

MDC HOLDINGS INC
Form 10-K
February 01, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

OR

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

For the Transition period from _____ to _____

Commission file number 1-08951

M.D.C. HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware 84-0622967
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

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

(303) 773-1100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	New York Stock Exchange
5 % Senior Notes due February 2020	New York Stock Exchange
5½% Senior Notes due January 2024	
6% Senior Notes due January 2043	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer

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

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

As of June 30, 2016, the aggregate market value of the Registrants' common stock held by non-affiliates of the Registrants was \$1.0 billion based on the closing sales price of \$24.34 per share as reported on the New York Stock Exchange on June 30, 2016.

As of December 31, 2016, the number of shares outstanding of Registrant's common stock was 51,485,090.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant's 2017 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

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For the Year Ended December 31, 2016

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M.D.C. HOLDINGS, INC.

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PART I

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K, as well as statements made by us in periodic press releases, oral statements made by our officials in the course of presentations about the Company and conference calls in connection with quarterly earnings releases, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operation, cash flows, strategies and prospects. These forward-looking statements may be identified by terminology such as “likely,” “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this Report are reasonable, we cannot guarantee future results. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be considered.

Item 1. Business.

(a) General Development of Business

M.D.C. Holdings, Inc. is a Delaware corporation. We refer to M.D.C. Holdings, Inc. as the “Company,” “MDC,” “we” or “our” in this Annual Report on Form 10-K, and these designations include our subsidiaries unless we state otherwise. We have two primary operations, homebuilding and financial services. Our homebuilding operations consist of wholly owned subsidiary companies that generally purchase finished lots or develop lots to the extent necessary for the construction and sale primarily of single-family detached homes to first-time and first-time move-up homebuyers

under the name “Richmond American Homes.” Our homebuilding operations are comprised of various homebuilding divisions that we consider to be our operating segments. For financial reporting, we have aggregated our homebuilding operating segments into reportable segments as follows: (1) West (includes operating segments located in Arizona, California, Nevada and Washington); (2) Mountain (includes operating segments located in Colorado and Utah); and (3) East (includes operating segments located in Virginia, Florida and Maryland, which includes Pennsylvania, and New Jersey).

Our financial services operations primarily consist of (1) HomeAmerican Mortgage Corporation (“HomeAmerican”), which originates mortgage loans primarily for our homebuyers, (2) Allegiant Insurance Company, Inc., A Risk Retention Group (“Allegiant”), which provides insurance coverage primarily to our homebuilding subsidiaries and most of our subcontractors for homes sold by our homebuilding subsidiaries and for work performed in completed subdivisions, (3) StarAmerican Insurance Ltd., which is a re-insurer on Allegiant claims, (4) American Home Insurance Agency, Inc., which offers third-party insurance products to our homebuyers, and (5) American Home Title and Escrow Company, which provides title agency services to our homebuilding subsidiaries and our customers in certain states. For financial reporting, we have aggregated our financial services operating segments into reportable segments as follows: (1) mortgage operations (represents HomeAmerican only) and (2) other (all remaining operating segments).

(b) Available Information

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on our website as soon as reasonably practicable after we file or furnish the materials electronically with the Securities and Exchange Commission (“SEC”). To obtain any of this information, go to our website, www.mdcholdings.com, and select “SEC Filings” from the “Financial Reports” menu. Our website includes our: (1) Corporate Governance Guidelines; (2) Corporate Code of Conduct; (3) Rules for Senior Financial Officers; (4) Audit Committee Procedures for Handling Confidential Complaints; and (5) charters for the Audit, Compensation, Legal and Corporate Governance/Nominating Committees. These materials may also be obtained, free of charge, at www.mdcholdings.com (select “Corporate Governance”).

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Note 3 to the Consolidated Financial Statements contains information regarding our reportable segments for each of the years ended December 31, 2016, 2015 and 2014.

(d) Narrative Description of Business

Our business consists of two primary operations, homebuilding and financial services. Our homebuilding subsidiaries build and sell primarily single-family detached homes that are designed and built to meet local customer preferences. Each homebuilding subsidiary is the general contractor for its projects and retains subcontractors for land development and home construction. Our homebuilding subsidiaries build a variety of home styles in each of their markets, targeting primarily first-time and first-time move-up homebuyers.

For 2016, the percentage of our home deliveries and home sale and land sale revenues by state were as follows:

	Percentage of Deliveries		Percentage of Home Sale Revenues	
Arizona	16	%	10	%
California	16	%	22	%
Nevada	13	%	10	%
Washington	7	%	7	%
West	52	%	49	%
Colorado	27	%	30	%
Utah	4	%	4	%
Mountain	31	%	34	%
Maryland	5	%	5	%
Virginia	5	%	6	%
Florida	7	%	6	%
East	17	%	17	%
Total	100	%	100	%

Our financial services operations include subsidiary companies that provide mortgage financing, place title insurance and homeowner insurance for our homebuyers, and provide general liability insurance for our subsidiaries and most of our subcontractors.

Homebuilding Operations

Operating Divisions. The primary functions of our homebuilding segments include land acquisition and development, home construction, sales and marketing, and customer service. Operating decisions are made by our local management teams under the oversight of our Chief Operating Decision Maker (“CODM”), or decision-making group, defined as two key executives - our Chief Executive Officer and Chief Operating Officer. Our organizational structure (i.e., the grouping and reporting of divisions) changes based upon the current needs of the Company. We had 13, 13 and 10 active homebuilding operating divisions at the end of each year ended December 31, 2016, 2015 and 2014, respectively.

Corporate Management. Our homebuilding business is managed primarily through members of senior management in our Corporate segment and our Asset Management Committees (“AMCs”). Each AMC is comprised of the Chief Operating Officer, Chief Financial Officer and one of our corporate officers. All real estate acquisition transactions are reviewed to confirm that the transaction is projected to achieve the objectives established by our decision-making group and must be approved by one of the AMCs. Generally, the role of our senior management team and/or AMC includes:

- review and approval of division business plans and budgets;
- oversight of land and home inventory levels;
- review of major personnel decisions; and
- review of capital allocation decisions.

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Additionally, our corporate executives and corporate departments generally are responsible for establishing and monitoring compliance with our policies and procedures. Among other things, the corporate office has primary responsibility for:

- asset management and capital allocation;
- treasury;
- insurance and risk management;
- merchandising and marketing;
- national purchasing contracts;
- accounting, tax and internal audit functions;
- legal matters;
- human resources and payroll;
- information technology; and
- training and development.

Housing. Generally, our homebuilding subsidiaries build single-family detached homes in a number of standardized series, designed to provide variety in the size and style of homes for our potential homebuyers. In certain markets, our homebuilding subsidiaries build and sell attached townhomes. Within each series of our single-family detached homes, our homebuilding subsidiaries build several different floor plans offering standard and optional features (such as upgraded appliances, cabinetry, flooring, etc.). Differences in sales prices of similar models from market-to-market depend primarily upon homebuyer demand, home prices offered by our competitors, market conditions (such as home inventory supply levels), location, cost of land, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, area demographics and, in certain cases, the requirements of major land sellers and local municipalities. In general, our homebuilding subsidiaries focus on selling “to be built homes”, also referred to as “dirt sales”, and limit the level of homes started without a contract.

Land Acquisition and Development. Our homebuilding subsidiaries acquire lots with the intention of constructing and selling homes on the acquired land. Generally, we prefer to purchase finished lots using option contracts, in phases or in bulk for cash. However, competition for finished lots has increased and therefore, approximately one-half of the lots we now purchase require some level of development. In making land purchases, we consider a number of factors, including projected rates of return, estimated gross margins from home sales, sales prices of the homes to be built, mortgage loan limits within the respective county, population and employment growth patterns, proximity to developed areas, estimated cost and complexity of development including environmental and geological factors, quality of schools, estimated levels of competition and demographic trends.

In their option contracts, our homebuilding subsidiaries generally obtain the right to purchase lots in consideration for an option deposit in the form of cash or letters of credit. In the event they elect not to purchase the lots within a specified period of time, they may be required to forfeit the option deposit. Our option contracts do not contain provisions requiring our specific performance.

Our homebuilding subsidiaries may own or have the right under option contracts to acquire undeveloped parcels of real estate that they intend to develop into finished lots. They generally develop our land in phases in order to limit our risk in a particular subdivision and to efficiently employ available capital resources. Generally, building permits and utilities are available and zoning is suitable for the current intended use of substantially all of our undeveloped land. When developed, these lots generally will be used in our homebuilding activities. See “**Forward-Looking Statements**” above.

Labor and Raw Materials. Materials used in our homebuilding operations are mainly standard items carried by major suppliers. We generally contract for our materials and labor at a fixed price for the anticipated construction period of our homes. This allows us to mitigate the risks associated with increases in the cost of building materials and labor between the time construction begins on a home and the time it is closed. Increases in the cost of building materials and subcontracted labor may reduce gross margins from home sales to the extent that market conditions prevent the recovery of increased costs through higher home sales prices. From time to time and to varying degrees, we may experience shortages in the availability of building materials and/or labor in each of our markets. These shortages and delays may result in delays in the delivery of homes under construction, reduced gross margins from home sales, or both. See “**Forward-Looking Statements**” above.

Warranty. Our homebuilding subsidiaries sell their homes with limited third-party warranties that generally provide for ten years of structural coverage, two years of coverage for plumbing, electrical, heating, ventilation and air conditioning systems, and one year of coverage for workmanship and materials. Under our agreement with the issuer of the third-party warranties, our homebuilding subsidiaries perform all of the work for the first two years of the warranty coverage and pay for substantially all of the work required to be performed during years three through ten of the warranties.

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Seasonal Nature of Business. The homebuilding industry can experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. The seasonal nature of our business is described in more detail in our description of Risk Factors under the heading “***Because of the seasonal nature of our business, our quarterly operating results can fluctuate.***”

Backlog. At December 31, 2016 and 2015, homes under contract but not yet delivered (“backlog”) totaled 2,884 and 2,332, respectively, with an estimated sales value of \$1.38 billion and \$1.05 billion, respectively. We anticipate that homes in backlog at December 31, 2016 generally will close during 2017 under their existing home order contracts or through the replacement of an existing contract with a new home order contract. The estimated backlog sales value at December 31, 2016 may be impacted by, among other things, subsequent home order cancellations, incentives provided, and/or options and upgrades selected. See “**Forward-Looking Statements**” above.

Customer Service and Quality Control. Our homebuilding divisions are responsible for pre-closing quality control inspections and responding to customers’ post-closing needs. We have a product service and quality control program, focused on improving and/or maintaining the quality of our customers’ complete home buying and homeownership experience.

Sales and Marketing. Our sales and marketing programs are designed to attract homebuyers in a cost effective manner. We have a centralized in-house advertising and marketing department that oversees our efforts to communicate the inherent value of our homes to our prospective homebuyers and distinguish our Richmond American Homes brand from our competitors or other home buying opportunities. The main objective of this team is to generate homebuyer leads, which are actively pursued by our community sales associates. Our centralized in-house merchandising team furnishes our model homes and sales offices.

Another important part of our marketing presentation takes place in our design centers (also known as Home Galleries). Here, homebuyers are able to personalize their homes with a variety of options and upgrades. These locations also serve as an information center for prospective homebuyers and real estate agents who may opt to receive personalized attention from one of our new home specialists, resulting in a more focused and efficient home search across all of our Richmond American communities in a given market place. We believe that the services provided by our Home Galleries represent a key competitive advantage in attracting and retaining prospective homebuyers.

Competition. The homebuilding industry is fragmented and highly competitive. The competitive nature of our business is described in more detail in our description of Risk Factors.

Regulation. Our homebuilding operations are subject to compliance with applicable laws and regulations, which are described in more detail in our description of Risk Factors.

Financial Services Operations

Mortgage Lending Operations

General. HomeAmerican is a full-service mortgage lender and the principal originator of mortgage loans for our homebuyers. HomeAmerican has a centralized loan processing center where it originates mortgage loans, primarily for our homebuyers.

HomeAmerican is authorized to originate Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) (together “the government-sponsored enterprises”), Federal Housing Administration-insured (“FHA”), and Veterans Administration-guaranteed (“VA”) mortgages and is an authorized issuer of Government National Mortgage Association (“Ginnie Mae”) mortgage-backed securities. Furthermore, HomeAmerican also is an authorized loan servicer for Fannie Mae, Freddie Mac and Ginnie Mae and, as such, is subject to the rules and regulations of these entities.

HomeAmerican uses a mortgage repurchase facility, internally generated funds, and temporary financing provided by its parent, to finance the origination of mortgage loans until they are sold. HomeAmerican sells originated mortgage loans to third-party purchasers on either a bulk or flow basis. Mortgage loans sold on a bulk basis include the sale of a package of substantially similar originated mortgage loans, while sales of mortgage loans on a flow basis are completed as HomeAmerican originates each loan. Mortgage loans sold to third-party purchasers include HomeAmerican’s representations and warranties with respect to certain borrower payment defaults, credit quality issues and/or misrepresentations made by HomeAmerican or our homebuyers. Substantially all of the mortgage loans originated by HomeAmerican are sold to third-party purchasers generally within 15 to 40 days of origination.

Pipeline. HomeAmerican’s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed (the “locked pipeline”) at December 31, 2016 and 2015 had an aggregate principal balance of approximately \$110.9 million and \$98.4 million, respectively, and were under interest rate lock commitments at an average interest rate of 4.11% and 3.82%, respectively.

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Forward Sales Commitments. HomeAmerican is exposed to market risks related to fluctuations in interest rates. HomeAmerican creates certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (interest rate lock commitments or locked pipeline). HomeAmerican uses forward sales of mortgage-backed securities and commitments from third-parties to purchase loans to hedge the interest rate risk inherent with the locked pipeline, as well as its loan inventory held for sale. The market related risks in our business are described in more detail in our description of Risk Factors.

Competition. HomeAmerican has significant competition with other mortgage bankers to arrange financing for our homebuyers. However, in selling its originated mortgages to third parties, HomeAmerican has benefited from an increased number of smaller non-bank entities entering the third-party purchaser space, resulting in better prices and a potentially wider array of product options. The competitive nature of our mortgage business is described in more detail in our description of Risk Factors.

Regulation. Our mortgage lending operations are subject to compliance with applicable laws and regulations, which are described in more detail in our description of Risk Factors.

Insurance Operations

General. Allegiant and StarAmerican were formed to provide insurance coverage of homebuilding risks for our homebuilding subsidiaries and most of our homebuilding subcontractors. Allegiant was organized as a risk retention group under the Federal Liability Risk Retention Act of 1981. Allegiant, which began operations in June of 2004, is licensed as a Class 3 Stock Insurance Company by the Division of Insurance of the State of Hawaii and is subject primarily to the regulations of its state of incorporation. StarAmerican is a single parent captive insurance company licensed by the Division of Insurance of the State of Hawaii. Pursuant to agreements executed on an annual basis since June of 2004, StarAmerican has re-insured Allegiant for all claims in excess of \$50,000 per occurrence up to \$3.0 million per occurrence, subject to various aggregate limits.

