should continue to increase in 2018. The positive response to these homes reinforces our belief that the first-time homebuyer may drive growth in new home sales nationwide. Although overall economic conditions remain strong, there remains substantial uncertainty surrounding how the policies of the new presidential administration will impact the homebuilding industry.

We ended the 2017 second quarter with overall liquidity of nearly \$1.0 billion and no senior note maturities until 2020. We believe that our financial position at June 30, 2017 provides us with the ability to grow operations as opportunities arise while still providing adequate protection from the historically volatile and cyclical nature of the housing market and domestic and global economies.

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

Table of Contents*Homebuilding**Pretax Income*

|                                  | Three Months Ended     |          |         |      | Six Months Ended |          |          |       |
|----------------------------------|------------------------|----------|---------|------|------------------|----------|----------|-------|
|                                  | June 30,               |          | Change  |      | June 30,         |          | Change   |       |
|                                  | 2017                   | 2016     | Amount  | %    | 2017             | 2016     | Amount   | %     |
|                                  | (Dollars in thousands) |          |         |      |                  |          |          |       |
| West                             | \$21,134               | \$15,740 | \$5,394 | 34 % | \$36,589         | \$25,438 | \$11,151 | 44 %  |
| Mountain                         | 24,541                 | 20,748   | 3,793   | 18 % | 42,771           | 30,832   | 11,939   | 39 %  |
| East                             | 4,734                  | 4,500    | 234     | 5 %  | 7,376            | 5,867    | 1,509    | 26 %  |
| Corporate                        | (10,246)               | (9,582)  | (664)   | 7 %  | (21,222)         | (22,075) | 853      | (4) % |
| Total homebuilding pretax income | \$40,163               | \$31,406 | \$8,757 | 28 % | \$65,514         | \$40,062 | \$25,452 | 64 %  |

Homebuilding pretax income for the 2017 second quarter was \$40.2 million, an increase of \$8.8 million from \$31.4 million for the same period in the prior year. The increase was primarily attributable to (1) a 13% increase in home sale revenues, (2) a 40 basis point improvement in our gross margin from home sale revenues percentage, driven by slight year-over-year improvements in each of our homebuilding segments and a higher percentage of homes delivered in our West and Mountain segments, which have higher gross margin from home sale revenues percentages, and (3) a 40 basis point improvement in our SG&A rate. The year-over-year increases in pretax income for each of our West and Mountain segments were driven primarily by higher home sale revenues of 20% and 17%, respectively. Our West segment also benefited from an improvement in its SG&A rate. Our East segment had a significant decline in general and administrative expenses, primarily due to a decrease in headcount, which was mostly offset by a 9% decrease in home sale revenues. The pretax loss for our Corporate segment increased from the prior year primarily as a result of an increase in compensation expenses mostly due to an increase in headcount.

For the six months ended June 30, 2017, we recorded homebuilding pretax income of \$65.5 million, compared to \$40.1 million for the same period in the prior year, an increase of \$25.5 million, or 64%. The increase was primarily attributable to a 25% increase in home sale revenues and a 120 basis point improvement in our SG&A rate, partly offset by \$4.9 million in inventory impairments. The year-over-year increases in pretax income for our West and Mountain segments were driven primarily by higher home sale revenues of 37% and 21%, respectively. Our West and East segment benefited from improvements in their SG&A rates, which was the primary driver of the increase in pretax income for our East segment. The improvement in our West segment, however, was negatively impacted by \$4.1 million of inventory impairments taken in the 2017 first quarter. The pretax loss for our Corporate segment was reduced from the prior year primarily as a result of an increase in interest and other income from investments and a decrease in stock-based compensation expense.

