

MDC HOLDINGS INC  
Form 10-Q  
April 30, 2019

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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 March 31, 2019**

**OR**

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

**Commission File No. 1-8951**

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

**(Exact name of Registrant as specified in its charter)**

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

4350 South Monaco Street, Suite 500 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer Accelerated Filer  
Non-Accelerated Filer 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 April 29, 2019, 61,520,890 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 MARCH 31, 2019**

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

	March 31, 2019	December 31, 2018
	(Dollars in thousands, except per share amounts)	
<b>ASSETS</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$416,374	\$414,724
Restricted cash	8,136	6,363
Trade and other receivables	67,960	52,982
Inventories:		
Housing completed or under construction	950,274	952,436
Land and land under development	1,198,824	1,180,558
Total inventories	2,149,098	2,132,994
Property and equipment, net	59,765	58,167
Operating lease right-of-use asset	32,604	-
Deferred tax asset, net	34,504	37,178
Prepaid and other assets	42,545	45,794
Total homebuilding assets	2,810,986	2,748,202
<b>Financial Services:</b>		
Cash and cash equivalents	51,556	49,052
Marketable securities	45,767	40,879
Mortgage loans held-for-sale, net	110,810	149,211
Other assets	15,800	13,733
Total financial services assets	223,933	252,875
Total Assets	\$3,034,919	\$3,001,077
<b>LIABILITIES AND EQUITY</b>		
<b>Homebuilding:</b>		
Accounts payable	\$58,570	\$50,505
Accrued liabilities	185,131	196,247
Operating lease liability	33,460	-
Revolving credit facility	15,000	15,000

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Senior notes, net	988,322	987,967
Total homebuilding liabilities	1,280,483	1,249,719
<b>Financial Services:</b>		
Accounts payable and accrued liabilities	58,874	58,543
Mortgage repurchase facility	84,856	116,815
Total financial services liabilities	143,730	175,358
Total Liabilities	1,424,213	1,425,077
<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; 61,520,890 and 56,615,352 issued and outstanding at March 31, 2019 and December 31, 2018, respectively	615	566
Additional paid-in-capital	1,318,726	1,168,442
Retained earnings	291,365	406,992
Total Stockholders' Equity	1,610,706	1,576,000
Total Liabilities and Stockholders' Equity	\$3,034,919	\$3,001,077

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	
	March 31,	
	2019	2018
	(Dollars in thousands, except per share amounts)	
<b>Homebuilding:</b>		
Home sale revenues	\$647,278	\$607,688
Home cost of sales	(524,552 )	(496,632 )
Inventory impairments	(610 )	(550 )
Total cost of sales	(525,162 )	(497,182 )
Gross profit	122,116	110,506
Selling, general and administrative expenses	(82,261 )	(71,341 )
Interest and other income	2,391	1,859
Other expense	(1,191 )	(563 )
Homebuilding pretax income	41,055	40,461
<b>Financial Services:</b>		
Revenues	17,404	19,035
Expenses	(8,957 )	(8,831 )
Interest and other income	1,264	1,020
Net gain (loss) on marketable equity securities	4,840	(1,153 )
Financial services pretax income	14,551	10,071
Income before income taxes	55,606	50,532
Provision for income taxes	(15,056 )	(11,768 )
Net income	\$40,550	\$38,764
Other comprehensive income	-	-
Comprehensive income	\$40,550	\$38,764
Earnings per share:		
Basic	\$0.66	\$0.64
Diluted	\$0.64	\$0.63
Weighted average common shares outstanding:		
Basic	60,939,364	60,340,774
Diluted	62,708,334	61,447,563
Dividends declared per share	\$0.30	\$0.28



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

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Table of Contents**M.D.C. HOLDINGS, INC.****Consolidated Statements of Changes in Stockholders' Equity**

(Dollars in thousands, except share amounts)

	Three-Month Period Ended March 31, 2019					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at December 31, 2018	56,615,352	\$ 566	\$1,168,442	\$406,992	\$ -	\$1,576,000
Cumulative effect of newly adopted accounting standards (Note 2)	-	-	-	(67 )	-	(67 )
Balance at January 1, 2019	56,615,352	566	1,168,442	406,925	-	1,575,933
Net Income	-	-	-	40,550	-	40,550
Shares issued upon exercise of stock options and awards of restricted stock	372,344	4	7,083	-	-	7,087
Cash dividends declared	-	-	-	(17,019 )	-	(17,019 )
Stock dividend declared	4,534,908	45	138,950	(139,091)	-	(96 )
Stock-based compensation expense	-	-	4,251	-	-	4,251
Forfeiture of restricted stock	(1,714 )	-	-	-	-	-
Balance at March 31, 2019	61,520,890	\$ 615	\$1,318,726	\$291,365	\$ -	\$1,610,706