Allegiant generates premium revenue generally by providing to its customers, comprised of the Company's homebuilding subsidiaries and most subcontractors of the Company's homebuilding subsidiaries, general liability insurance on homes sold by our homebuilding subsidiaries and for work performed in completed subdivisions. Allegiant seeks to provide to its customers coverage and insurance rates that are competitive with other insurers. StarAmerican generates premium revenue by providing re-insurance coverage to Allegiant. Allegiant and StarAmerican incur expenses for actual losses and loss adjustment expenses and for reserves established based on actuarial studies including known facts, such as our experience with similar insurance cases and historical trends involving insurance claim payment patterns, pending levels of unpaid insurance claims, claim severity, claim frequency patterns and interpretations of circumstances including changing regulatory and legal environments.

Regulation. Allegiant and StarAmerican are licensed in the State of Hawaii and, therefore, are subject to regulation by the Hawaii Insurance Division. This regulation includes restrictions and oversight regarding: types of insurance provided; investment options; required capital and surplus; financial and information reporting; use of auditors, actuaries and other service providers; periodic examinations; and other operational items. Additionally, as a risk retention group, Allegiant is also registered in other states where certain MDC homebuilding subsidiaries do business.

Insurance Agency Operations

American Home Insurance is an insurance agency that sells primarily homeowners' personal property and casualty insurance products in the same markets as our homebuilding subsidiaries and primarily to our homebuyers.

Title Operations

American Home Title provides title agency services to the Company and its homebuyers in Colorado, Florida, Maryland, Nevada and Virginia.

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Employees.

The table below summarizes the approximate number of employees for our combined Homebuilding, combined Financial Services and Corporate segments at December 31, 2016 and 2015.

	December 31,	
	2016	2015
Homebuilding	963	906
Financial Services	135	110
Corporate	220	209
Total	1,318	1,225

Item 1A. Risk Factors.

Changes in general economic, real estate and other business conditions may have an adverse effect on the homebuilding and mortgage industries, which could have a negative impact on our business.

The homebuilding industry is cyclical and is significantly affected by changes in both industry conditions and general economic conditions such as:

• employment levels;

• availability of financing for homebuyers;

• interest rates;

• consumer confidence;

• levels of new and existing homes for sale;

• cost of land, labor and construction materials;

demographic trends; and

housing demand.

These conditions may exist on a national level or may affect some of the regions or markets in which we operate more than others. When adverse conditions affect any of our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies.

Changes to monetary policy or other actions by the Federal Reserve could have an adverse effect on interest rates (including mortgage interest rates), equity markets and consumer confidence. Such effects could cause us to experience declines in the market value of our inventory and the demand for our homes, resulting in a negative impact to our financial position, results of operations and cash flows.

An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes, and rental properties, can also reduce our ability to sell new homes, depress new home prices and reduce our margins on the sale of new homes. High levels of foreclosures and short-sales not only contribute to additional inventory available for sale, but also can reduce appraisal valuations for new homes, potentially resulting in lower sales prices.

Terrorist attacks, other acts of violence or threats to national security, and any corresponding response by the United States or others, or related domestic or international instability, may adversely affect general economic conditions or cause a slowdown of the economy.

As a result of the foregoing matters, potential customers may be less willing or able to buy our homes. In the future, our pricing strategies may continue to be limited by market conditions. We may be unable to change the mix of our home offerings, reduce the costs of the homes we build or offer more affordable homes to maintain our gross margins or satisfactorily address changing market conditions in other ways. In addition, cancellations of home sales contracts in backlog may increase as homebuyers choose to not honor their contracts.

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Additionally, the factors discussed above may increase our counterparty risk, which may include, among others, banks under our credit facilities and mortgage purchasers who may not be willing or able to perform on obligations to us. To the extent a third-party is unable or unwilling to meet its obligations, our financial position, results of operations and cash flows could be negatively impacted.

Our mortgage operations are closely related to our homebuilding business, as HomeAmerican originates mortgage loans principally to purchasers of the homes we build. Therefore, a decrease in the demand for our homes because of the preceding matters may also adversely affect the financial results of this segment of our business. Furthermore, any adverse changes in the economic conditions discussed previously could increase the default rate on the mortgages we originate, which may adversely affect our ability to sell the mortgages, the pricing we receive upon the sale of mortgages, or our potential exposure to recourse regarding mortgage loan sales.

These challenging conditions are complex and interrelated. We cannot predict their occurrence or severity, nor can we provide assurance that our responses would be successful.

Increased competition levels in the homebuilding and mortgage lending industries could have a negative impact on our homebuilding and mortgage operations.

The homebuilding industry is fragmented and highly competitive. Our homebuilding subsidiaries compete with numerous public and private homebuilders, including a number that are substantially larger than us and may have greater financial resources than we do. Our homebuilding subsidiaries also compete with subdivision developers and land development companies, some of which are themselves homebuilders or affiliates of homebuilders. Homebuilders compete for customers, land, building materials, subcontractor labor and desirable financing. Competition for home orders is based primarily on home sales price, location of property, home style, financing available to prospective homebuyers, quality of homes built, customer service and general reputation in the community, and may vary market-by-market and/or submarket-by-submarket. Additionally, competition within the homebuilding industry can be impacted by an excess supply of new and existing homes available for sale resulting from a number of factors, including, among other things, increases in the number of new home communities, increases in speculative homes available for sale and increases in home foreclosures. Increased competition can result in a decrease in our net new home orders, a decrease in our home sales prices and/or an increase in our home sales incentives in an effort to generate new home sales and maintain homes in backlog until they close. These competitive pressures may negatively impact our financial position, results of operations and cash flows.

Our mortgage lending subsidiary, HomeAmerican, experiences competition from numerous banks and other mortgage bankers and brokers, many of which are larger and may have greater financial resources. As a result, these competitors may be able to offer better pricing and/or mortgage loan terms, more relaxed underwriting criteria and a greater range of products, which could negatively impact the financial position, results of operations and cash flows of our mortgage

operations.

If land is not available at reasonable prices or terms, we could be required to scale back our operations in a given market and/or we may operate at lower levels of profitability.

Our operations depend on our homebuilding subsidiaries' ability to obtain land for the development of our residential communities at reasonable prices and with terms that meet our underwriting criteria. Our ability to obtain land for new residential communities may be adversely affected by changes in the general availability of land, the willingness of land sellers to sell land at reasonable prices, competition for available land, availability of financing to acquire land, zoning, regulations that limit housing density, and other market conditions. If the supply of land, and especially finished lots, appropriate for development of residential communities is limited because of these factors, or for any other reason, the number of homes that our homebuilding subsidiaries build and sell may decline. To the extent that we are unable to purchase land timely or enter into new contracts for the purchase of land at reasonable prices, due to the lag time between the time we acquire land and the time we begin selling homes, we may be required to scale back our operations in a given market and/or we may operate at lower levels of profitability. As a result, our financial position, results of operations and cash flows could be negatively impacted.

Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.

The residential construction industry experiences price fluctuations and shortages in labor and materials from time to time. Shortages in labor can be due to: work stoppages, labor disputes, shortages in qualified trades people, lack of availability of adequate utility infrastructure and services, or our need to rely on local subcontractors who may not be adequately capitalized or insured. Labor and material shortages can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Additionally, we could experience labor shortages as a result of subcontractors going out of business or leaving the residential construction market due to low levels of housing production and volumes. Pricing for labor and materials can be affected by the factors discussed above, changes in energy prices, and various other national, regional and local economic factors. Any of these circumstances could give rise to delays in the start or completion of our residential communities, increase the cost of developing one or more of our residential communities and/or increase the construction cost of our homes.

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We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts fix the price of the homes at the time the contracts are signed, which may be in advance of the construction of the home. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, finished lots, building materials, and other resources, through higher selling prices, our financial position, cash flows and operating results, including our gross margin from home sales, could be negatively impacted.

If mortgage interest rates rise, if down payment requirements are increased, if loan limits are decreased, or if mortgage financing otherwise becomes less available, it could adversely affect our business.

Mortgage liquidity influenced by governmental entities like the FHA, VA, USDA and Ginnie Mae or government-sponsored enterprises (“GSEs”) like Fannie Mae and Freddie Mac continue to be an important factor in marketing our homes. Financial losses or other factors may limit, restrict or otherwise curtail their ability or willingness to insure mortgage loans, offer insurance at rates and on terms that are not prohibitive, or purchase mortgage loans. Should this occur, it may negatively impact the availability of mortgage financing and our sales of new homes.

We believe that the liquidity provided by Fannie Mae, Freddie Mac and Ginnie Mae to the mortgage industry has been very important to the housing market. The future of Fannie Mae and Freddie Mac are in question and any reduction in the availability of the liquidity provided by these institutions could adversely affect interest rates, mortgage availability and our sales of new homes and mortgage loans.

Loans sold to or insured by the GSEs are subject to various loan limits. Decreases in these loan limits may require homebuyers to make larger down payments or obtain more restrictive non-conforming or “jumbo” mortgages, which could adversely impact on our financial position, results of operations and cash flows.

Even if potential customers do not need financing, changes in the availability of mortgage products may make it harder for them to sell their current homes to potential buyers who need financing.

If interest rates increase, the costs of owning a home may be affected and could result in further reductions in the demand for our homes.

Expirations, amendments or changes to tax laws, incentives or credits currently available to our customers may negatively impact our business.

Many homeowners receive substantial tax benefits in the form of tax deductions against their personal taxable income for mortgage interest and property tax payments and the loss or reduction of these deductions could affect homeowners' net cost of owning a home. Significant changes to existing tax laws that currently benefit homebuyers, such as the ability to deduct mortgage interest and real property taxes, may result in an increase in the total cost of home ownership and may make the purchase of a home less attractive to buyers. This could adversely impact demand for and/or sales prices of new homes, which would have a negative impact on our business.

A decline in the market value of our homes or carrying value of our land would have a negative impact on our business.

Our homebuilding subsidiaries acquire land for the replacement of land inventory and/or expansion within our current markets and may, from time to time, purchase land for expansion into new markets. The fair value of our land and land under development inventory and housing completed or under construction inventory depends on market conditions. Factors that can impact our determination of the fair value of our inventory primarily include home sales prices, levels of home sales incentives and home construction and land costs. Our home sales prices and/or levels of home sales incentives can be impacted by, among other things, uncertainty in the homebuilding and mortgage industries or the United States/global economy overall, decreased demand for new homes, decreased home prices offered by our competitors, home foreclosure and short-sale levels, decreased ability of our homebuyers to obtain suitable mortgage loan financing and high levels of home order cancellations. Under such circumstances, we may be required to record impairments of our inventory. Any such inventory impairments would have a negative impact on our financial position and results of operations.

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Natural disasters could cause an increase in home construction costs, as well as delays, and could negatively impact our business.

The climates and geology of many of the markets in which we operate present increased risks of natural disasters. To the extent that hurricanes, severe storms, earthquakes, droughts, floods, heavy or prolonged precipitation, wildfires or other natural disasters or similar events occur, the financial position, results of operations and cash flows of our business may be negatively impacted.

Changes in energy prices may have an adverse effect on the economies in certain markets we operate in and our cost of building homes.

The economies of some of the markets in which we operate are impacted by the health of the energy industry. To the extent that energy prices significantly change, the economies of certain of our markets may be negatively impacted, which may adversely impact the financial position, results of operations and cash flows of our business. Furthermore, pricing offered by our suppliers and subcontractors can be adversely affected by increases in various energy costs resulting in a negative impact to our financial position, results of operations and cash flows of our business.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and disruptions in these markets could have an adverse impact on the results of our business.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets. Our requirements for additional capital, whether to finance operations or to service or refinance our existing indebtedness, fluctuate as market conditions and our financial performance and operations change. We cannot provide assurance that we will maintain cash reserves and generate sufficient cash flow from operations in an amount to enable us to service our debt or to fund other liquidity needs.

The availability of additional capital, whether from private capital sources or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. Additionally, any reduction in our credit rankings and/or a weakening of our financial condition, could adversely affect our ability to obtain necessary funds. Even if financing is available, it could be costly or have other adverse consequences.

In addition, the sources and terms and conditions of our mortgage repurchase facility are subject to change. These changes may impact, among other things, availability of capital, cost of borrowings, collateral requirements and collateral advance rates.

Our business is subject to numerous federal, state and local laws and regulations concerning land development, construction of homes, sales, mortgage lending, environmental and other aspects of our business. These laws and regulations could give rise to additional liabilities or expenditures, or restrictions on our business.

Our operations are subject to continuing compliance requirements mandated by applicable federal, state and local statutes, ordinances, rules and regulations, including zoning and land use ordinances, building, plumbing and electrical codes, contractors' licensing laws, state insurance laws, federal and state human resources laws and regulations, and health and safety laws and regulations. Various localities in which we operate have imposed (or may impose in the future) fees on developers to fund schools, road improvements and low and moderate-income housing.

Availability of and costs related to permit, water/sewer tap, and impact fees can impact our homebuilding operations. From time to time, various municipalities in which our homebuilding subsidiaries operate restrict or place moratoria on the availability of utilities, including water and sewer taps. Additionally, certain jurisdictions in which our homebuilding subsidiaries operate have proposed or enacted "slow growth" or "no growth" initiatives and other measures that may restrict the number of building permits available in any given year. These initiatives or other similar measures could reduce our ability to open new subdivisions and build and sell homes in the affected markets. The availability issues previously discussed and any increases in costs of these fees may negatively impact our financial position, results of operations and cash flows.

Our homebuilding operations also are affected by environmental laws and regulations pertaining to availability of water, municipal sewage treatment capacity, stormwater discharges, land use, hazardous waste disposal, dust controls, building materials, population density and preservation of endangered species, natural terrain and vegetation.

The particular environmental laws and regulations that apply to any given homebuilding project vary greatly according to a particular site's location, the site's environmental conditions and the present and former uses. These environmental laws may result in project delays, cause us to incur substantial compliance and other costs and/or prohibit or severely restrict homebuilding activity in certain environmentally sensitive locations. Environmental laws and regulations may also have a negative impact on the availability and price of certain raw materials, such as lumber.

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We also are subject to rules and regulations with respect to originating, processing, selling and servicing mortgage loans, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities.

The regulatory environment for mortgage lending is complex and ever changing and has led to an increase in the number of audits and investigations in the industry. These investigations have included the examination of consumer lending practices, sales of mortgages to financial institutions and other investors and the practices in the financial services segments of homebuilding companies. New rules and regulations or revised interpretations of existing rules and regulations applicable to our mortgage lending operations could result in more stringent compliance standards, which may substantially increase costs of compliance.

In the ordinary course of business, we are required to obtain surety bonds, the unavailability of which could adversely affect our business.

As is customary in the homebuilding industry, we often are required to provide surety bonds to secure our performance under construction contracts, development agreements and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue surety bonds. If we are unable to obtain surety bonds when required, our financial position, results of operations and cash flows could be adversely impacted.

Decreases in the market value of our investments in marketable securities could have an adverse impact on our business.

We have a material amount of investments in marketable securities, the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our financial position, results of operations and cash flows.