*Assets*

|                           | June 30,<br>2017       | December<br>31,<br>2016 | Change<br>Amount | %     |
|---------------------------|------------------------|-------------------------|------------------|-------|
|                           | (Dollars in thousands) |                         |                  |       |
| West                      | \$ 1,005,590           | \$ 1,035,033            | \$ (29,443)      | (3) % |
| Mountain                  | 630,621                | 571,139                 | 59,482           | 10 %  |
| East                      | 230,096                | 256,816                 | (26,720)         | (10)% |
| Corporate                 | 501,798                | 454,507                 | 47,291           | 10 %  |
| Total homebuilding assets | \$ 2,368,105           | \$ 2,317,495            | \$ 50,610        | 2 %   |

Total homebuilding assets increased at June 30, 2017 compared to December 31, 2016. In our Mountain segment, the increase was driven by (1) higher land and land under development balances due to strong land acquisition activity during the six months ended June 30, 2017, and (2) a higher number of homes completed or under construction as result of an increase in backlog under construction. For our West segment, the decline in total homebuilding assets was primarily due to the timing of land acquisition activity during the six months ended June 30, 2017. The reduction in assets in our East segment is due to reduced land acquisition activity as our returns in our Maryland and Virginia markets have been lower than the returns we expect to realize. Assets for our Corporate segment increased primarily as a result of an increase in cash and cash equivalents that was driven by positive operating results.

Table of Contents*Home and Land Sale Revenues*

|                                      | June 30,<br>2017       | 2016      | Change<br>Amount | %     | June 30,<br>2017 | 2016      | Change<br>Amount | %    |
|--------------------------------------|------------------------|-----------|------------------|-------|------------------|-----------|------------------|------|
|                                      | (Dollars in thousands) |           |                  |       |                  |           |                  |      |
| West                                 | \$323,758              | \$270,031 | \$53,727         | 20 %  | \$632,837        | \$461,406 | \$171,431        | 37 % |
| Mountain                             | 224,356                | 190,334   | 34,022           | 18 %  | 397,492          | 328,158   | 69,334           | 21 % |
| East                                 | 100,857                | 111,146   | (10,289)         | (9) % | 182,368          | 178,691   | 3,677            | 2 %  |
| Total home and land sale<br>revenues | \$648,971              | \$571,511 | \$77,460         | 14 %  | \$1,212,697      | \$968,255 | \$244,442        | 25 % |

For the 2017 second quarter, home and land sale revenues increased \$77.5 million year-over-year to \$649.0 million. For the six months ended June 30, 2017 home and land sale revenues increased \$244.4 million from the same period in the prior year to \$1.21 billion. The increases for both the three and six months ended June 30, 2017 compared to the same periods in the prior year were driven by increases in new home deliveries of 11% and 22%, respectively.

*New Home Deliveries*

|            | Three Months Ended June 30,<br>2017 |                 |                  | 2016  |                 |                  | % Change |                 |                  |
|------------|-------------------------------------|-----------------|------------------|-------|-----------------|------------------|----------|-----------------|------------------|
|            | Homes                               | Dollar<br>Value | Average<br>Price | Homes | Dollar<br>Value | Average<br>Price | Homes    | Dollar<br>Value | Average<br>Price |
|            | (Dollars in thousands)              |                 |                  |       |                 |                  |          |                 |                  |
| Arizona    | 212                                 | \$68,943        | \$ 325.2         | 201   | \$60,976        | \$ 303.4         | 5 %      | 13 %            | 7 %              |
| California | 210                                 | 131,746         | 627.4            | 192   | 117,985         | 614.5            | 9 %      | 12 %            | 2 %              |
| Nevada     | 215                                 | 75,687          | 352.0            | 148   | 51,834          | 350.2            | 45 %     | 46 %            | 1 %              |
| Washington | 91                                  | 47,382          | 520.7            | 85    | 39,236          | 461.6            | 7 %      | 21 %            | 13 %             |
| West       | 728                                 | 323,758         | 444.7            | 626   | 270,031         | 431.4            | 16 %     | 20 %            | 3 %              |
| Colorado   | 414                                 | 203,141         | 490.7            | 353   | 172,100         | 487.5            | 17 %     | 18 %            | 1 %              |
| Utah       | 48                                  | 19,864          | 413.8            | 51    | 17,935          | 351.7            | (6) %    | 11 %            | 18 %             |
| Mountain   | 462                                 | 223,005         | 482.7            | 404   | 190,035         | 470.4            | 14 %     | 17 %            | 3 %              |
| Maryland   | 64                                  | 27,760          | 433.8            | 83    | 41,639          | 501.7            | (23) %   | (33) %          | (14) %           |
| Virginia   | 53                                  | 32,365          | 610.7            | 75    | 38,623          | 515.0            | (29) %   | (16) %          | 19 %             |
| Florida    | 105                                 | 40,732          | 387.9            | 84    | 30,867          | 367.5            | 25 %     | 32 %            | 6 %              |
| East       | 222                                 | 100,857         | 454.3            | 242   | 111,129         | 459.2            | (8) %    | (9) %           | (1) %            |
| Total      | 1,412                               | \$647,620       | \$ 458.7         | 1,272 | \$571,195       | \$ 449.1         | 11 %     | 13 %            | 2 %              |