	Three-Month Period Ended March 31, 2018					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at December 31, 2017	56,123,228	\$ 561	\$1,144,570	\$258,164	\$ 3,992	\$1,407,287
Cumulative effect of newly adopted accounting standards	-	-	-	5,766	(3,992 )	1,774
Balance at January 1, 2018	56,123,228	561	1,144,570	263,930	-	1,409,061
Net Income	-	-	-	38,764	-	38,764
Shares issued upon exercise of stock options and awards of restricted stock	97,783	1	281	-	-	282
Cash dividends declared	-	-	-	(16,865 )	-	(16,865 )
Stock-based compensation expense	-	-	1,251	-	-	1,251
Forfeiture of restricted stock	(1,368 )	-	-	-	-	-
Balance at March 31, 2018	56,219,643	\$ 562	\$1,146,102	\$285,829	\$ -	\$1,432,493

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

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
<b>Operating Activities:</b>		
Net income	\$40,550	\$38,764
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	4,251	1,251
Depreciation and amortization	4,878	4,636
Inventory impairments	610	550
Net (gain) loss on marketable equity securities	(4,840 )	1,153
Amortization of discount / premiums on marketable debt securities, net	-	(182 )
Deferred income tax expense	2,696	423
Net changes in assets and liabilities:		
Trade and other receivables	(13,771 )	(3,261 )
Mortgage loans held-for-sale, net	38,401	24,956
Housing completed or under construction	2,137	(65,378 )
Land and land under development	(18,496 )	(71,552 )
Prepaid and other assets	1,085	389
Accounts payable and accrued liabilities	(3,153 )	6,765
Net cash provided by (used in) operating activities	54,348	(61,486 )
<b>Investing Activities:</b>		
Purchases of marketable securities	(4,785 )	(8,761 )
Sales of marketable securities	4,737	8,700
Purchases of property and equipment	(6,386 )	(6,316 )
Net cash used in investing activities	(6,434 )	(6,377 )
<b>Financing Activities:</b>		
Payments on mortgage repurchase facility, net	(31,959 )	(22,214 )
Dividend payments	(17,115 )	(16,865 )
Proceeds from exercise of stock options	7,087	282
Net cash used in financing activities	(41,987 )	(38,797 )
Net increase (decrease) in cash, cash equivalents and restricted cash	5,927	(106,660)
Cash, cash equivalents and restricted cash:		
Beginning of period	470,139	514,240
End of period	\$476,066	\$407,580
<b>Reconciliation of cash, cash equivalents and restricted cash:</b>		
Homebuilding:		

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Cash and cash equivalents	\$416,374	\$352,868
Restricted cash	8,136	6,198
Financial Services:		
Cash and cash equivalents	51,556	48,514
Total cash, cash equivalents and restricted cash	\$476,066	\$407,580

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

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**1. Basis of Presentation**

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. ("MDC," "the Company," "we," "us," or "our," which refers to M.D.C. Holdings, Inc. and its subsidiaries) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at March 31, 2019 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, 2018.

On January 28, 2019, MDC's board of directors declared an 8% stock dividend that was distributed on February 28, 2019 to shareholders of record on February 14, 2019. 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.

Where necessary, reclassifications have been made to our prior period financial information to conform to the current year presentation.

**2. Recently Issued Accounting Standards**

**Adoption of New Accounting Standards**

Accounting Standards Update (“ASU”) 2016-02, *Leases* (“ASU 2016-02”) is codified in ASC 842, *Leases* (“ASC 842”). ASC 842 supersedes current lease guidance in ASC 840 and requires a lessee to recognize a right-of-use asset and a corresponding lease liability for substantially all leases. The lease liability will be equal to the present value of the remaining lease payments while the right-of-use asset will be similarly calculated and then adjusted for initial direct costs. In addition, ASC 842 expands the disclosure requirements to increase the transparency and comparability of the amount, timing and uncertainty of cash flows arising from leases. On January 1, 2019, we adopted ASC 842 using the modified retrospective transition method. We elected available practical expedients permitted under the transition guidance within the new standard, which among other items, allowed the Company to carry forward its historical lease classification and not reassess existing leases under the new definition of a lease in ASC 842. In addition, we will account for lease and non-lease components as a single lease component.

Adoption of ASC 842 resulted in the recording of additional net lease assets and lease liabilities of \$34.2 million and \$34.3 million, respectively, as of January 1, 2019. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as an adjustment to retained earnings. The standard did not materially impact our consolidated statements of operations and comprehensive income or consolidated cash flows.

#### **Accounting Standards Issued But Not Yet Adopted**

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, 2020, 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.

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**3. Segment Reporting**

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

We have identified each homebuilding division as an operating segment. Our homebuilding operating segments have been aggregated into the reportable segments noted below because they are similar in the following regards: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) methods used to construct and sell homes. Our homebuilding reportable segments are as follows:

West (Arizona, California, Nevada, Washington and Oregon)  
Mountain (Colorado and Utah)  
East (mid-Atlantic, which includes Virginia and Maryland, and Florida)

Our financial services business consists of the operations of the following operating segments: (1) HomeAmerican Mortgage Corporation (“HomeAmerican”); (2) Allegiant Insurance Company, Inc., A Risk Retention Group (“Allegiant”); (3) StarAmerican Insurance Ltd. (“StarAmerican”); (4) American Home Insurance Agency, Inc.; and (5) American Home Title and Escrow Company. Due to its contributions to consolidated pretax income, we consider HomeAmerican to be a reportable segment (“mortgage operations”). The remaining operating segments have been aggregated into one reportable segment (“other”) because they do not individually exceed 10 percent of: (1) consolidated revenue; (2) the greater of (a) the combined reported profit of all operating segments that did not report a loss or (b) the positive value of the combined reported loss of all operating segments that reported losses; or (3) consolidated assets.