Product liability litigation and warranty claims that arise in the ordinary course of business may be costly.

As a homebuilder, we are subject to construction defect and home warranty claims, as well as claims associated with the sale and financing of our homes arising in the ordinary course of business. These types of claims can be costly. The costs of insuring against or directly paying for construction defect and product liability claims can be high and the amount of coverage offered by insurance companies may be limited. If we are not able to obtain adequate insurance against these claims, we may incur additional expenses that would have a negative impact on our results of operations in future reporting periods. Additionally, changes in the facts and circumstances of our pending litigation matters could have a material impact on our financial position, results of operations and cash flows.

Repurchase requirements associated with HomeAmerican's sale of mortgage loans, could negatively impact our business.

We are subject to risks associated with mortgage loans, including conventional mortgage loans, FHA and VA mortgage loans, second mortgage loans, high loan-to-value mortgage loans and jumbo mortgage loans (mortgage loans with principal balances that exceed various thresholds in our markets). These risks may include, among other things, compliance with mortgage loan underwriting criteria and the associated homebuyers' performance, which could require HomeAmerican to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and/or the settlement of claims associated with such loans could have a negative impact on HomeAmerican's financial position, results of operations and cash flows.

Because of the seasonal nature of our business, our quarterly operating results can fluctuate.

We may experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes delivered and the associated home sale revenues increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring and summer with deliveries scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets.

We are dependent on the services of key employees, and the loss of their services could hurt our business.

Although we believe that we have made provision for adequately staffing current operations, because of competition for experienced homebuilding industry personnel, retaining our skilled people is an important area of focus. Our future success depends, in part, on our ability to attract, train and retain skilled personnel. If we are unable to retain our key employees or attract, train and retain other skilled personnel in the future, it could have an adverse impact on our financial position, results of operations and cash flows.

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The interests of certain controlling shareholders may be adverse to investors

Larry A. Mizel and David D. Mandarich beneficially own, directly or indirectly through their affiliates, in the aggregate, approximately 24% of our common stock. To the extent they and their affiliates vote their shares in the same manner, their combined stock ownership may effectively give them the power to influence the election of members of our board of directors and other matters reserved for our shareholders. Circumstances may occur in which the interest of these shareholders could be in conflict with your interests. In addition, such persons may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in us, even though such transactions may involve risks to you.

Information technology failures and data security breaches could harm our business.

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. These information technology systems are dependent upon electronic systems and other aspects of the internet infrastructure. A material breach in the security of our information technology systems or other data security controls could result in third parties obtaining customer, employee or company data. Such occurrences could have a material and adverse effect on our financial position, results of operations and cash flows.

Item 1B. Unresolved Staff Comments.

None

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Our corporate office is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease all 144,000 square feet of office space in the building. In some markets, our homebuilding divisions and other MDC subsidiaries lease additional office space. The table below outlines the number of office facilities that are leased and the approximate square footage leased in each market at December 31, 2016. While currently we are satisfied with the suitability and capacity of our office locations, we continue to evaluate them in view of market conditions and the size of our operations.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	5	19,000
California	2	25,000
Colorado	4	153,000
Florida	2	20,000
Maryland	1	8,000
Nevada	2	16,000
Utah	1	6,000
Virginia	2	10,000
Washington	2	15,000
Total	21	272,000

Item 3. *Legal Proceedings.*

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

Item 4. *Mine Safety Disclosures.*

Not applicable.

Table Of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

At December 31, 2016, we had 574 shareholders of record. The shares of our common stock are traded on the New York Stock Exchange. The following table sets forth, for the periods indicated, the closing price ranges of our common stock. 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 260, "Earnings per Share", basic and diluted earnings per share amounts, weighted-average shares outstanding, and dividends declared per share have been restated for all periods presented to reflect the effect of this stock dividend.

	Three Months Ended			
	March 31	June 30	September 30	December 31
2016				
High	\$23.87	\$24.65	\$ 26.01	\$ 27.55
Low	18.62	20.81	23.19	21.48
2015				
High	\$27.14	\$29.34	\$ 29.59	\$ 27.38
Low	23.26	25.56	24.80	23.43

The table below sets forth the cash dividends declared and paid in 2016, 2015 and 2014.

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid (In thousands)
2016				
First Quarter	01/25/16	02/24/16	\$ 0.24	\$ 12,252
Second Quarter	04/18/16	05/25/16	0.24	12,252
Third Quarter	07/25/16	08/24/16	0.24	12,259
Fourth Quarter	10/24/16	11/23/16	0.24	12,258
			\$ 0.95	\$ 49,021

2015

First Quarter	01/26/15	02/25/15	\$ 0.24	\$ 12,213
Second Quarter	04/27/15	05/27/15	0.24	12,212
Third Quarter	07/20/15	08/19/15	0.24	12,221
Fourth Quarter	10/19/15	11/18/15	0.24	12,222
			\$ 0.95	\$ 48,868

2014

First Quarter	01/27/14	02/26/14	\$ 0.24	\$ 12,207
Second Quarter	04/28/14	05/28/14	0.24	12,205
Third Quarter	07/21/14	08/20/14	0.24	12,204
Fourth Quarter	10/20/14	11/19/14	0.24	12,204
			\$ 0.95	\$ 48,820

On January 23, 2017, MDC's board of directors approved the payment of a cash dividend of \$0.25 per share payable February 22, 2017 to shareholders of record on February 8, 2017.

There were no shares of MDC common stock repurchased during the years ended December 31, 2016, 2015 or 2014. At December 31, 2016, we were authorized to repurchase up to 4,000,000 shares of our common stock.

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Performance Graph

Set forth below is a graph comparing the yearly change in the cumulative total return of MDC's common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with that of a peer group of other homebuilders over the five-year period ending on December 31, 2016, weighted as of the beginning of that period.

It is assumed in the graph that \$100 was invested (1) in our common stock; (2) in the stocks of the companies in the Standard & Poor's 500 Stock Index; and (3) in the stocks of the peer group companies, just prior to the commencement of the period and that all dividends received within a quarter were reinvested in that quarter. The peer group index is composed of the following companies: Beazer Homes USA, Inc., D.R. Horton, Inc., Hovnanian Enterprises, Inc., KB Home, Lennar Corporation, M/I Homes, Inc., Meritage Homes Corporation, NVR, Inc., Pulte Homes, Inc. and Toll Brothers, Inc.

The stock price performance shown on the following graph is not indicative of future price performance.

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The data in these tables and related footnotes should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share amounts)				
Income Statement Data					
Home sale and land sale revenues	\$2,262,853	\$1,860,226	\$1,650,631	\$1,629,175	\$1,156,142
Financial services revenues	63,991	48,810	43,953	51,259	46,881
Total revenues	\$2,326,844	\$1,909,036	\$1,694,584	\$1,680,434	\$1,203,023
Homebuilding pretax income (loss) ⁽²⁾	\$115,378	\$70,441	\$75,804	\$100,323	\$32,617
Financial services pretax income	36,403	30,983	24,671	29,502	28,498
Total income (loss) before income taxes	\$151,781	\$101,424	\$100,475	\$129,825	\$61,115
Net income (loss) ⁽²⁾⁽³⁾	\$103,211	\$65,791	\$63,143	\$314,385	\$62,699
Basic earnings (loss) per share	\$2.01	\$1.28	\$1.23	\$6.13	\$1.23
Diluted earnings (loss) per share	\$2.00	\$1.28	\$1.23	\$6.08	\$1.23
Weighted Average Common Shares Outstanding:					
Basic	51,286,942	51,202,616	51,046,318	50,862,241	50,043,660
Diluted	51,447,147	51,415,580	51,258,444	51,259,840	50,225,863
Balance Sheet Data					
Cash and cash equivalents	\$282,909	\$180,988	\$153,825	\$199,338	\$160,095
Marketable securities	\$96,206	\$103,694	\$156,140	\$588,067	\$551,938
Total inventories	\$1,758,814	\$1,763,962	\$1,667,960	\$1,411,661	\$1,002,521
Total assets	\$2,528,589	\$2,415,899	\$2,351,456	\$2,589,619	\$1,942,800
Senior notes, net ⁽²⁾	\$841,646	\$840,524	\$839,468	\$1,089,790	\$742,201
Mortgage repurchase facility	\$114,485	\$88,611	\$60,822	\$63,074	\$76,327
Stockholders' equity	\$1,320,070	\$1,256,292	\$1,228,336	\$1,213,249	\$880,897
Stockholders' equity per common share ⁽¹⁾	\$25.64	\$24.47	\$23.95	\$23.69	\$17.23
Cash dividends declared per share ⁽⁴⁾	\$0.95	\$0.95	\$0.95	\$0.00	\$1.90
Operational Data					
Homes delivered (units)	5,054	4,390	4,366	4,710	3,740
Average selling price	\$447	\$421	\$377	\$345	\$308
Net new orders (units)	5,606	5,203	4,623	4,327	4,342
Homes in backlog at period end (units)	2,884	2,332	1,519	1,262	1,645
Estimated backlog sales value at period end	\$1,382,000	\$1,054,000	\$663,000	\$506,000	\$579,000
	\$479	\$452	\$437	\$401	\$352

Estimated average selling price of homes in backlog

Active subdivisions at period-end	164	167	159	146	148
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- (1) As a result of the stock dividend distributed during 2016 the stockholders' equity per common share for the years ended December 31, 2015, 2014, 2013 and 2012 were each adjusted by 5%.

During 2014, we redeemed our 5 % Senior Notes due December 2014 and our 5 % Senior Notes due July 2015. As a result of these transactions, we paid \$517.7 million to extinguish \$500 million in debt principal and recorded a total of \$18.2 million in losses from early extinguishments of debt.

- (3) Net income for the year ended December 31, 2013 includes the impact of a \$187.6 million reversal of the valuation allowance against our deferred tax asset in the 2013 second quarter.

- (4) Total dividends declared per share for the year ended December 31, 2012 include \$0.95 per share representing the accelerated payment of dividends for 2013.

Table Of Contents**Item 7. 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 Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. This item contains forward-looking statements that involve risks and uncertainties. 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 Relating to our Business."

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands, except per share amounts)		
Homebuilding:			
Home sale revenues	\$2,257,153	\$1,847,889	\$1,647,398
Land sale revenues	5,700	12,337	3,233
Total home and land sale revenues	2,262,853	1,860,226	1,650,631
Home cost of sales	(1,884,391)	(1,539,396)	(1,365,621)
Land cost of sales	(4,866)	(12,611)	(2,559)
Inventory impairments	(10,173)	(9,993)	(1,760)
Total cost of sales	(1,899,430)	(1,562,000)	(1,369,940)
Gross margin	363,423	298,226	280,691
Gross margin %	16.1 %	16.0 %	17.0 %
Selling, general and administrative expenses	(250,540)	(226,317)	(203,253)
Interest and other income	7,012	6,709	26,310
Interest expense	-	-	(685)
Other expense	(3,447)	(4,208)	(4,813)
Losses from early extinguishments of debt	-	-	(18,153)
Other-than-temporary impairment of marketable securities	(1,070)	(3,969)	(4,293)
Homebuilding pretax income	115,378	70,441	75,804
Financial Services:			
Revenues	63,991	48,810	43,953
Expenses	(30,920)	(21,572)	(22,334)
Interest and other income	3,705	3,745	3,052
Other-than-temporary impairment of marketable securities	(373)	-	-
Financial services pretax income	36,403	30,983	24,671
Income before income taxes	151,781	101,424	100,475
Provision for income taxes	(48,570)	(35,633)	(37,332)
Net income	\$103,211	\$65,791	\$63,143
Earnings per share:			
Basic	\$2.01	\$1.28	\$1.23
Diluted	\$2.00	\$1.28	\$1.23

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Weighted average common shares outstanding:			
Basic	51,286,942	51,202,616	51,046,318
Diluted	51,447,147	51,415,580	51,258,444
Cash dividends declared per share	\$0.95	\$0.95	\$0.95
Cash provided by (used in):			
Operating Activities	\$115,917	\$215	\$(163,647)
Investing Activities	\$9,218	\$47,362	\$423,080
Financing Activities	\$(23,214)	\$(20,414)	\$(304,946)

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EXECUTIVE SUMMARY

Overview

Industry Conditions

The homebuilding industry moved along a stable, gradually climbing path throughout 2016, driven by (1) solid levels of employment, (2) improvements in consumer confidence, wages and household formation, and (3) mortgage rates that remained near record lows for the majority of the year. However, production was hindered somewhat by limited subcontractor availability in certain markets, resulting in slower build times. Additionally, we saw increased demand from first-time buyers during the year, and we responded by introducing more affordable home plans in several markets.

Results for the Twelve Months Ended December 31, 2016

For the year ended December 31, 2016, we reported net income of \$103.2 million, or \$2.00 per diluted share, a 57% increase compared to net income of \$65.8 million, or \$1.28 per diluted share for the year earlier period. The increase was primarily due to a 22% improvement in home sale revenues, a 110 basis point improvement in our selling, general and administrative (“SG&A”) expenses as a percentage of home sale revenues (“SG&A rate”), and a 310 basis point reduction in our effective tax rate.

Home sale revenues were up from \$1,847.9 million in 2015 to \$2,257.2 million in 2016. This \$409.3 million improvement was the result of a \$25,700 increase in our average selling price of deliveries to \$446,600, mostly due to a mix shift to higher-priced communities and, to a lesser extent, price increases implemented during 2015 and the first half of 2016. Our SG&A rate improved by 110 basis points to 11.1%, driven primarily by an increased ability to leverage our fixed overhead as a result of our increase in home sale revenues and, to a lesser extent, a decline in our stock-based compensation expense. Our effective tax rate declined year-over-year primarily due to the utilization of a domestic manufacturing deduction, whereas we were not eligible to take this deduction in the prior year due to our utilization of remaining federal net operating loss carryforwards to offset taxable income.

The dollar value of net new home orders increased by 12% year-over-year, as our number of net new orders and average selling price improved by 8% and 4%, respectively. The increase in the number of net new orders was primarily attributable to an increase in our absorption pace of 6% year-over-year. The improvement in our average

selling price of net new orders, which was primarily the result of price increases throughout 2016 in many of our communities, was somewhat offset by a slight shift in mix to lower priced communities in certain of our markets, as we have experienced a trend toward a higher percentage of our net new orders coming from first-time homebuyers in the second half of 2016.

Our financial services pretax income was \$36.4 million for the year ended December 31, 2016, a \$5.4 million, or 17%, increase from \$31.0 million for the year ended December 31, 2015. The increase was due to our mortgage operations segment, which had (1) increases in the dollar value of loans locked, originated, and sold and (2) higher gains on loans locked and sold.

Outlook

The dollar value of the homes in our backlog at December 31, 2016 was up 24% year-over-year to \$1.4 billion, which puts us in a position to grow our home sale revenues year-over-year during the first half of 2017. However, our ability to grow revenues will be impacted by construction cycle times, which increased significantly in 2016. The introduction of our new more affordable homes, which are generally smaller and less complex to build, should have a positive impact on the Company's overall cycle times during 2017, although they will still be a small overall portion of our unit volume. The initial consumer response to our new more affordable homes has been positive, reinforcing our belief that the first-time homebuyer may drive growth in new home sales nationwide in the coming year. However, this optimism is somewhat tempered by an increased risk for a rise in interest rates, which already increased significantly during the final quarter of 2016, and uncertainty surrounding potential changes in government policy following the 2016 Presidential Election. See "**Forward-Looking Statements**" above.