Six Months Ended June 30,

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|                        | 2017  |              |               | 2016  |              |               | % Change |              |               |       |              |               |
|------------------------|-------|--------------|---------------|-------|--------------|---------------|----------|--------------|---------------|-------|--------------|---------------|
|                        | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | Homes    | Dollar Value | Average Price | Homes | Dollar Value | Average Price |
| (Dollars in thousands) |       |              |               |       |              |               |          |              |               |       |              |               |
| Arizona                | 400   | \$124,619    | \$311.5       | 361   | \$106,038    | \$293.7       | 11 %     | 18 %         | 6 %           |       |              |               |
| California             | 439   | 268,229      | 611.0         | 317   | 193,515      | 610.5         | 38 %     | 39 %         | 0 %           |       |              |               |
| Nevada                 | 402   | 141,820      | 352.8         | 255   | 90,260       | 354.0         | 58 %     | 57 %         | (0) %         |       |              |               |
| Washington             | 192   | 98,170       | 511.3         | 159   | 71,593       | 450.3         | 21 %     | 37 %         | 14 %          |       |              |               |
| West                   | 1,433 | 632,838      | 441.6         | 1,092 | 461,406      | 422.5         | 31 %     | 37 %         | 5 %           |       |              |               |
| Colorado               | 750   | 363,328      | 484.4         | 602   | 293,675      | 487.8         | 25 %     | 24 %         | (1) %         |       |              |               |
| Utah                   | 81    | 32,568       | 402.1         | 90    | 32,510       | 361.2         | (10) %   | 0 %          | 11 %          |       |              |               |
| Mountain               | 831   | 395,896      | 476.4         | 692   | 326,185      | 471.4         | 20 %     | 21 %         | 1 %           |       |              |               |
| Maryland               | 99    | 44,363       | 448.1         | 117   | 57,445       | 491.0         | (15) %   | (23) %       | (9) %         |       |              |               |
| Virginia               | 103   | 58,894       | 571.8         | 115   | 58,777       | 511.1         | (10) %   | 0 %          | 12 %          |       |              |               |
| Florida                | 202   | 79,108       | 391.6         | 163   | 61,802       | 379.2         | 24 %     | 28 %         | 3 %           |       |              |               |
| East                   | 404   | 182,365      | 451.4         | 395   | 178,024      | 450.7         | 2 %      | 2 %          | 0 %           |       |              |               |
| Total                  | 2,668 | \$1,211,099  | \$453.9       | 2,179 | \$965,615    | \$443.1       | 22 %     | 25 %         | 2 %           |       |              |               |

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For both the three and six months ended June 30, 2017, most of our markets experienced year-over-year increases in the number of homes delivered due primarily to year-over-year improvements in the number of units in backlog to begin each period and/or improved backlog conversion rates. The improvements in our consolidated backlog conversion rates were driven by improving conversion rates in certain of our larger markets, specifically, Arizona, Nevada and Colorado. Through the first six months of 2017, our build-to-order cycle times have improved, notably in our Colorado market, helping to drive the better backlog conversion rates. However, as cycle times remain high in many of our markets and as a result of having historically low levels of unsold homes available to sell and close within the upcoming quarter, we will likely continue to experience lower seasonal backlog conversion rates relative to same-quarter historic averages for the foreseeable future. Furthermore, we expect our backlog conversion rate for the 2017 third quarter to be negatively impacted as a result of a floor joist recall, which was announced by the floor joist manufacturer at the beginning of the 2017 third quarter and impacts certain homes under construction in our Colorado market. See "**Forward-Looking Statements**" below.