Corporate is a non-operating segment that develops and implements strategic initiatives and supports our operating divisions by centralizing key administrative functions such as finance, treasury, information technology, insurance, risk management, litigation and human resources. Corporate also provides the necessary administrative functions to support MDC as a publicly traded company. A portion of the expenses incurred by Corporate are allocated to the homebuilding operating segments based on their respective percentages of assets, and to a lesser degree, a portion of Corporate expenses are allocated to the financial services segments. A majority of Corporate’s personnel and resources are primarily dedicated to activities relating to the homebuilding segments, and, therefore, the balance of any unallocated Corporate expenses is included in the homebuilding operations section of our consolidated statements of operations and comprehensive income.

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



	Three Months Ended March 31, 2019      2018 (Dollars in thousands)	
<b>Homebuilding</b>		
West	\$369,558	\$319,509
Mountain	209,192	208,632
East	68,528	79,547
Total homebuilding revenues	\$647,278	\$607,688
<b>Financial Services</b>		
Mortgage operations	\$10,174	\$12,696
Other	7,230	6,339
Total financial services revenues	\$17,404	\$19,035

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

	Three Months Ended March 31, 2019      2018 (Dollars in thousands)	
<b>Homebuilding</b>		
West	\$33,200	\$24,373
Mountain	21,714	24,185
East	1,473	3,375
Corporate	(15,332)	(11,472)
Total homebuilding pretax income	\$41,055	\$40,461
<b>Financial Services</b>		
Mortgage operations	\$4,993	\$7,520
Other	9,558	2,551
Total financial services pretax income	\$14,551	\$10,071
Total pretax income	\$55,606	\$50,532

The following table summarizes total assets for our homebuilding and financial services operations. The assets in our West, Mountain and East segments consist primarily of inventory while the assets in our Corporate segment primarily include our cash and cash equivalents and deferred tax assets. The assets in our financial services segment consist mostly of cash and cash equivalents, marketable securities and mortgage loans held-for-sale.

	March 31, 2019	December 31, 2018 (Dollars in thousands)
<b>Homebuilding assets</b>		
West	\$1,307,761	\$1,301,374
Mountain	818,451	793,150
East	170,670	169,485
Corporate	514,104	484,193
Total homebuilding assets	\$2,810,986	\$2,748,202
<b>Financial services assets</b>		
Mortgage operations	\$123,139	\$159,677
Other	100,794	93,198
Total financial services assets	\$223,933	\$252,875

Total assets \$3,034,919 \$3,001,077

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ASC 260 requires a company that has participating security holders (for example, holders of unvested restricted stock that have non-forfeitable dividend rights) to utilize the two-class method for calculating earnings per share (“EPS”) unless the treasury stock method results in lower EPS. The two-class method is an allocation of earnings/(loss) between the holders of common stock and a company’s participating security holders. Under the two-class method, earnings/(loss) for the reporting period are allocated between common shareholders and other security holders based on their respective rights to receive distributed earnings (i.e., dividends) and undistributed earnings (i.e., net income/(loss)). Our common shares outstanding are comprised of shareholder owned common stock and shares of unvested restricted stock held by participating security holders. Basic EPS is calculated by dividing income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding, excluding participating shares in accordance with ASC 260. To calculate diluted EPS, basic EPS is adjusted to include the effect of potentially dilutive stock options outstanding. The table below shows our basic and diluted EPS calculations.

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands, except per share amounts)	
<b>Numerator</b>		
Net income	\$40,550	\$38,764
Less: distributed earnings allocated to participating securities	(111 )	(105 )
Less: undistributed earnings allocated to participating securities	(139 )	(124 )
Net income attributable to common stockholders (numerator for basic earnings per share)	40,300	38,535
Add back: undistributed earnings allocated to participating securities	139	124
Less: undistributed earnings reallocated to participating securities	(136 )	(122 )
Numerator for diluted earnings per share under two class method	\$40,303	\$38,537
<b>Denominator</b>		
Weighted-average common shares outstanding	60,939,364	60,340,774
Add: dilutive effect of stock options	1,217,846	1,106,789
Add: dilutive effect of performance stock units	551,124	-
Denominator for diluted earnings per share under two class method	62,708,334	61,447,563
Basic Earnings Per Common Share	\$0.66	\$0.64
Diluted Earnings Per Common Share	\$0.64	\$0.63

Diluted EPS for the three months ended March 31, 2019 and 2018 excluded options to purchase approximately 0.5 and 0.1 million shares of common stock, respectively, because the effect of their inclusion would be anti-dilutive.