We ended 2016 with overall liquidity of \$901.6 million and no senior note maturities until 2020. We believe that our financial position at December 31, 2016 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**" above.

Table Of Contents*Homebuilding**Pretax Income (Loss)*

	Year Ended December 31,							
	2016	Change		2015	Change		2014	
		Amount	%		Amount	%		
	(Dollars in thousands)							
West	\$73,594	\$8,967	14 %	\$64,627	\$1,556	2 %	\$63,071	
Mountain	73,104	20,397	39 %	52,707	13,364	34 %	39,343	
East	4,949	10,982	N/M	(6,033)	(16,763)	(156)%	10,730	
Corporate	(36,269)	4,591	11 %	(40,860)	(3,520)	(9)%	(37,340)	
Total homebuilding pretax income	\$115,378	\$44,937	64 %	\$70,441	\$(5,363)	(7)%	\$75,804	

N/M – Not meaningful

Homebuilding pretax income for 2016 was \$115.4 million, an increase of \$44.9 million from \$70.4 million for the year ended December 31, 2015. The increase was primarily attributable to a 22% increase in home sale revenues, coupled with a 110 basis point improvement in our SG&A rate. The year-over-year increases in pretax income for each of our West, Mountain and East segments were driven primarily by higher home sale revenues of 23%, 24% and 15%, respectively, coupled with improvements in each segment's SG&A rate. 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 and a decrease in stock-based compensation expense.

Homebuilding pretax income for 2015 was \$70.4 million, a decrease of \$5.4 million from \$75.8 million for the year ended December 31, 2014. Our homebuilding pretax income for the year benefited from a 12% improvement in home sale revenues and an \$18.2 million reduction in charges related to the early extinguishment of debt. However, our results were negatively impacted by an 80 basis point reduction in our gross margin from homes sales and a \$19.6 million decrease in interest and other income. The decrease was due to year-over-year declines in both (1) our average marketable securities balance and (2) gains on sales of marketable securities as the volume of marketable securities sold decreased.

Our Mountain segment had a \$13.4 million year-over-year improvement in pretax income for 2015, due primarily to a 14% increase in home sale revenues coupled with an improved gross margin from home sales percentage. In our West segment, a \$1.6 million increase in pretax income was the result of a 19% increase in home sale revenues that was mostly offset by a decline in gross margin from home sales percentage. The \$16.8 million decline in pretax income in

our East segment was primarily due to a 6% reduction in home sale revenues, a decline in our gross margin from home sales percentage, driven mostly by a \$7.5 million increase in inventory impairments, and an increase in our SG&A rate. The additional \$3.5 million of pretax loss in our Corporate segment was primarily due to the \$19.6 million decrease in interest and other income discussed above and an increase in stock-based compensation expense related to a non-qualified stock option grant covering one million shares to each of our Chief Executive Officer and Chief Operating Officer, but was mostly offset by the \$18.2 million reduction in charges related to the early extinguishment of debt.

Table Of Contents*Assets*

	December 31,		Change	
	2016	2015	Amount	%
	(Dollars in thousands)			
West	\$1,035,033	\$991,393	\$43,640	4 %
Mountain	571,139	536,831	34,308	6 %
East	256,816	324,457	(67,641)	(21)%
Corporate	454,507	393,712	60,795	15 %
Total homebuilding assets	\$2,317,495	\$2,246,393	\$71,102	3 %

Homebuilding assets increased slightly during the year ended December 31, 2016. The decline in homebuilding assets in our East segment is due to reduced land acquisition activity in this segment during 2016, as our returns in this segment have been lower than expected. The assets in our Corporate segment increased due to an aggregate increase in our cash, cash equivalents and investments balances, which were up as a result of our positive operating results, but was partially offset by a decline in our deferred tax asset resulting from using a significant amount of credit carryforwards to offset taxable income.

Revenues

	Year Ended December 31,			Change			
	2016	Change Amount	%	2015	Change Amount	%	2014
	(Dollars in thousands)						
West	\$1,128,513	\$213,254	23 %	\$915,259	\$145,208	19 %	\$770,051
Mountain	756,997	147,995	24 %	609,002	74,758	14 %	534,244
East	377,343	41,378	12 %	335,965	(10,371)	(3) %	346,336
Total home and land sale revenues	\$2,262,853	\$402,627	22 %	\$1,860,226	\$209,595	13 %	\$1,650,631

Home and land sale revenues increased \$402.6 million for the year ended December 31, 2016, due to a 15% increase in the number of new home deliveries and a 6% increase in the average selling price of new home deliveries. For the year ended December 31, 2015, home and land sale revenues increased \$209.6 million, due primarily to a 12% increase in the average selling price of new home deliveries.

Table Of Contents*New Home Deliveries:*

	Year Ended December 31, 2016			2015			% Change					
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price			
	(Dollars in thousands)											
Arizona	789	\$232,511	\$294.7	753	\$220,140	\$292.4	5 %	6 %	1 %			
California	807	495,934	614.5	706	370,603	524.9	14 %	34 %	17 %			
Nevada	683	238,441	349.1	575	215,479	374.7	19 %	11 %	(7)%			
Washington	345	161,628	468.5	270	109,038	403.8	28 %	48 %	16 %			
West	2,624	1,128,514	430.1	2,304	915,260	397.2	14 %	23 %	8 %			
Colorado	1,369	671,308	490.4	1,192	553,573	464.4	15 %	21 %	6 %			
Utah	219	80,679	368.4	149	52,794	354.3	47 %	53 %	4 %			
Mountain	1,588	751,987	473.5	1,341	606,367	452.2	18 %	24 %	5 %			
Maryland	243	114,079	469.5	215	103,148	479.8	13 %	11 %	(2)%			
Virginia	262	135,394	516.8	216	105,593	488.9	21 %	28 %	6 %			
Florida	337	127,179	377.4	314	117,521	374.3	7 %	8 %	1 %			
East	842	376,652	447.3	745	326,262	437.9	13 %	15 %	2 %			
Total	5,054	\$2,257,153	\$446.6	4,390	\$1,847,889	\$420.9	15 %	22 %	6 %			

	Year Ended December 31, 2015			2014			% Change					
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price			
	(Dollars in thousands)											
Arizona	753	\$220,140	\$292.4	731	\$200,994	\$275.0	3 %	10 %	6 %			
California	706	370,603	524.9	624	296,189	474.7	13 %	25 %	11 %			
Nevada	575	215,479	374.7	564	176,371	312.7	2 %	22 %	20 %			
Washington	270	109,038	403.8	267	96,496	361.4	1 %	13 %	12 %			
West	2,304	915,260	397.2	2,186	770,050	352.3	5 %	19 %	13 %			
Colorado	1,192	553,573	464.4	1,172	478,669	408.4	2 %	16 %	14 %			
Utah	149	52,794	354.3	165	53,136	322.0	(10)%	(1)%	10 %			
Mountain	1,341	606,367	452.2	1,337	531,805	397.8	0 %	14 %	14 %			
Maryland	215	103,148	479.8	305	144,695	474.4	(30)%	(29)%	1 %			
Virginia	216	105,593	488.9	234	115,001	491.5	(8)%	(8)%	(1)%			
Florida	314	117,521	374.3	304	85,847	282.4	3 %	37 %	33 %			
East	745	326,262	437.9	843	345,543	409.9	(12)%	(6)%	7 %			
Total	4,390	\$1,847,889	\$420.9	4,366	\$1,647,398	\$377.3	1 %	12 %	12 %			

For the year ended December 31, 2016, the number of homes delivered for all of our markets increased compared to the prior year as our beginning backlog in 2016 was up significantly year-over-year. However, the benefit to deliveries from our higher beginning backlog was somewhat offset by extended cycle times on homes sold throughout the year primarily as a result of issues with subcontractor availability in certain of our larger markets. Our California and Washington markets, which each experienced significant increases in their average selling price, benefited from price increases in most of their communities during 2016 coupled with a shift in the mix of deliveries to higher priced communities.

For the year ended December 31, 2015, all of our markets, with the exception of Virginia, experienced year-over-year increases in the average selling price of homes delivered. The markets that experienced the most prominent percentage increases were California, Nevada, Washington, Colorado and Florida. The price increase in all of these markets was primarily driven by a shift in the mix of deliveries to higher priced communities and, to a lesser degree, by price increases implemented in most communities during the first half of the year, especially in California and Colorado. The change in homes closed during the year for the majority of our markets was mostly driven by the year-over-year change in the number of homes in beginning backlog. However, current year deliveries in most of our markets were negatively impacted by our intentional reduction of unsold home inventory, which drove decreases in the number of homes that were both sold and delivered during the year. For our Utah market, a significant year-over-year decline in the number of homes both sold and delivered during the same year, predominantly related to a decrease in available unsold home inventory, drove the 10% decline in closings, despite a 54% increase in beginning backlog.

Table Of Contents*Gross Margin*

Our gross margin from home sales percentage for the year ended December 31, 2016 decreased 10 basis points year-over-year to 16.1%, as \$7.5 million in adjustments to increase our warranty accrual were mostly offset by the positive impact from a higher percentage of our deliveries coming from build-to-order sales, which typically have higher gross margins when compared to deliveries of homes that were started without a sales contract.

Our gross margin from home sales for the year ended December 31, 2015 decreased 80 basis points year-over-year. The decline was primarily due to an \$8.2 million increase in inventory impairments and lower than normal margins in the first quarter of 2015 from deliveries of aged homes that were started without a contract. The lower margins were caused by higher than normal incentives utilized to reduce this aged unsold inventory. To a lesser extent, margins were also adversely impacted by higher land and construction costs and a \$2.8 million year-over-year decline in positive warranty adjustments. These items were partially offset by a 70 basis point improvement in our interest in cost of sales as a percentage of home sale revenues, price increases implemented in various communities and a higher percentage of our deliveries coming from dirt sales, which typically have higher gross margins.

Inventory Impairments

During the year ended December 31, 2016, we recorded \$10.2 million of inventory impairments, of which \$7.6 million related to five projects in our East segment, \$1.4 million related to one project in our West segment and \$1.2 million related to one project in our Mountain segment. During the year ended December 31, 2015, we recorded \$10.0 million of inventory impairments, of which \$1.2 million was related to impairments on our land held for sale in two communities; one in our West segment and one in our Mountain segment. The remaining \$8.8 million in impairments related to nine projects with the majority coming from our East segment; four in Maryland totaling \$3.3 million and three in Virginia totaling \$5.2 million. During the year ended December 31, 2014, we recorded \$1.8 million of inventory impairments related to four projects, three of which were in our Maryland division totaling \$1.0 million. The communities impaired during the three-year-period were all impaired based on their slow sales absorption rates experienced during the respective years of their impairments, as well as the estimated or actual sales price reductions required to sell the remaining lots and houses. Inventory impairments recognized by segment for the years ended December 31, 2016, 2015 and 2014 are shown in the table below.

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Housing Completed or Under Construction:			
West	\$364	\$-	\$-
Mountain	574	250	234

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East	1,390	1,378	1,000
Subtotal	2,328	1,628	1,234
Land and Land Under Development:			
West	1,036	648	-
Mountain	589	569	526
East	6,220	7,148	-
Subtotal	7,845	8,365	526
Total Inventories	\$10,173	\$9,993	\$1,760

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The table below provides quantitative data, for the periods presented, used in determining the fair value of the impaired inventory, excluding impairments related to land held for sale.

Three Months Ended	Impairment Data			Quantitative Data			
	Total Subdivisions Tested	Inventory Impairments	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired	Discount Rate		
	(Dollars in thousands)						
March 31, 2016	14	\$ -	\$ -	-	N/A		
June 30, 2016	17	1,600	6,415	2	12%	to	15%
September 30, 2016	25	4,700	12,295	2	15%	to	18%
December 31, 2016	40	3,873	23,657	3	12%	to	15%
Total		\$ 10,173	\$ 42,367	7			
March 31, 2015	22	\$ 350	\$ 3,701	1	9%		
June 30, 2015	22	-	-	-	N/A		
September 30, 2015	18	3,225	14,836	5	12%	to	15%
December 31, 2015	15	5,200	19,925	3	15%	to	20%
Total		\$ 8,775	\$ 38,462	9			
March 31, 2014	16	\$ -	\$ -	-	N/A		
June 30, 2014	16	850	4,285	2	11%	to	14%
September 30, 2014	23	-	-	-	N/A		
December 31, 2014	21	910	4,646	2	13%		
Total		\$ 1,760	\$ 8,931	4			

Selling, General and Administrative Expenses

	Year Ended December 31,		Change			
	2016	2015	2016	2015	2014	
General and administrative expenses	\$ 118,076	\$ 112,134	\$ 5,942	\$ 9,723	\$ 102,411	
<i>General and administrative expenses as a percentage of home sale revenues</i>	5.2	6.1	% (90) bps	% (10) bps	6.2	%
Marketing expenses	\$ 58,778	\$ 52,417	\$ 6,361	\$ 6,536	\$ 45,881	
<i>Marketing expenses as a percentage of home sale revenues</i>	2.6	2.8	% (20) bps	% 0 bps	2.8	%

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Commissions expenses	\$73,686	\$11,920	\$61,766	\$6,805	\$54,961
<i>Commissions expenses as a percentage of home sale revenues</i>	3.3	% 0 bps	3.3	% 0 bps	3.3 %
Total selling, general and administrative expenses	\$250,540	\$24,223	\$226,317	\$23,064	\$203,253
<i>Total selling, general and administrative expenses as a percentage of home sale revenues (SG&A Rate)</i>	11.1	% (110) bps	12.2	% (10) bps	12.3 %

For the year ended December 31, 2016, our SG&A expenses were up \$24.2 million to \$250.5 million, while our SG&A rate improved 110 basis points year-over-year. The improvement in our SG&A rate was driven primarily by an increased ability to leverage our fixed overhead as a result of our 22% increase in home sale revenues and, to a lesser extent, a decline in our stock-based compensation expense.

For the year ended December 31, 2015, our SG&A expenses were up \$23.1 million to \$226.3 million, while our SG&A rate improved 10 basis points year-over-year. The slight improvement in our SG&A rate was driven primarily by an increased ability to leverage our fixed overhead as a result of our 12% increase in home sale revenues, but was mostly offset by an \$8.2 million increase in compensation-related expenses, which included \$6.2 million of expense related to a non-qualified stock option grant covering one million shares to each of our Chief Executive Officer and Chief Operating Officer.

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Early Extinguishments of Debt

During the 2014 first quarter, we redeemed our 5 % Senior Notes due December 2014 and, in the 2014 fourth quarter, we redeemed our 5 % Senior Notes due July 2015. As a result of these transactions, we paid \$517.7 million to extinguish \$500 million in debt principal and recorded a total of \$18.2 million in losses on early extinguishments of debt. We used available cash balances to fund the Senior Notes due December 2014 and for the redemption of the Senior Notes due July 2015, we used available cash balances in addition to proceeds from the sale of certain marketable securities.