Our average selling price of homes delivered for both the three and six months ended June 30, 2017 improved slightly as price increases implemented in many of our markets were partially offset by a higher percentage of our deliveries coming from our new more affordable homes. For both the three and six months ended June 30, 2017 our Washington, Utah and Virginia markets experienced the highest percentage increases in average selling prices driven by a combination of price increases and a shift in the mix of homes delivered to higher priced communities. Our Maryland market was the only market that experienced year-over-year declines in average selling price for both the three and six months ended June 30, 2017 as a result of a shift in mix to lower priced communities.

*Gross Margin*

Our gross margin from home sales percentage for the three months ended June 30, 2017 increased year-over-year from 16.4% to 16.8%. Our 2016 second quarter included \$1.6 million, or 30 basis points, in inventory impairments while our 2017 second quarter included no such impairments.

Our gross margin from home sales percentage for the six months ended June 30, 2017 was flat year-over-year at 16.4%. The six months ended June 30, 2017 included \$4.9 million of inventory impairments while the same period in 2016 included \$1.6 million of inventory impairments and \$3.2 million of adjustments to increase our warranty accrual.

*Inventory Impairments*

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

|                             | Three<br>Months<br>Ended<br>June 30,<br>2017 | Six Months<br>Ended June 30,<br>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.

| Three Months Ended | Impairment Data                 |                          |                                                    | Quantitative Data                     |                  |
|--------------------|---------------------------------|--------------------------|----------------------------------------------------|---------------------------------------|------------------|
|                    | Total<br>Subdivisions<br>Tested | Inventory<br>Impairments | Fair Value of<br>Inventory<br>After<br>Impairments | Number of<br>Subdivisions<br>Impaired | Discount<br>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%       |

Table of Contents*Selling, General and Administrative Expenses*

|                                                                                                 | Three Months Ended June 30, |          |            | Six Months Ended June 30, |           |             |
|-------------------------------------------------------------------------------------------------|-----------------------------|----------|------------|---------------------------|-----------|-------------|
|                                                                                                 | 2017                        | 2016     | Change     | 2017                      | 2016      | Change      |
|                                                                                                 | (Dollars in thousands)      |          |            |                           |           |             |
| General and administrative expenses                                                             | \$32,292                    | \$31,414 | \$ 878     | \$64,661                  | \$62,880  | \$1,781     |
| <i>General and administrative expense as a percentage of home sale revenues</i>                 | 5.0                         | % 5.5    | % (50) bps | 5.3                       | % 6.5     | % (120) bps |
| Marketing expenses                                                                              | \$16,976                    | \$14,433 | \$2,543    | \$32,100                  | \$26,466  | \$5,634     |
| <i>Marketing expenses as a percentage of home sale revenues</i>                                 | 2.6                         | % 2.5    | % 10 bps   | 2.7                       | % 2.7     | % 0 bps     |
| Commissions expenses                                                                            | \$21,441                    | \$18,593 | \$2,848    | \$40,246                  | \$31,371  | \$8,875     |
| <i>Commissions expenses as a percentage of home sale revenues</i>                               | 3.3                         | % 3.3    | % 0 bps    | 3.3                       | % 3.2     | % 10 bps    |
| Total selling, general and administrative expenses                                              | \$70,709                    | \$64,440 | \$6,269    | \$137,007                 | \$120,717 | \$16,290    |
| <i>Total selling, general and administrative expenses as a percentage of home sale revenues</i> | 10.9                        | % 11.3   | % (40) bps | 11.3                      | % 12.5    | % (120) bps |

For the three and six months ended June 30, 2017, the increases in our general and administrative expenses were primarily due to increased compensation-related expenses driven by higher average headcount. Despite the increases in our general and administrative expenses, our SG&A rates improved year-over-year by 40 basis points and 120 basis points for the three and six months ended June 30, 2017, respectively. The improvements in our SG&A rates were driven primarily by an increased ability to leverage our fixed overhead as a result of our 13% and 25% year-over-year increases in home sale revenues for the three and six months ended June 30, 2017, respectively.