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

	Three Months Ended March 31, 201 <del>9</del> 2018 (Dollars in thousands)
Beginning balance <sup>1</sup>	\$- \$3,992
Adoption of accounting standards	- (3,992)
Ending balance	\$- \$-

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<sup>(1)</sup> Amounts net-of-tax.

During the first quarter of 2018, an election was made to reclassify the income tax effects of the Tax Cuts and Jobs Act related to net unrealized gains on equity investments from accumulated other comprehensive income to retained earnings.

**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.

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	Fair Value Hierarchy
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		March 31,	December 31,
		2019	2018
		(Dollars in thousands)	
Cash and cash equivalents			
Debt securities (available-for-sale)	Level 1	\$34,860	\$34,866
Marketable securities			
Equity securities	Level 1	\$45,767	\$40,879
Mortgage loans held-for-sale, net	Level 2	\$110,810	\$149,211

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of March 31, 2019 and December 31, 2018.

*Cash and cash equivalents (excluding debt securities with an original maturity of three months or less), restricted cash, trade and other receivables, prepaid and other assets, accounts payable, accrued liabilities and borrowings on our revolving credit facility.* Fair value approximates carrying value.

*Equity securities.* Our equity securities consist of holdings in common stock and exchange traded funds. As of March 31, 2019 and December 31, 2018, all of our equity securities were recorded at fair value with all changes in fair value recorded to net gain (loss) on marketable equity securities in the financial services section of our consolidated statements of operations and comprehensive income.

*Debt securities.* Our debt securities consist of U.S. government securities. As of March 31, 2019 and December 31, 2018, all of our debt 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 any unrealized loss, if applicable, is other-than-temporary.

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

	March 31, 2019			
	Amortized	OTTI	Net Amortized	Fair
	Cost Basis		Cost	Value
	(Dollars in thousands)			
<b>Financial Services</b>				
Cash and cash equivalents				
Debt securities	\$34,860	\$ -	\$ 34,860	\$34,860

	December 31, 2018			
	Amortized	OTTI	Net Amortized	Fair
	Cost Basis		Cost	Value
<b>Financial Services</b>				
Cash and cash equivalents				
Debt securities	\$34,866	\$ -	\$ 34,866	\$34,866





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The following table reconciles the net gain (loss) recognized during the three months ended March 31, 2019 and 2018 on equity securities to the unrealized gain (loss) recognized during the periods on equity securities still held at the reporting date.

	Three Months Ended March 31, 2019    2018	
Net gain (loss) recognized during the period on equity securities	\$4,840	\$(1,153)
Less: Net gain recognized during the period on equity securities sold during the period	(237 )	(96 )
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	\$4,603	\$(1,057)

*Mortgage loans held-for-sale, net.* Our mortgage loans held-for-sale, which are measured at fair value on a recurring basis, include (1) mortgage loans held-for-sale that are under commitments to sell and (2) mortgage loans held-for-sale that are not under commitments to sell. At March 31, 2019 and December 31, 2018, we had \$96.2 million and \$130.8 million, respectively, of mortgage loans held-for-sale under commitments to sell. The fair value for those loans was based on quoted market prices for those mortgage loans, which are Level 2 fair value inputs. At March 31, 2019 and December 31, 2018, we had \$14.6 million and \$18.5 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party, which is a Level 2 fair value input.

Gains on sales of mortgage loans, net, are included as a component of revenues in the financial services section of our consolidated statements of operations and comprehensive income. For the three months ended March 31, 2019, we recorded net gains on the sales of mortgage loans of \$11.7 million, compared to \$9.0 million for the same period in the prior year.

*Mortgage Repurchase Facility.* The debt associated with our mortgage repurchase facility (see Note 19 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.

March 31, 2019

December 31, 2018

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	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
\$250 Million 5 % Senior Notes due February 2020, net	\$249,109	\$254,304	\$248,850	\$253,413
\$250 Million 5½% Senior Notes due January 2024, net	248,841	258,479	248,789	242,983
\$500 Million 6% Senior Notes due January 2043, net	490,372	434,117	490,328	386,552
Total	\$988,322	\$946,900	\$987,967	\$882,948

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

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Housing completed or under construction:		
West	\$516,900	\$521,960
Mountain	356,177	347,738
East	77,197	82,738
Subtotal	950,274	952,436
Land and land under development:		
West	699,704	705,591
Mountain	420,155	402,657
East	78,965	72,310
Subtotal	1,198,824	1,180,558
Total inventories	\$2,149,098	\$2,132,994

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.

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If land is classified as held for sale, we measure it in accordance with ASC 360 at the lower of the carrying value or fair value less estimated costs to sell. In determining fair value, we primarily rely upon the most recent negotiated price which is a Level 2 input. If a negotiated price is not available, we will consider several factors including, but not limited to, current market conditions, recent comparable sales transactions and market analysis studies, which are considered Level 3 inputs. If the fair value less estimated costs to sell is lower than the current carrying value, the land is impaired down to its estimated fair value less costs to sell.

Impairments of homebuilding inventory by segment for the three months ended March 31, 2019 and 2018 are shown in the table below.