Other-Than-Temporary Impairment of Marketable Securities

As of December 31, 2016, 2015 and 2014, our marketable securities were in net unrealized gain positions totaling \$12.5 million, \$5.9 million and \$4.5 million, respectively. Included in those net unrealized gain positions were certain marketable securities that individually were in an unrealized loss position. In accordance with GAAP, we recognized \$1.4 million, \$4.0 million and \$4.3 million of impairments for the years ended December 31, 2016, 2015 and 2014, respectively, on certain equity securities based on our determination that the unrealized loss on certain of our equity securities no longer met the criteria to be considered temporary.

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

	Year Ended December 31, 2016				2015				% 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 *
	(Dollars in thousands)											
Arizona	790	\$243,358	\$308.0	2.21	843	\$241,192	\$286.1	2.07	(6)%	1%	8%	7%
California	946	582,460	615.7	3.88	856	506,445	591.6	3.55	11%	15%	4%	9%
Nevada	795	282,198	355.0	3.09	615	227,560	370.0	3.62	29%	24%	(4)%	(15)%
Washington	403	199,011	493.8	2.57	394	173,071	439.3	2.50	2%	15%	12%	3%
West	2,934	1,307,027	445.5	2.89	2,708	1,148,268	424.0	2.77	8%	14%	5%	4%
Colorado	1,511	730,924	483.7	3.69	1,435	687,695	479.2	2.97	5%	6%	1%	24%
Utah	215	84,455	392.8	2.18	217	79,203	365.0	2.58	(1)%	7%	8%	(16)%
Mountain	1,726	815,379	472.4	3.39	1,652	766,898	464.2	2.91	4%	6%	2%	16%
Maryland	245	116,813	476.8	1.73	237	116,010	489.5	2.02	3%	1%	(3)%	(14)%
Virginia	272	143,680	528.2	2.75	227	114,713	505.3	2.12	20%	25%	5%	30%
Florida	429	176,862	412.3	2.14	379	143,594	378.9	2.18	13%	23%	9%	(2)%
East	946	437,355	462.3	2.15	843	374,317	444.0	2.12	12%	17%	4%	1%
Total	5,606	\$2,559,761	\$456.6	2.85	5,203	\$2,289,483	\$440.0	2.68	8%	12%	4%	6%
	(Dollars in thousands)											
	Year Ended December 31, 2015				2014				% 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
	(Dollars in thousands)											
Arizona	843	\$241,192	\$286.1	2.07	802	\$235,041	\$293.1	2.04	5%	3%	(2)%	1%
California	856	506,445	591.6	3.55	669	327,248	489.2	3.22	28%	55%	21%	10%
Nevada	615	227,560	370.0	3.62	579	192,708	332.8	2.93	6%	18%	11%	24%
Washington	394	173,071	439.3	2.50	276	102,795	372.4	2.30	43%	68%	18%	9%
West	2,708	1,148,268	424.0	2.77	2,326	857,792	368.8	2.54	16%	34%	15%	9%
Colorado	1,435	687,695	479.2	2.97	1,334	576,322	432.0	2.88	8%	19%	11%	3%
Utah	217	79,203	365.0	2.58	179	59,304	331.3	2.55	21%	34%	10%	1%
Mountain	1,652	766,898	464.2	2.91	1,513	635,626	420.1	2.84	9%	21%	10%	2%
Maryland	237	116,010	489.5	2.02	244	117,646	482.2	1.43	(3)%	(1)%	2%	41%
Virginia	227	114,713	505.3	2.12	221	111,068	502.6	1.96	3%	3%	1%	8%

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Florida	379	143,594	378.9	2.18	319	109,141	342.1	1.85	19 %	32 %	11 %	18 %
East	843	374,317	444.0	2.12	784	337,855	430.9	1.72	8 %	11 %	3 %	23 %
Total	5,203	\$2,289,483	\$440.0	2.68	4,623	\$1,831,273	\$396.1	2.43	13 %	25 %	11 %	10 %

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

During the year ended December 31, 2016, we experienced year-over-year improvements in the dollar value of net new orders in all of our markets, resulting in a total year-over-year increase to the dollar value of net new orders of 12% or \$270.3 million. Washington experienced the largest increase in average selling price percentage due to both a shift in mix to higher priced communities and price increases implemented in selling communities throughout 2016. Our Nevada and Virginia markets each experienced the largest percentage improvement in the number of net new orders. In our Virginia market, this was due to an increased monthly sales absorption pace resulting from certain communities that opened late in 2015 having a full year of strong sales activity in 2016. A 50% year-over-year increase in the number of average active communities drove the improvement in Nevada. However, the impact on net new orders from this higher average active community count was slightly offset by a year-over-year decline in monthly sales absorption pace as the 2015 monthly sales absorption pace was at unusually high levels during the first half of 2015. The absorption paces for our Colorado and California markets continue to be among the strongest in the Company, with robust demand in each market.

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For the year ended December 31, 2015, the dollar value of net new orders increased 25% compared to the prior year as both units and average selling price improved in most of our markets. A mix shift to higher priced communities, coupled with price increases implemented during 2015 in most of our communities, notably those in California and Colorado, drove the year-over-year increase in average selling price of net new home orders. Our West segment experienced the largest improvement in the number of net new orders as the result of a 7% increase in average active subdivisions coupled with an improved absorption pace, notably in California, Washington, and Nevada, despite the price increases implemented during most of 2015 as discussed above. The improvement in net new orders in our Mountain segment was primarily the result of a 4% increase in average active subdivisions coupled with a slight improvement in our monthly sales absorption pace. Our East segment had the largest increase in absorption pace, but the impact on net new orders was significantly dampened by an 11% decline in average active community count.

Active Subdivisions:

	Active Subdivisions						Average Active Subdivisions				
	December 31,						Year Ended			December 31,	
	2016	% Change	2015	% Change	2014	2016	2015	% Change			
Arizona	28	(13)%	32	(11)%	36	30	34	(12)%			
California	20	0 %	20	5 %	19	20	20	0 %			
Nevada	21	5 %	20	25 %	16	21	14	50 %			
Washington	14	0 %	14	40 %	10	13	13	0 %			
West	83	(3)%	86	6 %	81	84	81	4 %			
Colorado	38	(5)%	40	0 %	40	34	40	(15)%			
Utah	9	29 %	7	17 %	6	8	7	14 %			
Mountain	47	0 %	47	2 %	46	42	47	(11)%			
Maryland	10	(9)%	11	22 %	9	12	10	20 %			
Virginia	7	(22)%	9	(10)%	10	8	9	(11)%			
Florida	17	21 %	14	8 %	13	17	14	21 %			
East	34	0 %	34	6 %	32	37	33	12 %			
Total	164	(2)%	167	5 %	159	163	161	1 %			

At December 31, 2016, we had 164 active subdivisions, a 2% decrease from 167 active subdivisions at the end of 2015. At December 31, 2015, we had 167 active subdivisions, up 5% from 159 active subdivisions at the end of 2014. In Arizona, as a result of limited land acquisition activity during 2014 and 2015, our active subdivision count has experienced year-over-year declines in both 2016 and 2015. In Virginia and Maryland, we have tempered our land acquisition activity over the past two years as our recent returns in this segment have been lower than expected. For all remaining markets, the year-over-year changes were primarily driven by the timing of opening new communities versus closing out older ones.

Table Of Contents*Cancellation Rate:*

Cancellations As a Percentage of Gross Sales							
Year Ended December 31,							
	2016	Change	2015	Change	2014		
Arizona	27%	3	% 24	% 0	% 24	%	
California	24%	3	% 21	(3)	% 24	%	
Nevada	18%	0	% 18	(2)	% 20	%	
Washington	18%	(1)	% 19	(1)	% 20	%	
West	22%	1	% 21	(2)	% 23	%	
Colorado	20%	(1)	% 21	1	% 20	%	
Utah	22%	6	% 16	(2)	% 18	%	
Mountain	20%	(1)	% 21	1	% 20	%	
Maryland	26%	8	% 18	(6)	% 24	%	
Virginia	20%	(5)	% 25	(2)	% 27	%	
Florida	27%	0	% 27	1	% 26	%	
East	25%	1	% 24	(2)	% 26	%	
Total	22%	1	% 21	(1)	% 22	%	

Our cancellations as a percentage of gross sales in total and on an individual market-by-market basis have been relatively consistent between the years ended December 31, 2016, 2015 and 2014.

Backlog:

	At December 31, 2016			2015			% Change		Average	
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	
(Dollars in thousands)										
Arizona	322	\$104,899	\$ 325.8	321	\$89,464	\$ 278.7	0	% 17	% 17	%
California	481	314,305	653.4	342	220,755	645.5	41	% 42	% 1	%
Nevada	307	108,720	354.1	195	67,901	348.2	57	% 60	% 2	%
Washington	237	120,305	507.6	179	80,134	447.7	32	% 50	% 13	%
West	1,347	648,229	481.2	1,037	458,254	441.9	30	% 41	% 9	%
Colorado	964	466,565	484.0	822	390,635	475.2	17	% 19	% 2	%
Utah	104	41,689	400.9	108	38,549	356.9	(4)	% 8	% 12	%
Mountain	1,068	508,254	475.9	930	429,184	461.5	15	% 18	% 3	%
Maryland	92	45,160	490.9	90	43,317	481.3	2	% 4	% 2	%

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Virginia	111	60,701	546.9	101	52,622	521.0	10 %	15 %	5 %
Florida	266	119,305	448.5	174	70,837	407.1	53 %	68 %	10 %
East	469	225,166	480.1	365	166,776	456.9	28 %	35 %	5 %
Total	2,884	\$1,381,649	\$479.1	2,332	\$1,054,214	\$452.1	24 %	31 %	6 %

At December 31, 2016, we experienced significant year-over-year growth in the number of homes in backlog driven primarily by (1) a year-over-year increase in net new orders, (2) a higher percent of those sales coming from dirt sales, which are generally in backlog for a longer period of time, and (3) lower closings than expected for 2016 as a result of increased construction cycle times in most of our larger markets due to limited subcontractor availability.

Table Of Contents*Homes Completed or Under Construction:*

	December 31,		% Change	
	2016	2015		
Unsold:				
Completed	115	189	(39))%
Under construction	279	334	(16))%
Total unsold started homes	394	523	(25))%
Sold homes under construction or completed	2,186	1,697	29	%
Model homes under construction or completed	302	281	7	%
Total homes completed or under construction	2,882	2,501	15	%

At the beginning of 2015, we increased our focus on build-to-order sales and started fewer unsold homes, giving our customers the best opportunity to personalize their homes. As a result, our supply of unsold started homes has declined by 25% year-over-year from December 31, 2015. However, this decline was more than offset by a 29% increase in sold homes under construction or completed as a result of our higher backlog, and a 7% increase in our model homes, resulting in a 15% increase in our total homes completed or under construction.

Lots Owned and Optioned (including homes completed or under construction):

	December 31, 2016			December 31, 2015			Total % Change	
	Lots Owned	Lots Optioned	Total	Lots Owned	Lots Optioned	Total		
Arizona	1,521	287	1,808	1,735	201	1,936	(7))%
California	1,702	298	2,000	1,759	352	2,111	(5))%
Nevada	1,934	65	1,999	2,240	100	2,340	(15))%
Washington	862	-	862	832	107	939	(8))%
West	6,019	650	6,669	6,566	760	7,326	(9))%
Colorado	3,982	1,683	5,665	4,086	832	4,918	15	%
Utah	306	30	336	442	-	442	(24))%
Mountain	4,288	1,713	6,001	4,528	832	5,360	12	%
Maryland	221	62	283	368	219	587	(52))%
Virginia	367	19	386	562	158	720	(46))%
Florida	910	421	1,331	1,078	230	1,308	2	%
East	1,498	502	2,000	2,008	607	2,615	(24))%
Total	11,805	2,865	14,670	13,102	2,199	15,301	(4))%

Our total owned and optioned lots were down slightly from December 31, 2015. The decline in lots controlled in our Maryland and Virginia markets is primarily due to reduced land acquisition activity during 2016, as our returns in these markets have been lower than expected. We ended 2016 with a total lot supply of approximately 2.9 years (based on our last-twelve months of deliveries), which is within our stated strategic range.

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	Year Ended December 31,						
	2016	Change		2015	Change		2014
	Amount	%		Amount	%		
	(Dollars in thousands)						
Financial services revenues							
Mortgage operations	\$41,585	\$11,309	37 %	\$30,276	\$4,389	17 %	\$25,887
Other	22,406	3,872	21 %	18,534	468	3 %	18,066
Total financial services revenues	\$63,991	\$15,181	31 %	\$48,810	\$4,857	11 %	\$43,953
Financial services pretax income							
Mortgage operations	\$23,845	\$6,615	38 %	\$17,230	\$3,196	23 %	\$14,034
Other	12,558	(1,195)	(9)%	13,753	3,116	29 %	10,637
Total financial services pretax income	\$36,403	\$5,420	17 %	\$30,983	\$6,312	26 %	\$24,671

For the year ended December 31, 2016, our financial services pretax income was up 17% from the prior year. The increase was primarily due to our mortgage operations segment, which had (1) increases in the dollar value of loans locked, originated, and sold and (2) higher gains on loans locked and sold.

For the year ended December 31, 2015, our financial services pretax income was up 26% from the prior year. The increase was primarily due to (1) an increase in the dollar value of loans locked, originated and sold, (2) higher per unit origination income, (3) increased gains on loans locked and sold compared to a year ago in our mortgage operations segment and (4) a \$2.5 million adjustment recorded during 2015 in our other financial services segment to reduce insurance reserves as the result of a decline in insurance claim payment severity and frequency relative to prior period estimates.

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The table below sets forth information for our mortgage operations relating to mortgage loans originated and capture rate.

	Year Ended December 31,		2015	% or		2014
	2016	% or Percentage Change		% or Percentage Change	2014	
(Dollars in thousands)						
Total Originations:						
Loans	3,191	28	% 2,487	3	%	2,422
Principal	\$1,110,344	32	% \$838,061	10	%	\$759,082
Capture Rate Data:						
Capture rate as % of all homes delivered	62	% 6	% 56	% 1	%	55
Capture rate as % of all homes delivered (excludes cash sales)	66	% 6	% 60	% 1	%	59
Mortgage Loan Origination Product Mix:						
FHA loans	20	% 2	% 18	% 3	%	15
Other government loans (VA & USDA)	23	% (3)	)% 26	% (3)	)%	29
Total government loans	43	% (1)	)% 44	% 0	%	44
Conventional loans	57	% 1	% 56	% 0	%	56
	100	% 0	% 100	% 0	%	100
Loan Type:						
Fixed rate	97	% 1	% 96	% 3	%	93
ARM	3	% (1)	)% 4	% (3)	)%	7
Credit Quality:						
Average FICO Score	735	(0)	)% 736	(0)	)%	738
Other Data:						
Average Combined LTV ratio	84	% 0	% 84	% (1)	)%	85
Full documentation loans	100	% 0	% 100	% 0	%	100
Loans Sold to Third Parties:						
Loans	3,128	30	% 2,414	(2)	)%	2,453
Principal	\$1,084,347	34	% \$809,535	6	%	\$762,633

Income Taxes

We recorded income tax expense of \$48.6 million, \$35.6 million and \$37.3 million for the years ended December 31, 2016, 2015 and 2014, respectively, resulting in effective income tax rates of 32.0%, 35.1% and 37.2%, respectively.