Our commissions expenses are variable with home sale revenues. As such, the year-over-year increases in home sale revenues drove the changes in commissions expenses year-over-year for both periods presented. The increases in marketing expenses were partially attributable to the growth new home deliveries. In addition, increased model costs per home delivered and higher headcount drove the year-over-year increases in marketing costs.

Table of Contents**Other Homebuilding Operating Data***Net New Orders:*

|                        | Three Months Ended June 30,<br>2017 |              |               |                           | 2016  |              |               |                           | % Change |              |               |                         |       |              |               |                         |
|------------------------|-------------------------------------|--------------|---------------|---------------------------|-------|--------------|---------------|---------------------------|----------|--------------|---------------|-------------------------|-------|--------------|---------------|-------------------------|
|                        | Homes                               | Dollar Value | Average Price | Monthly Absorption Rate * | Homes | Dollar Value | Average Price | Monthly Absorption Rate * | Homes    | Dollar Value | Average Price | Monthly Absorption Rate | Homes | Dollar Value | Average Price | Monthly Absorption Rate |
| (Dollars in thousands) |                                     |              |               |                           |       |              |               |                           |          |              |               |                         |       |              |               |                         |
| Arizona                | 230                                 | \$75,049     | \$326.3       | 2.89                      | 236   | \$70,699     | \$299.6       | 2.62                      | (3) %    | 6 %          | 9 %           | 10 %                    |       |              |               |                         |
| California             | 234                                 | 143,208      | 612.0         | 4.59                      | 308   | 177,934      | 577.7         | 5.33                      | (24) %   | (20) %       | 6 %           | (14) %                  |       |              |               |                         |
| Nevada                 | 267                                 | 92,407       | 346.1         | 4.45                      | 230   | 80,263       | 349.0         | 3.48                      | 16 %     | 15 %         | (1) %         | 28 %                    |       |              |               |                         |
| Washington             | 127                                 | 68,876       | 542.3         | 4.34                      | 118   | 55,934       | 474.0         | 3.42                      | 8 %      | 23 %         | 14 %          | 27 %                    |       |              |               |                         |
| West                   | 858                                 | 379,540      | 442.4         | 3.90                      | 892   | 384,830      | 431.4         | 3.59                      | (4) %    | (1) %        | 3 %           | 9 %                     |       |              |               |                         |
| Colorado               | 458                                 | 215,472      | 470.5         | 3.59                      | 413   | 192,543      | 466.2         | 4.02                      | 11 %     | 12 %         | 1 %           | (11) %                  |       |              |               |                         |
| Utah                   | 67                                  | 29,046       | 433.5         | 3.19                      | 77    | 28,057       | 364.4         | 3.21                      | (13) %   | 4 %          | 19 %          | (1) %                   |       |              |               |                         |
| Mountain               | 525                                 | 244,518      | 465.7         | 3.54                      | 490   | 220,600      | 450.2         | 3.87                      | 7 %      | 11 %         | 3 %           | (9) %                   |       |              |               |                         |
| Maryland               | 32                                  | 14,819       | 463.1         | 1.19                      | 69    | 31,918       | 462.6         | 1.67                      | (54) %   | (54) %       | 0 %           | (29) %                  |       |              |               |                         |
| Virginia               | 63                                  | 32,790       | 520.5         | 4.20                      | 73    | 36,892       | 505.4         | 2.95                      | (14) %   | (11) %       | 3 %           | 42 %                    |       |              |               |                         |
| Florida                | 120                                 | 38,940       | 324.5         | 2.05                      | 122   | 48,236       | 395.4         | 2.32                      | (2) %    | (19) %       | (18) %        | (12) %                  |       |              |               |                         |
| East                   | 215                                 | 86,549       | 402.6         | 2.14                      | 264   | 117,046      | 443.4         | 2.23                      | (19) %   | (26) %       | (9) %         | (4) %                   |       |              |               |                         |
| Total                  | 1,598                               | \$710,607    | \$444.7       | 3.41                      | 1,646 | \$722,476    | \$438.9       | 3.34                      | (3) %    | (2) %        | 1 %           | 2 %                     |       |              |               |                         |