	Three Months Ended March 31, 2019 2018 (Dollars in thousands)	
West	\$-	\$375
Mountain	400	175
East	210	-
Total inventory impairments	\$610	\$550

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 Inventory Subdivisions Tested	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired	Discount Rate	
	(Dollars in thousands)				
March 31, 2019	16	\$ 610	\$ 10,476	2	N/A
March 31, 2018	24	\$ 550	\$ 5,223	2	12 %

**8. Capitalization of Interest**

We capitalize interest to inventories during the period of development in accordance with ASC Topic 835, *Interest* (“ASC 835”). Homebuilding interest capitalized as a cost of inventories is included in cost of sales during the period that related units or lots are delivered. To the extent our homebuilding debt exceeds our qualified assets as defined in ASC 835, we expense a portion of the interest incurred. Qualified homebuilding assets consist of all lots and homes, excluding finished unsold homes or finished models, within projects that are actively selling or under development. The table set forth below summarizes homebuilding interest activity. For all periods presented below, our qualified assets exceeded our homebuilding debt and as such, all interest incurred has been capitalized.

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Homebuilding interest incurred	\$16,031	\$15,625
Less: Interest capitalized	(16,031)	(15,625)
Homebuilding interest expensed	\$-	\$-
Interest capitalized, beginning of period	\$54,845	\$57,541
Plus: Interest capitalized during period	16,031	15,625
Less: Previously capitalized interest included in home and land cost of sales	(13,929)	(14,428)
Interest capitalized, end of period	\$56,947	\$58,738

Table of Contents**9. Leases**

We lease certain property, land and equipment, the majority of which comprise property related leases to provide office space where we operate our business. Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

Our property related leases typically have terms of between three and five years, with the exception of the lease governing the Company's headquarters, and are classified as operating leases. These leases do not contain any residual value guarantees or restrictive covenants and no variable lease payments, except for common area maintenance and real estate taxes. Many of our property related leases give us the option to extend the lease term for a period of time, generally consistent with the initial lease term. These options are excluded from our calculation of the right-of-use asset and lease liability until such time as we determine it is reasonably certain that the option will be exercised.

The property related lease for the Company's headquarters in Denver, Colorado is ten years in length with an expiration date of October 31, 2026 and contains a ten year option to extend the term of the lease through 2036. This option has been excluded from our calculation of the right-of-use asset and lease liability as it is not currently considered reasonably certain that the option will be exercised.

Operating lease expense is included as a component of selling, general and administrative expenses and expenses in the homebuilding and financial services sections of our consolidated statements of operations and comprehensive income, respectively. Components of operating lease expense were as follows:

	Three Months Ended March 31, 2019 (Dollars in thousands)
Operating lease cost <sup>1</sup>	\$ 1,980
Less: Sublease income (Note 20)	(37 )
Net lease cost	\$ 1,943

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

Supplemental cash flow information related to leases was as follows:



	Three Months Ended March 31, 2019 (Dollars in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,771
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,477

Supplemental cash flow information related to non-cash transactions also includes the recognition of operating lease right-of-use assets of \$33.5 million and operating lease liabilities of \$34.3 million upon adoption of ASC 842.

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

	March 31, 2019
Weighted-average remaining lease term (in years)	6.8
Weighted-average discount rate	5.5 %

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Maturities of operating lease liabilities were as follows:

	Year Ended December 31, (Dollars in thousands)
2019 (excluding the three months ended March 31, 2019)	\$ 5,315
2020	6,317
2021	6,066
2022	5,752
2023	5,148
Thereafter	13,118
Total operating lease payments <sup>1</sup>	\$ 41,716
Less: Interest	7,133
Present value of operating lease liabilities <sup>2</sup>	\$ 34,583

<sup>1</sup> Operating lease payments exclude \$0.6 million of legally binding lease payments for leases signed but not yet commenced.

<sup>2</sup> Financial services operating lease liabilities of \$1.1 million are included as a component of accrued liabilities in the financial services section of our consolidated balance sheet at March 31, 2019.

**10. Homebuilding Prepaid and Other Assets**

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

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Land option deposits	\$21,951	\$ 23,805
Goodwill	6,008	6,008
Prepaid expenses	6,614	7,324
Deferred debt issuance costs on revolving credit facility, net	7,279	7,662
Other	693	995
Total	\$42,545	\$ 45,794

**11. Homebuilding Accrued Liabilities and Financial Services Accounts Payable and Accrued Liabilities**

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

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Customer and escrow deposits	\$36,986	\$34,463
Warranty accrual	29,992	28,262
Accrued compensation and related expenses	22,438	39,459
Accrued interest	13,281	27,734
Construction defect claim reserves	8,367	8,464
Land development and home construction accruals	9,064	8,683
Income taxes payable	18,337	6,245
Other accrued liabilities	46,666	42,937
Total accrued liabilities	\$185,131	\$196,247

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

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Insurance reserves	\$47,852	\$ 46,844
Accounts payable and other accrued liabilities	11,022	11,699
Total accounts payable and accrued liabilities	\$58,874	\$ 58,543

**12. 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.

The table set forth below summarizes accrual, adjustment and payment activity related to our warranty accrual for the three months ended March 31, 2019 and 2018. For the three months ended March 31, 2019 and 2018, we recorded adjustments to increase our warranty accrual by \$0.9 million and \$3.1 million, respectively. The adjustments recorded during the three months ended March 31, 2019 related to homes with structural related issues, while the adjustments recorded during the three months ended March 31, 2018 were due to higher than expected general warranty related expenditures.