The year-over-year improvement in our effective tax rate from 2015 to 2016 is primarily the result of (1) a domestic manufacturing deduction, whereas we were not eligible to take this deduction in the prior year due to our utilization of remaining federal net operating loss carryforwards to offset taxable income, and (2) a higher estimated percentage of our homes delivered qualifying for energy credits.

The year-over-year improvement in our effective tax rate from 2014 to 2015 is primarily the result of (1) the reversal of a previously established uncertain tax position and (2) a year-over-year decrease in the write-offs of certain unused state net operating losses.

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LIQUIDITY AND CAPITAL RESOURCES

We use our liquidity and capital resources to (1) support our operations, including the purchase of land, land development and construction of homes; (2) provide working capital; and (3) provide mortgage loans for our homebuyers. Our liquidity includes our cash and cash equivalents, marketable securities, Revolving Credit Facility (as defined below) and Mortgage Repurchase Facility (as defined below). Additionally, we have an existing effective shelf registration statement that allows us to issue equity, debt or hybrid securities up to \$1.50 billion.

We have marketable equity securities that consist primarily of holdings in corporate equities, preferred stocks and exchange traded funds.

Capital Resources

Our capital structure is primarily a combination of (1) permanent financing, represented by stockholders' equity; (2) long-term financing, represented by our 5 % senior notes due 2020, 5½% senior notes due 2024 and our 6% senior notes due 2043; (3) our Revolving Credit Facility and (4) our Mortgage Repurchase Facility. Because of our current balance of cash, cash equivalents, marketable securities, ability to access the capital markets, and available capacity under both our Revolving Credit Facility and Mortgage Repurchase Facility, we believe that our capital resources are adequate to satisfy our short and long-term capital requirements, including meeting future payments on our senior notes as they become due. See “**Forward-Looking Statements**” above.

We may, from time to time, seek to retire or purchase our outstanding senior notes through cash purchases, whether through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Senior Notes, Revolving Credit Facility and Mortgage Repurchase Facility

Senior Notes. Our senior notes are not secured and, while the senior note indentures contain some restrictions on secured debt and other transactions, they do not contain financial covenants. Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by most of our homebuilding segment subsidiaries. We believe that we are in compliance with the representations, warranties and covenants in the senior note indentures.

Revolving Credit Facility. We have an unsecured revolving credit agreement (“Revolving Credit Facility”) with a group of lenders which may be used for general corporate purposes. This agreement 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.

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 December 31, 2016.

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As of December 31, 2016, we had \$15.0 million in borrowings and \$23.0 million in letters of credit outstanding under the Revolving Credit Facility, leaving remaining borrowing capacity of \$512.0 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 December 27, 2016 from \$75 million to \$125 million and was effective through January 25, 2017. The Mortgage Repurchase Facility also had a temporary increase in the maximum aggregate commitment from \$50 million to \$90 million from December 23, 2015 through January 31, 2016. At December 31, 2016 and December 31, 2015, HomeAmerican had \$114.5 million and \$88.6 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 December 31, 2016.

Dividends

In each of the years ended December 31, 2016, 2015 and 2014, we paid dividends of \$0.95 per share. In addition to the cash dividends paid during 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.

MDC Common Stock Repurchase Program

At December 31, 2016, we were authorized to repurchase up to 4,000,000 shares of our common stock. We did not repurchase any shares of our common stock during the year ended December 31, 2016.

Consolidated Cash Flow

Our operating cash flows are primarily impacted by: (1) land purchases and construction of homes; (2) closing homes and the associated timing of collecting receivables from home closings; (3) sales of mortgage loans originated by HomeAmerican; (4) payments on accounts payables and accrued liabilities; and (5) funding for payroll. When we close on the sale of a house, our homebuilding subsidiaries will generally receive the proceeds from the sale of the homes within a few days of the home being closed. Therefore, our home sales receivable balance can increase or decrease from period to period based upon the timing of our home closings. Additionally, the amount of mortgage loans held-for-sale can be impacted period to period based upon the number of mortgage loans that were originated by HomeAmerican that have not been sold to third party purchasers and by the timing of fundings by third party mortgage purchasers. Accordingly, mortgage loans held-for-sale may increase if HomeAmerican originates more homes towards the end of one reporting period when compared with the same period in the previous year. HomeAmerican will generally sell mortgage loans it originates within 15 to 40 days after origination.

Year Ended December 31, 2016. We generated \$115.9 million in cash from operating activities during the year ended December 31, 2016, primarily resulting from net income of \$103.2 million, a \$16.1 million decrease in our deferred tax assets due to the use of net operating loss carryforwards to reduce our current taxes payable, a \$21.9 million increase in accounts payable and accrued liabilities due to the timing of invoices received, and non-cash reconciling items such as (1) impairments of marketable securities and homebuilding inventories totaling \$11.6 million and (2) stock-based compensation expense of \$7.5 million. These increases were partially offset by changes in receivables and mortgage loans held for sale of \$20.4 million and \$23.1 million, respectively, due to closing more homes in our 2016 fourth quarter as compared to the same quarter in 2015.

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We generated \$9.2 million in cash from investing activities during the year ended December 31, 2016, primarily attributable to the sale of marketable securities that increased our cash by \$61.7 million. The cash generated was mostly offset by the purchasing of \$48.1 million of marketable securities and \$4.5 million of property and equipment.

We used \$23.2 million of cash for financing activities during the year ended December 31, 2016, primarily related to dividend payments totaling \$49.1 million, which was partially offset by net advances of \$25.9 million on our mortgage repurchase facility.

Year Ended December 31, 2015. We generated \$0.2 million in cash from operating activities during the year ended December 31, 2015, primarily resulting from net income of \$65.8 million, a \$33.3 million decrease in our deferred tax assets due to the use of net operating loss carryforwards to reduce our current taxes payable, and other non-cash reconciling items such as stock-based compensation expense of \$10.1 million and impairments of marketable securities and homebuilding inventories totaling \$14.0 million. These items were mostly offset by increasing our inventory by \$104.9 million and a \$27.3 million increase in our mortgage loans held-for-sale.

We generated \$47.4 million in cash from investing activities during the year ended December 31, 2015, primarily attributable to the maturity and sale of marketable securities that increased our cash by \$102.7 million. The cash generated was significantly offset by the purchasing of \$53.8 million of marketable securities.

We used \$20.4 million of cash for financing activities during the year ended December 31, 2015, primarily attributable to the \$48.9 million of dividend payments, which was partially offset by a \$27.8 million increase in advances on the mortgage repurchase facility.

Year Ended December 31, 2014. We used \$163.6 million in cash for operating activities during the year ended December 31, 2014, primarily resulting from increasing our inventory from December 31, 2013, which resulted in the use of \$257.4 million in cash. This use of cash was partially offset by a \$4.2 million decrease in mortgage loans held-for-sale, net income of \$63.1 million, and the use of net operating loss carryforwards to reduce our current taxes payable.

We generated \$423.1 million in cash from investing activities during the year ended December 31, 2014, primarily attributable to the maturity and sale of marketable securities that increased our cash by \$855.0 million. The cash generated was significantly offset by the purchasing of \$428.7 million of marketable securities.

We used \$304.9 million of cash from financing activities during the year ended December 31, 2014, primarily attributable to the redemption of \$500 million of Senior Notes for a total use of \$517.7 million and from \$48.8 million of dividend payments. The cash used was partially offset by \$248.4 million generated from the issuance of our 10-year 5½% Senior Notes.

Off-Balance Sheet Arrangements

Lot Option Purchase Contracts. In the ordinary course of business, we enter into lot option purchase contracts in order to procure lots for the construction of homes. Lot option contracts enable us to control lot positions with a minimal capital investment, which substantially reduces the risks associated with land ownership and development. At December 31, 2016, we had deposits of \$8.0 million in the form of cash and \$2.0 million in the form of letters of credit that secured option contracts to purchase 2,865 lots for a total estimated purchase price of \$280.8 million.

Surety Bonds and Letters of Credit. At December 31, 2016, we had outstanding surety bonds and letters of credit totaling \$178.8 million and \$52.6 million, respectively, including \$29.6 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit were approximately \$48.7 million and \$18.2 million, respectively. We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

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

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The table below summarizes our known contractual obligations at December 31, 2016.

	Payments due by Period (in thousands)				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Senior notes	\$850,000	\$-	\$-	\$250,000	\$600,000
Interest on senior notes	708,844	48,813	97,625	76,531	485,875
Operating leases	47,092	6,008	10,216	9,302	21,566
Total ⁽¹⁾	\$1,605,936	\$54,821	\$107,841	\$335,833	\$1,107,441

The table above excludes \$114.5 million of mortgage loans that we are obligated to repurchase under our Mortgage Repurchase Facility since it is not long-term indebtedness. Additionally, there were outstanding (1) performance bonds and letters of credit totaling approximately \$178.8 million and \$52.6 million, respectively, at December 31, 2016, which have been excluded from the table above due to the uncertainty as to whether any payments may be made.

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CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Management evaluates such estimates and judgments on an on-going basis and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. See “**Forward-Looking Statements**” above.

Listed below are those estimates and policies that we believe are critical and require the use of complex judgment in their application. Our critical accounting estimates and policies are as follows and should be read in conjunction with the Notes to our Consolidated Financial Statements.

Homebuilding Inventory Valuation. Refer to Note 1, *Summary of Significant Accounting Policies*, in the notes to the financial statements for information on the composition of the inventory balances.

In accordance with Accounting Standards Codification (“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 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 to its carrying 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 (see Note 6, *Fair Value Measurements*, in the notes to the financial statements for definitions of fair value 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. These estimates of undiscounted future cash flows are dependent on specific market or sub-market conditions for each subdivision. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact these estimates for a subdivision include:

- historical subdivision results, and actual and trending Operating Margin, base selling prices and home sales incentives;
- forecasted Operating Margin for homes in backlog;
- the intensity of competition within a market or sub-market, including publicly available home sales prices and home sales incentives offered by our competitors;
- increased levels of home foreclosures;
- the current sales pace for active subdivisions;
- subdivision specific attributes, such as location, availability and size of lots in the sub-market, desirability and uniqueness of subdivision location and the size and style of homes currently being offered;
- potential for alternative home styles to respond to local market conditions;
 - changes by management in the sales strategy of a given subdivision; and
- current local market economic and demographic conditions and related trends and forecasts.

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These and other local market-specific conditions that may be present are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each subdivision. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ among subdivisions, even within a given sub-market. For example, facts and circumstances in a given subdivision may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another subdivision may lead us to price our homes to minimize deterioration in our gross margins from home sales, even though this could result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one subdivision that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby subdivision. Changes in our key assumptions, including estimated construction and land development costs, absorption pace and selling strategies could materially impact future cash flow and fair value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted future cash flows of a subdivision are less than its carrying value, the carrying value of the subdivision is written down to its then estimated fair value. We determine the estimated fair value of each subdivision either: (1) by determining the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation; or (2) assessing the market value of the land in its current condition by considering the estimated price a willing buyer would pay for the land (other than in a forced liquidation), and recent land purchase transactions that we believe are indicators of fair value. The estimated future cash flows are the same for both our recoverability and fair value assessments. Factors we consider when determining the discount rate to be used for each subdivision include, among others:

- the number of lots in a given subdivision;
- the amount of future land development costs to be incurred;
- risks associated with the home construction process, including the stage of completion for the entire subdivision and the number of owned lots under construction; and
- the estimated remaining lifespan of the subdivision.

We allocate the impairments recorded between housing completed or under construction and land and land under development for each impaired subdivision based upon the status of construction of a home on each lot (i.e., if the lot is in housing completed or under construction, the impairment for that lot is recorded against housing completed or under construction). The allocation of impairment is the same with respect to each lot in a given subdivision. Changes in management's estimates, particularly the timing and amount of the estimated future cash inflows and outflows and forecasted average selling prices of homes to be sold and closed can materially affect any impairment calculation. Because our forecasted cash flows are impacted significantly by changes in market conditions, it is reasonably possible that actual results could differ significantly from those estimates. Please see the "Inventory Impairments" section for a detailed discussion and analysis of our asset impairments.

If land is classified as held for sale, 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. 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.

Warranty Accrual. Our homes are sold with limited third-party warranties. We record expenses and warranty accruals for general and structural warranty claims, as well as accruals for known, unusual warranty-related expenditures. A warranty accrual is recorded for each home closed 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. It is possible that changes in the warranty payment experience used in estimating our ultimate warranty losses could have a material impact on our warranty accrual balances.

Insurance 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.

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Reserves for Construction Defect Claims. 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.

Litigation Accruals. In the normal course of business, we are a defendant in claims primarily relating to premises liability, product liability and personal injury claims. These claims seek relief from us under various theories, including breach of implied and express warranty, negligence, strict liability, misrepresentation and violation of consumer protection statutes. We have accrued for losses that may be incurred with respect to legal claims based upon information provided by our legal counsel, including counsel’s on-going evaluation of the merits of the claims and defenses and the level of estimated insurance coverage. Due to uncertainties in the estimation process, actual results could vary from those accruals and could have a material impact on our results of operations.

Income Taxes—Valuation Allowance. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under federal tax law (generally 2 and 20 years, respectively) or state tax law, which range depends on the state (generally 2 and 20 years, respectively). The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years;
- tax planning strategies; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

Determining whether a valuation allowance for deferred tax assets is necessary requires an analysis of both positive and negative evidence regarding realization of the deferred tax assets. Examples of positive evidence may include:

- a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;
- an excess of appreciated asset value over the tax basis of a company’s net assets in an amount sufficient to realize the deferred tax asset; and
- existing backlog that will produce sufficient taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

Examples of negative evidence may include:

- the existence of “cumulative losses” (generally defined as a pretax cumulative loss for the current and previous two years);
- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;
- a history of operating loss or tax credit carryforwards expiring unused; and
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence. In the future, changes in our valuation allowance may result from, among other things, pretax operating losses resulting in increases in our valuation allowance or pretax operating income resulting in decreases in our valuation allowance.

Revenue Recognition. We recognize revenue from home deliveries and land sales when: (1) the closing has occurred; (2) title has passed to the buyer; (3) possession and other attributes of ownership have been transferred to the buyer; (4) we are not obligated to perform significant additional activities after closing and delivery; and (5) the buyer demonstrates a commitment to pay for the property through an adequate initial and continuing investment. The buyer’s initial investment shall include: (1) cash paid as a down payment; (2) the buyer’s notes supported by irrevocable letters of credit; (3) payments made by the buyer to third-parties to reduce existing indebtedness on the property; and (4) other amounts paid by the buyer that are part of the sales value of the property. Revenue from a home delivery includes the base sales price and any purchased options and upgrades and is reduced for any sales price incentives.