|                        | Six Months Ended June 30,<br>2017 |              |               |                           | 2016  |              |               |                           | % Change |              |               |                         |       |              |               |                         |
|------------------------|-----------------------------------|--------------|---------------|---------------------------|-------|--------------|---------------|---------------------------|----------|--------------|---------------|-------------------------|-------|--------------|---------------|-------------------------|
|                        | Homes                             | Dollar Value | Average Price | Monthly Absorption Rate * | Homes | Dollar Value | Average Price | Monthly Absorption Rate * | Homes    | Dollar Value | Average Price | Monthly Absorption Rate | Homes | Dollar Value | Average Price | Monthly Absorption Rate |
| (Dollars in thousands) |                                   |              |               |                           |       |              |               |                           |          |              |               |                         |       |              |               |                         |
| Arizona                | 446                               | \$143,119    | \$320.9       | 2.86                      | 459   | \$139,785    | \$304.5       | 2.49                      | (3) %    | 2 %          | 5 %           | 15 %                    |       |              |               |                         |
| California             | 477                               | 298,621      | 626.0         | 4.31                      | 537   | 321,162      | 598.1         | 4.54                      | (11) %   | (7) %        | 5 %           | (5) %                   |       |              |               |                         |
| Nevada                 | 562                               | 192,898      | 343.2         | 4.65                      | 459   | 160,074      | 348.7         | 3.57                      | 22 %     | 21 %         | (2) %         | 30 %                    |       |              |               |                         |
| Washington             | 266                               | 144,368      | 542.7         | 4.14                      | 242   | 116,073      | 479.6         | 3.17                      | 10 %     | 24 %         | 13 %          | 31 %                    |       |              |               |                         |
| West                   | 1,751                             | 779,006      | 444.9         | 3.88                      | 1,697 | 737,094      | 434.4         | 3.34                      | 3 %      | 6 %          | 2 %           | 16 %                    |       |              |               |                         |
| Colorado               | 959                               | 456,162      | 475.7         | 3.93                      | 906   | 428,747      | 473.2         | 4.11                      | 6 %      | 6 %          | 1 %           | (4) %                   |       |              |               |                         |
| Utah                   | 123                               | 52,616       | 427.8         | 2.52                      | 143   | 52,629       | 368.0         | 3.03                      | (14) %   | (0) %        | 16 %          | (17) %                  |       |              |               |                         |
| Mountain               | 1,082                             | 508,778      | 470.2         | 3.69                      | 1,049 | 481,376      | 458.9         | 3.92                      | 3 %      | 6 %          | 2 %           | (6) %                   |       |              |               |                         |
| Maryland               | 83                                | 37,189       | 448.1         | 1.49                      | 158   | 74,068       | 468.8         | 2.09                      | (47) %   | (50) %       | (4) %         | (29) %                  |       |              |               |                         |
| Virginia               | 127                               | 67,229       | 529.4         | 3.61                      | 158   | 81,036       | 512.9         | 3.07                      | (20) %   | (17) %       | 3 %           | 18 %                    |       |              |               |                         |

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|         |       |             |         |      |       |             |         |      |       |   |       |   |       |     |     |   |
|---------|-------|-------------|---------|------|-------|-------------|---------|------|-------|---|-------|---|-------|-----|-----|---|
| Florida | 251   | 91,117      | 363.0   | 2.20 | 230   | 96,279      | 418.6   | 2.42 | 9     | % | (5)   | % | (13)% | (9) | %   |   |
| East    | 461   | 195,535     | 424.2   | 2.25 | 546   | 251,383     | 460.4   | 2.46 | (16)% |   | (22)% |   | (8)   | %   | (9) | % |
| Total   | 3,294 | \$1,483,319 | \$450.3 | 3.47 | 3,292 | \$1,469,853 | \$446.5 | 3.30 | 0     | % | 1     | % | 1     | %   | 5   | % |

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

For both the three and six months ended June 30, 2017, the dollar value of net new orders was consistent with the same periods in the prior year as homes sold and the average selling price were relatively flat year-over-year for each period.