Three Months  
Ended

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March 31,  
2019 2018  
(Dollars in  
thousands)

Balance at beginning of period	\$28,262	\$21,909
Expense provisions	3,348	2,598
Cash payments	(2,493 )	(2,500 )
Adjustments	875	3,106
Balance at end of period	\$29,992	\$25,113

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Table of Contents**13. 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 months ended March 31, 2019 and 2018. These reserves are included as a component of accrued liabilities in the financial services and homebuilding sections of the consolidated balance sheets.

	Three Months Ended March 31, 2019      2018 (Dollars in thousands)	
Balance at beginning of period	\$55,308	\$52,686
Expense provisions	2,465	2,304
Cash payments, net of recoveries	(1,554 )	(1,595 )
Balance at end of period	\$56,219	\$53,395

In the ordinary course of business, we make payments from our insurance and construction defect claim reserves to settle litigation claims arising from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments, net of recoveries shown for the three months ended March 31, 2019 and 2018 are not necessarily indicative of what future cash payments will be for subsequent periods.

#### 14. Income Taxes

Our overall effective income tax rates were 27.1% and 23.3% for the three months ended March 31, 2019 and 2018, respectively, resulting in income tax expense of \$15.1 million and \$11.8 million for the same periods, respectively. The year-over-year increase in our effective tax rate for the three months ended March 31, 2019 was due to a \$1.2 million benefit from energy tax credits which reduced our 2018 first quarter tax rate. It is currently uncertain as to the extent, if any, that energy tax credits will impact our 2019 results, and therefore no benefit was recorded for the 2019 first quarter.

At March 31, 2019 and December 31, 2018 we had deferred tax assets, net of valuation allowances and deferred tax liabilities, of \$34.5 million and \$37.2 million, respectively. The valuation allowances were primarily related to various state net operating loss carryforwards where realization is more uncertain at this time due to the limited carryforward periods coupled with minimal operating activity that exists in certain states.

Table of Contents**15. Senior Notes**

The carrying value of our senior notes as of March 31, 2019 and December 31, 2018, net of any unamortized debt issuance costs or discount, were as follows:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
5 % Senior Notes due February 2020, net	\$249,109	\$248,850
5½% Senior Notes due January 2024, net	248,841	248,789
6% Senior Notes due January 2043, net	490,372	490,328
Total	\$988,322	\$987,967

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.

**16. Stock-Based Compensation**

We account for share-based awards in accordance with ASC Topic 718 *Compensation—Stock Compensation* (“ASC 718”), which requires the fair value of stock-based compensation awards to be amortized as an expense over the vesting period. Stock-based compensation awards are valued at fair value on the date of grant. The following table sets forth share-based award expense activity for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019 2018	
	(Dollars in thousands)	
Stock option grants expense	\$255	\$56
Restricted stock awards expense	911	744
Performance share units expense	3,085	451
Total stock based compensation	\$4,251	\$1,251





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On May 23, 2018, June 20, 2017 and July 25, 2016, the Company granted long term performance stock unit awards (“PSUs”) to each of the CEO, the COO, and the Chief Financial Officer (“CFO”) under the Company’s 2011 Equity Incentive Plan. The PSUs 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 (excluding impairments) of at least fifteen percent (15%) over the Performance Period. Target goals will be earned if the Company’s three year average home sale revenues over the Performance Period (“Performance Revenues”) exceed the home sale revenues over the Base Period (“Base Revenues”) by at least 10% but less than 20%. If Performance Revenues exceed the Base Revenues by at least 5% but less than 10%, 50% of the Target Goals will be earned (“Threshold Goals”). If Performance Revenues exceed the Base Revenues by at least 20%, 200% of the Target Goals will be earned (“Maximum Goals”). For the PSUs granted in 2017 and 2018, the number of PSUs earned shall be adjusted to be proportional to the partial performance between the Threshold Goals, Target Goals and Maximum Goals. Details for each defined term above for each grant has been provided in the table below.