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Revenues recorded by HomeAmerican primarily reflect (1) origination fees and (2) the corresponding sale, or expected future sale, of a loan, which will include the estimated earnings from either the release or retention of a loan's servicing rights. Origination fees are recognized when a loan is originated. When an interest rate lock commitment is made to a customer, we record the expected gain on sale of the mortgage, plus the estimated earnings from the expected sale of the associated servicing rights, adjusted for a pull-through percentage (which is defined as the likelihood that an interest rate lock commitment will be originated), as revenue. As the interest rate lock commitment gets closer to being originated, the expected gain on the sale of that loan plus its servicing rights is updated to reflect current market value and the increase or decrease in the fair value of that interest rate lock commitment is recorded through revenues. At the same time, the expected pull-through percentage of the interest rate lock commitment to be originated is updated (typically an increase as the interest lock commitment gets closer to origination) and, if there has been a change, revenues are adjusted as necessary. After origination, our mortgage loans, generally including their servicing rights, are sold to third-party purchasers in accordance with sale agreements entered into by us with a third-party purchaser of the loans. We make representations and warranties with respect to the status of loans transferred in the sale agreements. The sale agreements generally include statements acknowledging the transfer of the loans is intended by both parties to constitute a sale. Sale of a mortgage loan has occurred when the following criteria, among others, have been met: (1) fair consideration has been paid for transfer of the loan by a third party in an arms-length transaction, (2) all the usual risks and rewards of ownership that are in substance a sale have been transferred by us to the third party purchaser; and (3) we do not have a substantial continuing involvement with the mortgage loan.

We carry interest rate lock commitments and mortgage loans held-for-sale at fair value.

Home Cost of Sales. Refer to the Note 1, *Summary of Significant Accounting Policies*, in the notes to the financial statements for information on the composition of home cost of sales. When a home is closed, we generally have not yet paid or incurred all costs necessary to complete the construction of the home and certain land development costs. At the time of a home closing, we compare the home construction budgets to actual recorded costs to determine the additional estimated costs remaining to be paid on each closed home. For amounts not incurred or paid as of the time of closing a home, we record an estimated accrual associated with certain home construction and land development costs. Generally, these accruals are established based upon contracted work which has yet to be paid, open work orders not paid at the time of home closing, as well as land completion costs more likely than not to be incurred, and represent estimates believed to be adequate to cover the expected remaining home construction and land development costs. We monitor the adequacy of these accruals on a house-by-house basis and in the aggregate on both a market-by-market and consolidated basis.

Stock-Based Compensation. ASC Topic 718, *Compensation—Stock Compensation* (“ASC 718”) requires that share-based compensation expense be measured and recognized at an amount equal to the fair value of share-based payments granted under compensation arrangements. Determining the appropriate fair value model and calculating the fair value of stock option awards requires judgment, including estimating stock price volatility, annual forfeiture rates and the expected life of an award. For stock option awards granted with just service and/or performance conditions, we estimate the fair value using a Black-Scholes option pricing model. For any stock option awards granted that contain a market condition, we estimate the fair value using a Monte Carlo simulation model. Both the Black-Scholes option

pricing model and Monte Carlo simulation utilize the following inputs to calculate the estimated fair value of stock options: (1) closing price of our common stock on the measurement date (generally the date of grant); (2) exercise price; (3) expected stock option life; (4) expected volatility; (5) risk-free interest rate; and (6) expected dividend yield rate. The expected life of employee stock options represents the period for which the stock options are expected to remain outstanding and is derived primarily from historical exercise patterns. The expected volatility is determined based on our review of the implied volatility that is derived from the price of exchange traded options of the Company. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of our employee stock options. The expected dividend yield assumption is based on our historical dividend payouts. We determine the estimated fair value of the stock option awards on the date they were granted. The fair values of previously granted stock option awards are not adjusted as subsequent changes in the foregoing assumptions occur; for example, an increase or decrease in the price of our common stock. However, changes in the foregoing inputs, particularly the price of our common stock, expected stock option life and expected volatility, significantly change the estimated fair value of future grants of stock options.

An annual forfeiture rate is estimated at the time of grant, and revised if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate.

Segment Reporting. The application of segment reporting requires significant judgment in determining our operating segments. Operating segments are defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. We have identified our Chief Operating Decision-Maker (“CODM”) as two key executives—the Chief Executive Officer and Chief Operating Officer.

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We have identified each homebuilding division as an operating segment as each homebuilding division engages in business activities from which it earns revenue, primarily from the sale of single-family detached homes, generally to first-time and first-time move-up homebuyers. Divisions in the reportable segments noted below have been aggregated because they are similar in the following regards: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) methods used to manage the construction and sale of homes. In making the determination of whether or not our markets demonstrate similar economic characteristics, we review, among other things, actual and trending gross margins from home sales for homes closed within each market and forecasted gross margins from home sales. Accordingly, we may be required to reclassify our reportable segments if markets that currently are being aggregated do not continue to demonstrate similar economic characteristics.

Our homebuilding reportable segments are as follows:

- West (Arizona, California, Nevada and Washington);
- Mountain (Colorado and Utah); and
- East (Virginia, Florida and Maryland, which includes Pennsylvania and New Jersey)

Our financial services operating segments are as follows: (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.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 1 in our consolidated financial statements.

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Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Our cash and investment policy and strategy is to achieve an appropriate investment return while preserving principal and managing risk. Our cash and cash equivalents may include immediately available commercial bank deposits, commercial paper, money market funds, certificates of deposit and time deposits. Our marketable securities consist primarily of holdings in mutual fund securities, which invest mostly in floating and fixed rate debt securities, and direct holdings in corporate equities. The market value and/or income derived from our equity securities can be negatively impacted by a number of market risk factors, including changes in interest rates, general economic conditions and equity markets. For the year ended December 31, 2016, we recorded quarterly impairments totaling \$1.4 million on certain of our marketable securities that were in a loss position at each quarter end. For the remaining marketable securities in unrealized loss positions totaling \$0.5 million, there can be no assurances that the cost basis of these securities will be recovered in the future. If we elect to sell, or are otherwise were required to sell these securities, we could be required to record losses if the market values do not increase prior to any sales. Such losses, if any, would be recorded as a component of our results of operations.

We are exposed to market risks related to fluctuations in interest rates on mortgage loans held-for-sale, mortgage interest rate lock commitments and debt. Derivative instruments utilized in the normal course of business by HomeAmerican include interest rate lock commitments and forward sales of mortgage-backed securities, which are used to manage the price risk on fluctuations in interest rates on our mortgage loans in inventory and interest rate lock commitments to originate mortgage loans. Such contracts are the only significant financial derivative instruments utilized by MDC. HomeAmerican's mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed at December 31, 2016 had an aggregate principal balance of approximately \$110.9 million, all of which were under interest rate lock commitments at an average interest rate of 4.11%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of \$136.8 million at December 31, 2016, of which \$42.3 million had not yet been committed to a mortgage purchaser and had an average interest rate of 3.82%. In order to hedge the changes in fair value of interest rate lock commitments and mortgage loans held-for-sale which had not yet been committed to a mortgage purchaser, HomeAmerican had forward sales of securities totaling \$108.0 million and \$84.5 million at December 31, 2016 and 2015, respectively.

HomeAmerican provides mortgage loans that generally are sold forward and subsequently delivered to a third-party purchaser between 15 and 40 days. Forward commitments are used for non-trading purposes to sell mortgage loans and hedge price risk due to fluctuations in interest rates on rate-locked mortgage loans in process that have not closed. Due to this economic hedging philosophy, the market risk associated with these mortgages is limited. For forward sales commitments, as well as commitments to originate mortgage loans that are still outstanding at the end of a reporting period, we record the fair value of the derivatives in the consolidated statements of operations and comprehensive income with an offset to either derivative assets or liabilities, depending on the nature of the change.

We utilize our Revolving Credit Facility, our Mortgage Repurchase Facility and senior notes in our financing strategy. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but do not affect our

earnings or cash flows. We do not have an obligation to prepay our senior notes prior to maturity and, as a result, interest rate risk and changes in fair value do not have an impact on our financial position, results of operations or cash flows. For variable rate debt such as our Revolving Credit Facility and Mortgage Repurchase Facility, changes in interest rates generally do not affect the fair value of the outstanding borrowing on the debt facilities, but does affect our earnings and cash flows. See “**Forward-Looking Statements**” above.

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At December 31, 2016, we had \$114.5 million of mortgage loans that HomeAmerican is 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 under Mortgage Repurchase Facility in the consolidated balance sheets. The following table provides the maturities, average interest rate and estimated fair value of significant financial instruments that are sensitive to changes in interest rates at December 31, 2016.

	Maturities through December 31,						Total	Estimated Fair Value
	2017	2018	2019	2020	2021	Thereafter		
	(Dollars in thousands)							
Assets:								
Mortgage loans held for sale ⁽¹⁾								
Fixed Rate	\$ 131,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,194	\$ 132,847
Average interest rate	3.84	%					3.84	%
Variable Interest Rate	5,650	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,650	\$ 5,729
Average interest rate	3.51	%					3.51	%
Liabilities:								
Fixed rate debt	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ 600,000	\$ 850,000	\$ 821,498
Average interest rate				5.63	%	5.79	%	5.74
Mortgage facility	\$ 114,485	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,485	\$ 114,485
Average interest rate	3.06	%					3.06	%
Derivative Financial Instruments:								
Commitments to originate mortgage loans								
Notional amount	\$ 110,867	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,867	\$ 3,242
Average interest rate	4.11	%					4.11	%
Forward sales of mortgage backed securities								
Notional amount	\$ 108,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,000	\$ 514
Average interest rate	3.30	%					3.30	%

(1) All the amounts in this line reflect the expected 2017 disposition of these loans rather than the actual scheduled maturity dates of these mortgages.

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Item 8. Consolidated Financial Statements.

M.D.C. HOLDINGS, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

M.D.C. Holdings, Inc.

We have audited the accompanying consolidated balance sheets of M.D.C. Holdings, Inc. (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of M.D.C. Holdings, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), M.D.C. Holdings, Inc.’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

February 1, 2017

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Table Of Contents**M.D.C. HOLDINGS, INC.****Consolidated Balance Sheets**

	December 31, 2016	December 31, 2015
	(Dollars in thousands, except per share amounts)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$259,087	\$144,342
Marketable securities	59,770	92,387
Restricted cash	3,778	3,750
Trade and other receivables	42,492	23,314
Inventories:		
Housing completed or under construction	874,199	747,036
Land and land under development	884,615	1,016,926
Total inventories	1,758,814	1,763,962
Property and equipment, net	28,041	28,226
Deferred tax assets, net	74,888	99,107
Metropolitan district bond securities (related party)	30,162	25,911
Prepaid and other assets	60,463	65,394
Total homebuilding assets	2,317,495	2,246,393
Financial Services:		
Cash and cash equivalents	23,822	36,646
Marketable securities	36,436	11,307
Mortgage loans held-for-sale, net	138,774	115,670
Other assets	12,062	5,883
Total financial services assets	211,094	169,506
Total Assets	\$2,528,589	\$2,415,899
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$42,088	\$40,472
Accrued liabilities	144,566	122,886
Revolving credit facility	15,000	15,000
Senior notes, net	841,646	840,524
Total homebuilding liabilities	1,043,300	1,018,882
Financial Services:		
Accounts payable and accrued liabilities	50,734	52,114
Mortgage repurchase facility	114,485	88,611
Total financial services liabilities	165,219	140,725
Total Liabilities	1,208,519	1,159,607
Stockholders' Equity		

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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; 51,485,090 and 48,888,424 issued and outstanding at December 31, 2016 and December 31, 2015, respectively	515	489
Additional paid-in-capital	983,532	915,746
Retained earnings	313,952	324,342
Accumulated other comprehensive income	22,071	15,715
Total Stockholders' Equity	1,320,070	1,256,292
Total Liabilities and Stockholders' Equity	\$2,528,589	\$2,415,899

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

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

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands, except per share amounts)		
Homebuilding:			
Home sale revenues	\$2,257,153	\$1,847,889	\$1,647,398
Land sale revenues	5,700	12,337	3,233
Total home and land sale revenues	2,262,853	1,860,226	1,650,631
Home cost of sales	(1,884,391)	(1,539,396)	(1,365,621)
Land cost of sales	(4,866)	(12,611)	(2,559)
Inventory impairments	(10,173)	(9,993)	(1,760)
Total cost of sales	(1,899,430)	(1,562,000)	(1,369,940)
Gross margin	363,423	298,226	280,691
Selling, general and administrative expenses	(250,540)	(226,317)	(203,253)
Interest and other income	7,012	6,709	26,310
Interest expense	-	-	(685)
Other expense	(3,447)	(4,208)	(4,813)
Losses on early extinguishments of debt	-	-	(18,153)
Other-than-temporary impairment of marketable securities	(1,070)	(3,969)	(4,293)
Homebuilding pretax income	115,378	70,441	75,804
Financial Services:			
Revenues	63,991	48,810	43,953
Expenses	(30,920)	(21,572)	(22,334)
Interest and other income	3,705	3,745	3,052
Other-than-temporary impairment of marketable securities	(373)	-	-
Financial services pretax income	36,403	30,983	24,671
Income before income taxes	151,781	101,424	100,475
Provision for income taxes	(48,570)	(35,633)	(37,332)
Net income	\$103,211	\$65,791	\$63,143
Other comprehensive income (loss) related to available-for-sale securities, net of tax	6,356	5,260	(1,120)
Comprehensive income	\$109,567	\$71,051	\$62,023
Earnings per share:			
Basic	\$2.01	\$1.28	\$1.23
Diluted	\$2.00	\$1.28	\$1.23
Weighted average common shares outstanding			

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Basic	51,286,942	51,202,616	51,046,318
Diluted	51,447,147	51,415,580	51,258,444

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

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Table Of Contents**M.D.C. HOLDINGS, INC.****Consolidated Statements of Stockholders' Equity****(Dollars in thousands, except share amounts)**

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Comprehensive
			Capital		Income	Total
Balance at December 31, 2013	48,788,887	\$ 488	\$ 908,090	\$ 293,096	\$ 11,575	\$ 1,213,249
Net Income	-	-	-	63,143	-	63,143
Other comprehensive loss, net of tax	-	-	-	-	(1,120)	(1,120)
Total comprehensive income						62,023
Shares issued upon exercise of stock options and awards of restricted stock	57,021	-	374	-	-	374
Cash dividends declared	-	-	-	(48,820)	-	(48,820)
Stock-based compensation expense	-	-	5,979	-	-	5,979
Forfeiture of restricted stock	(14,269)	-	-	-	-	-
Net income tax deficiency from share-based compensation	-	-	(4,469)	-	-	(4,469)
Balance at December 31, 2014	48,831,639	488	909,974	307,419	10,455	1,228,336
Net Income	-	-	-	65,791	-	65,791
Other comprehensive income, net of tax	-	-	-	-	5,260	5,260
Total comprehensive income						71,051
Shares issued upon exercise of stock options and awards of restricted stock	66,721	1	665	-	-	666
Cash dividends declared	-	-	-	(48,868)	-	(48,868)
Stock-based compensation expense	-	-	10,066	-	-	10,066
Forfeiture of restricted stock	(9,936)	-	-	-	-	-
Net income tax deficiency from share-based compensation	-	-	(4,959)	-	-	(4,959)
Balance at December 31, 2015	48,888,424	489	915,746	324,342	15,715	1,256,292
Net Income	-	-	-	103,211	-	103,211
Other comprehensive income, net of tax	-	-	-	-	6,356	6,356
Total comprehensive income						109,567
Shares issued upon exercise of stock options and awards of restricted stock	147,455	1	(1)	-	-	-
Cash dividends declared	-	-	-	(49,021)	-	(49,021)
Stock dividend declared	2,449,211	25	64,488	(64,580)	-	(67)
Stock-based compensation expense	-	-	7,477	-	-	7,477
Net income tax deficiency from share-based compensation	-	-	(4,178)	-	-	(4,178)

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Balance at December 31, 2016	51,485,090	\$ 515	\$ 983,532	\$ 313,952	\$ 22,071	\$ 1,320,070
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The accompanying Notes are an integral part of these Consolidated Financial Statements.