For each period in the current year, our California, Maryland and Virginia markets each experienced year-over-year declines in average active communities, driving the number of homes sold down. The reduced community count in our Virginia market was somewhat offset by robust year-over-year improvement in our monthly sales absorption pace as we experienced improving demand for our higher density products. Net new orders were up year-over-year in both periods in our Colorado market as a result of significant year-over-year improvements in community count. Our Washington market, which has one of the lowest housing inventory supplies in the country, realized significant year-over-year improvements in monthly sales absorption rates in both periods while still driving price increases in existing communities. In our Nevada market, the year-over-year increases in absorption rates were driven by strong demand for our new communities that we have opened over the past twelve months. While our Nevada and Colorado markets had relatively flat year-over-year average selling prices, we did see notable price appreciation in many existing communities that was offset by the impact of sales of more affordable homes. Florida was the only market to experience a decline in average selling price in both periods mostly the result of a shift in mix in lower priced communities.

Table of Contents*Active Subdivisions:*

|            | Active Subdivisions |      |          | Average Active Subdivisions |      |          | Average Active Subdivisions |      |          |
|------------|---------------------|------|----------|-----------------------------|------|----------|-----------------------------|------|----------|
|            | June 30,            |      |          | Three Months Ended          |      |          | Six Months Ended            |      |          |
|            | 2017                | 2016 | % Change | 2017                        | 2016 | % Change | 2017                        | 2016 | % Change |
| Arizona    | 26                  | 30   | (13) %   | 27                          | 30   | (10) %   | 26                          | 31   | (16) %   |
| California | 17                  | 20   | (15) %   | 17                          | 19   | (11) %   | 18                          | 20   | (10) %   |
| Nevada     | 18                  | 22   | (18) %   | 20                          | 22   | (9) %    | 20                          | 21   | (5) %    |
| Washington | 9                   | 10   | (10) %   | 10                          | 12   | (17) %   | 11                          | 13   | (15) %   |
| West       | 70                  | 82   | (15) %   | 74                          | 83   | (11) %   | 75                          | 85   | (12) %   |
| Colorado   | 44                  | 28   | 57 %     | 43                          | 34   | 26 %     | 41                          | 37   | 11 %     |
| Utah       | 6                   | 8    | (25) %   | 7                           | 8    | (13) %   | 8                           | 8    | 0 %      |
| Mountain   | 50                  | 36   | 39 %     | 50                          | 42   | 19 %     | 49                          | 45   | 9 %      |
| Maryland   | 9                   | 13   | (31) %   | 9                           | 14   | (36) %   | 9                           | 13   | (31) %   |
| Virginia   | 5                   | 9    | (44) %   | 5                           | 8    | (38) %   | 6                           | 9    | (33) %   |
| Florida    | 19                  | 19   | 0 %      | 20                          | 18   | 11 %     | 19                          | 16   | 19 %     |
| East       | 33                  | 41   | (20) %   | 34                          | 40   | (15) %   | 34                          | 38   | (11) %   |
| Total      | 153                 | 159  | (4) %    | 158                         | 165  | (4) %    | 158                         | 168  | (6) %    |

At June 30, 2017, we had 153 active subdivisions, a 4% decrease from June 30, 2016. For Colorado, the increase was due to increased land acquisition activity during the past twelve months. In Virginia and Maryland, we have tempered our land acquisition activity over the past two years as our recent returns in these markets have been lower than returns we expect to realize. For all remaining markets, the year-over-year changes were primarily driven by the timing of opening new communities versus closing out older ones. Furthermore, over the past couple of quarters, we have substantially increased our land approval activity, with our second quarter alone including the approval of more than 3,300 lots for acquisition, far exceeding the activity for any other quarter over the past three years.