Awardee	Date of Award	Performance Period	Base Period	Threshold Goal		Target Goal		Maximum Goal		
				Base Period Revenues	Home Sale Revenues	PSUs	Home Sale Revenues	PSUs	Home Sale Revenues	PSUs
CEO	July 25, 2016	July 1, 2016	July 1, 2015			61,236	122,472	244,944		
COO		to	to	\$1.975 billion	61,236	\$2.074 billion	122,472	\$2.173 billion	244,944	\$2.370 billion
CFO		June 30, 2019	June 30, 2016		15,309		30,618		61,236	
CEO	June 20, 2017	April 1, 2017	April 1, 2016			64,152	128,304	256,608		
COO		to	to	\$2.426 billion	64,152	\$2.547 billion	128,304	\$2.669 billion	256,608	\$2.911 billion
CFO		March 31, 2020	March 31, 2017		16,038		32,076		64,152	
CEO	May 23, 2018	April 1, 2018	April 1, 2017			64,800	129,600	259,200		
COO		to	to	\$2.543 billion	64,800	\$2.670 billion	129,600	\$2.797 billion	259,200	\$3.052 billion
CFO		March 31, 2021	March 31, 2018		16,200		32,400		64,800	

\* Dollars in thousands

In accordance with ASC 718, the PSUs were valued on the date of grant at their fair value. The fair value of these grants was equal to the closing price of MDC stock on the date of grant less the discounted cash flows of expected future dividends over the respective vesting period (as these PSUs do not participate in dividends). The grant date fair value and maximum potential expense if the Maximum Goals were met for these awards has been provided in the table above. ASC 718 does not permit recognition of expense associated with performance-based stock awards until achievement of the performance targets are probable of occurring.

*2016 PSU Grants.* As of March 31, 2019, the Company determined that achievement of the Maximum Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$0.9 million for the three months ended March 31, 2019. As of March 31, 2018, the Company had concluded that achievement of the Target Goals was probable and, as such, recorded share-based award expense related to the awards of \$0.5 million for the three months ended March 31, 2018.

*2017 PSU Grants.* As of March 31, 2019, the Company determined that achievement of the Target Goals for these awards was probable and as such, the Company recorded share-based award expense related to the awards of \$2.2 million for the three months ended March 31, 2019. As of March 31, 2018, the Company concluded that achievement of any of the performance metrics had not met the level of probability required to record compensation expense and as such, no expense related to the grant of these awards had been recognized as of March 31, 2018.

*2018 PSU Grants.* For the PSUs granted in May of 2018, the Company concluded that achievement of any of the performance metrics has not met the level of probability required to record compensation expense and, as such, no expense related to these awards has been recognized as of March 31, 2019.

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**17. Commitments and Contingencies**

*Surety Bonds and Letters of Credit.* We are required to obtain surety bonds and letters of credit in support of our obligations for land development and subdivision improvements, homeowner association dues, warranty work, contractor license fees and earnest money deposits. At March 31, 2019, we had outstanding surety bonds and letters of credit totaling \$245.5 million and \$89.3 million, respectively, including \$61.7 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$126.6 million and \$51.2 million, respectively. All letters of credit as of March 31, 2019, excluding those issued by HomeAmerican, were issued under our unsecured revolving credit facility (see Note 19 for further discussion of the revolving credit facility). We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

We have made no material guarantees with respect to third-party obligations.

*Litigation.* Due to the nature of the homebuilding business, we have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business, including product liability claims and claims associated with the sale and financing of homes. In the opinion of management, the outcome of these ordinary course matters will not have a material adverse effect upon our financial condition, results of operations or cash flows.

*Lot Option Contracts.* In the ordinary course of business, we enter into lot option purchase contracts (“Option Contracts”), generally through a deposit of cash or a letter of credit, for the right to purchase land or lots at a future point in time with predetermined terms. The use of such land option and other contracts generally allow us to reduce the risks associated with direct land ownership and development, reduces our capital and financial commitments, and minimizes the amount of land inventories on our consolidated balance sheets. In certain cases, these contracts will be settled shortly following the end of the period. Our obligation with respect to Option Contracts is generally limited to forfeiture of the related deposits. At March 31, 2019, we had cash deposits and letters of credit totaling \$19.3 million and \$4.8 million, respectively, at risk associated with the option to purchase 6,368 lots.

**18. Derivative Financial Instruments**

The derivative instruments we utilize in the normal course of business are interest rate lock commitments and forward sales of mortgage-backed securities, both of which typically are short-term in nature. Forward sales of

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

At March 31, 2019, we had interest rate lock commitments with an aggregate principal balance of \$149.4 million. Additionally, we had \$14.1 million of mortgage loans held-for-sale at March 31, 2019 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 \$121.0 million at March 31, 2019.

For the three months ended March 31, 2019 and 2018, we recorded net gains of \$0.9 million and \$1.5 million, respectively, on our derivatives.

Table of Contents**19. Lines of Credit**

*Revolving Credit Facility.* We have an unsecured revolving credit agreement (“Revolving Credit Facility”) with a group of lenders which may be used for general corporate purposes. This agreement was amended on November 1, 2018 to (1) extend the Revolving Credit Facility maturity to December 18, 2023, (2) increase the aggregate commitment from \$700 million to \$1.0 billion (the “Commitment”) and (3) provide that the aggregate amount of the commitments may increase to an amount not to exceed \$1.5 billion upon our request, subject to receipt of additional commitments from existing or additional lenders and, in the case of additional lenders, the consent of the co-administrative agents. As defined in the Revolving Credit Facility, interest rates on base rate borrowings are equal to the highest of (1) 0.0%, (2) a prime rate, (3) a federal funds effective rate plus 1.50%, and (4) a specified eurocurrency rate plus 1.00% and, in each case, plus a margin that is determined based on our credit ratings and leverage ratio. Interest rates on eurocurrency borrowings are equal to a specified eurocurrency rate plus a margin that is determined based on our credit ratings and leverage ratio. At any time at which our leverage ratio, as of the last day of the most recent calendar quarter, exceeds 55%, the aggregate principal amount of all consolidated senior debt borrowings outstanding may not exceed the borrowing base. There is no borrowing base requirement if our leverage ratio, as of the last day of the most recent calendar quarter, is 55% or less.