Table of Contents*Cancellation Rate:*

|            | Cancellations As a<br>Percentage of Homes in<br>Beginning Backlog |      |            |           |    | Cancellations As a Percentage of Gross Sales* |      |            |           |    |                                 |      |            |           |    |    |
|------------|-------------------------------------------------------------------|------|------------|-----------|----|-----------------------------------------------|------|------------|-----------|----|---------------------------------|------|------------|-----------|----|----|
|            | Three<br>Months<br>Ended June<br>30,                              |      |            | Change in |    | Three<br>Months<br>Ended June<br>30,          |      |            | Change in |    | Six Months<br>Ended June<br>30, |      |            | Change in |    |    |
|            | 2017                                                              | 2016 | Percentage |           |    | 2017                                          | 2016 | Percentage |           |    | 2017                            | 2016 | Percentage |           |    |    |
|            |                                                                   |      |            |           |    |                                               |      |            |           |    |                                 |      |            |           |    |    |
| Arizona    | 13%                                                               | 20   | %          | (7        | )% | 16%                                           | 25   | %          | (9        | )% | 18%                             | 23   | %          | (5        | )% |    |
| California | 12%                                                               | 16   | %          | (4        | )% | 20%                                           | 19   | %          | 1         | %  | 20%                             | 19   | %          | 1         | %  |    |
| Nevada     | 8                                                                 | %    | 13         | %         | (5 | )%                                            | 11%  | 15         | %         | (4 | )%                              | 11%  | 14         | %         | (3 | )% |
| Washington | 8                                                                 | %    | 10         | %         | (2 | )%                                            | 14%  | 16         | %         | (2 | )%                              | 17%  | 17         | %         | 0  | %  |
| West       | 10%                                                               | 15   | %          | (5        | )% | 16%                                           | 19   | %          | (3        | )% | 16%                             | 19   | %          | (3        | )% |    |
| Colorado   | 8                                                                 | %    | 11         | %         | (3 | )%                                            | 16%  | 22         | %         | (6 | )%                              | 17%  | 18         | %         | (1 | )% |
| Utah       | 17%                                                               | 13   | %          | 4         | %  | 25%                                           | 18   | %          | 7         | %  | 22%                             | 19   | %          | 3         | %  |    |
| Mountain   | 9                                                                 | %    | 11         | %         | (2 | )%                                            | 17%  | 22         | %         | (5 | )%                              | 18%  | 18         | %         | 0  | %  |
| Maryland   | 18%                                                               | 17   | %          | 1         | %  | 37%                                           | 27   | %          | 10        | %  | 31%                             | 23   | %          | 8         | %  |    |
| Virginia   | 12%                                                               | 11   | %          | 1         | %  | 19%                                           | 18   | %          | 1         | %  | 21%                             | 16   | %          | 5         | %  |    |
| Florida    | 11%                                                               | 21   | %          | (10       | )% | 22%                                           | 26   | %          | (4        | )% | 21%                             | 26   | %          | (5        | )% |    |
| East       | 13%                                                               | 17   | %          | (4        | )% | 24%                                           | 24   | %          | 0         | %  | 23%                             | 22   | %          | 1         | %  |    |
| Total      | 10%                                                               | 14   | %          | (4        | )% | 17%                                           | 21   | %          | (4        | )% | 18%                             | 19   | %          | (1        | )% |    |

\*

Cancellations as a percentage of gross sales data has been provided for information only. No commentary is included below.

Our cancellations as a percentage of homes in beginning backlog to start the quarter (“cancellation rate”) improved from 14% in the 2016 second quarter to 10% in the 2017 second quarter. Florida had the most notable decrease in cancellation rate as a result of process improvements around accepting sales and managing backlog.

*Backlog:*

| At June 30,<br>2017 |                 |                  | 2016  |                 |                  | % Change |                 |
|---------------------|-----------------|------------------|-------|-----------------|------------------|----------|-----------------|
| Homes               | Dollar<br>Value | Average<br>Price | Homes | Dollar<br>Value | Average<br>Price | Homes    | Dollar<br>Value |