The Revolving Credit Facility is fully and unconditionally guaranteed, jointly and severally, by most of our homebuilding segment subsidiaries. The facility contains various representations, warranties and covenants that we believe are customary for agreements of this type. The financial covenants include a consolidated tangible net worth test and a leverage test, along with a consolidated tangible net worth covenant, all as defined in the Revolving Credit Facility. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a “term-out” of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) or a violation of anti-corruption or sanctions laws would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, a violation of anti-corruption or sanctions laws, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of March 31, 2019.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At March 31, 2019 and December 31, 2018, there were \$27.6 million and \$27.8 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. We had \$15.0 million outstanding under the Revolving Credit Facility as of March 31, 2019 and December 31, 2018. As of March 31, 2019, availability under the Revolving Credit Facility was approximately \$957.4 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement (the “Mortgage Repurchase Facility”) with U.S. Bank National Association (“USBNA”). Effective August 9, 2018, the Mortgage Repurchase Facility was amended to extend its termination date to August 8, 2019. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of up to an aggregate of \$75 million (subject to increase by up to \$75 million under certain conditions) of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement (“Custody Agreement”), dated as of November 12, 2008, by and between HomeAmerican and USBNA. In the event that an eligible mortgage loan becomes ineligible, as defined under the Mortgage Repurchase Facility, HomeAmerican may be required to repurchase the ineligible mortgage loan immediately. The maximum aggregate commitment of the Mortgage Repurchase Facility was temporarily increased on March 27, 2019 from \$75 million to \$100 million and was effective through April 24, 2019. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$75 million to \$130 million on December 27, 2018 and was effective through January 25, 2019. At March 31, 2019 and December 31, 2018, HomeAmerican had \$84.9 million and \$116.8 million, respectively, of mortgage loans that HomeAmerican was obligated to repurchase under the Mortgage Repurchase Facility. Mortgage loans that HomeAmerican is obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a price range that is based on a LIBOR rate or successor benchmark rate.

The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth ratio, (iii) a minimum adjusted net income requirement, and (iv) a minimum Liquidity requirement. The foregoing capitalized terms are defined in the Mortgage Repurchase Facility. We believe HomeAmerican was in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of March 31, 2019.

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**20. Related Party Transactions**

We contributed \$0.5 million in cash to the MDC/Richmond American Homes Foundation (the "Foundation") during the three months ended March 31, 2019. The Foundation is a non-profit organization operated exclusively for charitable, educational and other purposes beneficial to social welfare within the meaning of Section 501(c)(3) of the Internal Revenue Code. The following Directors and/or officers of the Company served as directors of the Foundation at March 31, 2019, all of whom serve without compensation:

Name	MDC Title
Larry A. Mizel	Chairman and CEO
David D. Mandarich	President and COO

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

The Company has a sublease agreement with CVentures, Inc. Larry A. Mizel, the Chief Executive Officer of the Company, is the President of CVentures, Inc. The sublease is for office space that CVentures, Inc. has continuously leased from the Company since 2005. The current sublease term commenced November 1, 2016 and will continue through October 31, 2021, with an option to extend to October 31, 2026. The sublease agreement is for approximately 5,437 rentable square feet at a base rent that increases over the initial term from \$26.50 to \$28.68 per rentable square foot per year, and increasing over the extension term from \$29.26 to \$31.67 per rentable square foot per year. The sublease rent is an allocation of the rent under the master lease agreement based on the sublease square footage.

**21. Supplemental Guarantor Information**

Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by the following subsidiaries (collectively, the "Guarantor Subsidiaries"), which are 100%-owned subsidiaries of the Company:

- M.D.C. Land Corporation
- RAH of Florida, Inc.
- Richmond American Construction, Inc.
- Richmond American Homes of Arizona, Inc.
- Richmond American Homes of Colorado, Inc.
- Richmond American Homes of Florida, LP



Richmond American Homes of Illinois, Inc.  
Richmond American Homes of Maryland, Inc.  
Richmond American Homes of Nevada, Inc.  
Richmond American Homes of New Jersey, Inc.  
Richmond American Homes of Oregon, Inc.  
Richmond American Homes of Pennsylvania, Inc.  
Richmond American Homes of Utah, Inc.  
Richmond American Homes of Virginia, Inc.  
Richmond American Homes of Washington, Inc.

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

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

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**Supplemental Condensed Combining Balance Sheet**

March 31, 2019

	Guarantor	Non-Guarantor	Eliminating	Consolidated
	MDC Subsidiaries	Subsidiaries	Entries	MDC

(Dollars in thousands)

**ASSETS**

**Homebuilding:**