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

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Operating Activities:			
Net income	\$ 103,211	\$ 65,791	\$ 63,143
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Losses on early extinguishments of debt	-	-	18,153
Stock-based compensation expense	7,477	10,066	5,978
Depreciation and amortization	5,132	4,069	3,928
Inventory impairments	10,173	9,993	1,760
Other-than-temporary impairment of marketable securities	1,443	3,969	4,293
Net realized loss (gain) on sale of marketable securities	(1,074)	911	(7,310)
Amortization of discount / premiums on marketable debt securities	-	100	566
Deferred income tax expense	16,145	33,333	34,226
Excess tax benefits from stock-based compensation	-	-	(26)
Net changes in assets and liabilities:			
Restricted cash	(28)	(934)	(621)
Trade and other receivables	(20,424)	5,247	(6,638)
Mortgage loans held-for-sale	(23,104)	(27,278)	4,186
Housing completed or under construction	(128,525)	(15,551)	(96,936)
Land and land under development	124,622	(89,388)	(160,463)
Prepaid expenses and other assets	(1,036)	(7,648)	(11,873)
Accounts payable and accrued liabilities	21,905	7,535	(16,013)
Net cash provided by (used in) operating activities	115,917	215	(163,647)
Investing Activities:			
Purchases of marketable securities	(48,050)	(53,822)	(428,709)
Maturities of marketable securities	-	1,510	167,339
Sales of marketable securities	61,736	101,165	687,692
Purchases of property and equipment	(4,468)	(1,491)	(3,242)
Net cash provided by investing activities	9,218	47,362	423,080
Financing Activities:			
Advances (payments) on mortgage repurchase facility, net	25,874	27,789	(2,252)
Proceeds from issuance of senior notes	-	-	248,375
Repayment of senior notes	-	-	(517,650)
Advances on revolving credit facility, net	-	-	15,000
Dividend payments	(49,088)	(48,868)	(48,820)
Excess tax benefits from stock-based compensation	-	-	26
Proceeds from exercise of stock options	-	665	375

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Net cash used in financing activities	(23,214)	(20,414)	(304,946)
Net increase (decrease) in cash and cash equivalents	101,921	27,163	(45,513)
Cash and cash equivalents:			
Beginning of year	180,988	153,825	199,338
End of year	\$282,909	\$180,988	\$153,825

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

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1. Summary of Significant Accounting Policies

Principles of Consolidation. The 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) include the accounts of MDC and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year's presentation.

Description of Business. We have homebuilding operations in Arizona, California, Colorado, Florida, Maryland, (which includes Maryland, Pennsylvania and New Jersey), Nevada, Utah, Virginia and Washington. The primary functions of our homebuilding operations include land acquisition and development, home construction, purchasing, marketing, merchandising, sales and customer service. We build and sell primarily single-family detached homes, which are designed and built to meet local customer preferences. We are the general contractor for all of our projects and retain subcontractors for site development and home construction.

Our financial services operations consist of HomeAmerican Mortgage Corporation ("HomeAmerican"), which originates mortgage loans, primarily for our homebuyers, American Home Insurance Agency, Inc. ("American Home Insurance"), which offers third-party insurance products to our homebuyers, and American Home Title and Escrow Company ("American Home Title"), which provides title agency services to the Company and our homebuyers in Colorado, Florida, Maryland, Nevada and Virginia. The financial services operations also include Allegiant Insurance Company, Inc., A Risk Retention Group ("Allegiant"), which provides insurance coverage primarily to our homebuilding subsidiaries and most of our subcontractors for homes sold by our homebuilding subsidiaries and for work performed in completed subdivisions, and StarAmerican Insurance Ltd. ("StarAmerican"), a wholly owned subsidiary of MDC, which is a re-insurer of Allegiant claims.

Presentation. Our balance sheet presentation is unclassified due to the fact that certain assets and liabilities have both short and long-term characteristics.

Use of Accounting Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company periodically invests funds in highly liquid investments with an original maturity of three months or less, such as commercial paper, money market funds and time deposits, which are

included in cash and cash equivalents in the consolidated balance sheets and consolidated statements of cash flows.

Marketable Securities. All of our marketable securities were treated as available-for-sale investments as of December 31, 2016 and 2015. As such, we have recorded all of our marketable securities at fair value with changes in fair value initially being recorded as a component of accumulated other comprehensive income (“AOCI”). However, in accordance with Accounting Standards Codification (“ASC”) Topic 320, *Investments* (“ASC 320”), if the unrealized loss is determined to be other-than-temporary, an other-than-temporary impairment (“OTTI”) is recorded in the consolidated statements of operations and comprehensive income. When a security is sold, we use the first-in first-out method to determine the cost of the security sold or the amount reclassified out of AOCI.

Restricted Cash. We receive cash earnest money deposits from our customers who enter into home sale contracts. In certain states we are restricted from using such deposits for general purposes, unless we take measures to release state imposed restrictions on such deposits received from homebuyers, which may include posting blanket surety bonds. We had \$3.8 million and \$3.8 million in restricted cash related to homebuyer deposits at December 31, 2016 and 2015, respectively.

Trade and Other Receivables. Trade and other receivables primarily includes home sale receivables, which reflects cash to be received from title companies or outside brokers associated with closed homes. Generally, we will receive cash from title companies and outside brokers within a few days of the home being closed.

Mortgage Loans Held-for-Sale, net. Mortgage loans held-for-sale are recorded at fair value based on quoted market prices and estimated market prices received from a third-party. Using fair value allows an offset of the changes in fair values of the mortgage loans and the derivative instruments used to hedge them without the burden of complying with the requirements for hedge accounting.

Inventories. 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.

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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 (see Note 6, *Fair Value Measurements*, in the notes to the financial statements for definitions of fair value 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 (see Note 6, *Fair Value Measurements*, for definitions of fair value inputs). 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.

Property and Equipment, net. Property and equipment is carried at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 29 years. Depreciation and amortization expense for property and equipment of our homebuilding operations was \$4.6 million, \$3.9 million and \$3.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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The following table sets forth the cost and carrying value of our homebuilding property and equipment by major asset category.

	Cost	Accumulated Depreciation and Amortization	Carrying Value
	(Dollars in thousands)		
December 31, 2016:			
Airplane	\$29,497	\$ 8,250	\$21,247
Computer software and equipment	23,909	20,329	3,580
Leasehold improvements	11,530	9,370	2,160
Other	2,410	1,356	1,054
Total	\$67,346	\$ 39,305	\$28,041
December 31, 2015:			
Airplane	\$28,997	\$ 7,701	\$21,296
Computer software and equipment	21,393	16,599	4,794
Leasehold improvements	10,207	8,317	1,890
Other	2,199	1,953	246
Total	\$62,796	\$ 34,570	\$28,226

Deferred Tax Assets, net. Deferred income taxes reflect the net tax effects of temporary differences between (1) the carrying amounts of the assets and liabilities for financial reporting purposes and (2) the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized.

Deferred Marketing Costs. Certain marketing costs related to model homes and sales offices are capitalized as they are: (1) reasonably expected to be recovered from the sale of the project; and (2) incurred for (a) tangible assets that are used directly throughout the selling period to aid in the sale of the project or (b) services that have been performed to obtain regulatory approval of sales. Capitalized marketing costs are included in prepaid and other assets in the homebuilding section of the consolidated balance sheets and the associated amortization expense is included in selling, general and administrative (“SG&A”) in the homebuilding section of the consolidated statements of operations and comprehensive income as the homes in the related subdivision are delivered. We allocate all capitalized marketing costs equally to each house within a subdivision and record expense as homes close over the life of a subdivision. All other marketing costs are expensed as incurred.

Variable Interest Entities. In accordance with ASC Topic 810, *Consolidation* (“ASC 810”), we analyze our land option contracts and other contractual arrangements to determine whether the corresponding land sellers are variable interest entities (“VIEs”) and, if so, whether we are the primary beneficiary. Although we do not have legal title to the optioned land, ASC 810 requires a company to consolidate a VIE if the company is determined to be the primary beneficiary. In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact VIE’s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. We have concluded that, as of December 31, 2016, we were not the primary beneficiary of any VIEs from which we are purchasing land under land option contracts.

Related Party Assets. Our related party assets are debt security bonds acquired from a quasi-municipal corporation in the state of Colorado. See Note 14 to the Consolidated Financial Statements.

Goodwill. In accordance with ASC Topic 350, *Intangibles—Goodwill and Other* (“ASC 350”), we evaluate goodwill for possible impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use a three step process to assess the realizability of goodwill. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there are indicators of a significant decline in the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

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If a qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will proceed to the third step where the fair value of the reporting unit will be allocated to assets and liabilities as they would in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in the third step.

Based on our analysis, we have concluded as of December 31, 2016, our goodwill was not impaired.

Liability for Unrecognized Tax Benefits. ASC Topic 740, *Income Taxes*, regarding liabilities for unrecognized tax benefits provides guidance for the recognition and measurement in financial statements of uncertain tax positions taken or expected to be taken in a tax return.

The evaluation of a tax position is a two-step process, the first step being recognition. We determine whether it is more-likely-than-not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority. Once the gross unrecognized tax benefit is determined, we also accrue for any interest and penalties, as well as any offsets expected from resultant amendments to federal or state tax returns. We record the aggregate effect of these items in income tax expense in the consolidated statements of operations and comprehensive income. To the extent this tax position would be offset against a similar deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed, the liability is treated as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. Otherwise, we record the corresponding liability in accrued liabilities in the homebuilding section of our consolidated balance sheets.

Warranty Accrual. Our homes are sold with limited third-party warranties. 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. 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.

Warranty payments are recorded against the warranty accrual. Additional reserves may be established for known, unusual warranty-related expenditures not covered through the independent warranty accrual analysis performed by us. Warranty payments incurred for an individual house may differ from the related reserve established for the home at the time it was closed. The actual disbursements for warranty claims are evaluated in the aggregate to determine if an adjustment to the historical warranty accrual should be recorded.

We assess the reasonableness and adequacy of the reserve and the per-unit reserve amount originally included in home cost of sales, as well as the timing of the reversal of any excess reserve on a quarterly basis, using historical payment data and other relevant information. 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.

Insurance 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.

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Reserves for Construction Defect Claims. 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.

Litigation Reserves. We and certain of our subsidiaries have been named as defendants in various cases. We reserve for estimated exposure with respect to these cases based upon currently available information on each case. See Note 16 to the Consolidated Financial Statements.

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 December 31, 2016 and 2015, we had interest rate lock commitments with aggregate principal balances of approximately \$110.9 million and \$98.4 million, respectively, at average interest rates of 4.11% and 3.82%, respectively. In addition, we had \$42.6 million and \$23.1 million of mortgage loans held-for-sale at December 31, 2016 and 2015, respectively, 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 which had not yet been committed to a mortgage purchaser, we had forward sales of securities totaling \$108.0 million and \$84.5 million at December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016, 2015 and 2014, we recorded net gains (losses) on our derivatives of \$1.5 million, \$1.5 million and \$(0.8) million, respectively. For further discussion of our policies regarding interest rate lock commitments, see our “Revenue Recognition for HomeAmerican” accounting policy section below.

Revenue Recognition for Homebuilding Segments. We recognize revenue from home deliveries and land sales when: (1) the closing has occurred; (2) title has passed to the buyer; (3) possession and other attributes of ownership have been transferred to the buyer; (4) we are not obligated to perform significant additional activities after closing and

delivery; and (5) the buyer demonstrates a commitment to pay for the property through an adequate initial and continuing investment. The buyer's initial investment shall include: (1) cash paid as a down payment; (2) the buyer's notes supported by irrevocable letters of credit; (3) payments made by the buyer to third-parties to reduce existing indebtedness on the property; and (4) other amounts paid by the buyer that are part of the sales value of the property. Revenue from a home delivery includes the base sales price and any purchased options and upgrades and is reduced for any sales price incentives.

We defer Operating Margin related to the sale of a home if all of the following criteria are present: (1) HomeAmerican originates the mortgage loan; (2) HomeAmerican has not sold the mortgage loan, or loans, as of the end of the pertinent reporting period; and (3) the homebuyer's down payment does not meet the initial or continuing investment criteria. The deferral is subsequently recognized at the time HomeAmerican sells the homebuyer's mortgage loan, or loans, to a third-party purchaser. In the event the Operating Margin is a loss, we recognize such loss at the time the home is closed. We did not have any loans in inventory at December 31, 2016, 2015 or 2014 that failed to meet the continuing investment criteria.

Revenue Recognition for HomeAmerican. Revenues recorded by HomeAmerican primarily reflect (1) origination fees and (2) the corresponding sale, or expected future sale, of a loan, which will include the estimated earnings from either the release or retention of a loan's servicing rights. Origination fees are recognized when a loan is originated. When an interest rate lock commitment is made to a customer, we record the expected gain on sale of the mortgage, plus the estimated earnings from the expected sale of the associated servicing rights, adjusted for a pull-through percentage (which is defined as the likelihood that an interest rate lock commitment will be originated), as revenue. As the interest rate lock commitment gets closer to being originated, the expected gain on the sale of that loan plus its servicing rights is updated to reflect current market value and the increase or decrease in the fair value of that interest rate lock commitment is recorded through revenues. At the same time, the expected pull-through percentage of the interest rate lock commitment to be originated is updated (typically an increase as the interest lock commitment gets closer to origination) and, if there has been a change, revenues are adjusted as necessary. After origination, our mortgage loans, generally including their servicing rights, are sold to third-party purchasers in accordance with sale agreements entered into by us with a third-party purchaser of the loans. We make representations and warranties with respect to the status of loans transferred in the sale agreements. The sale agreements generally include statements acknowledging the transfer of the loans is intended by both parties to constitute a sale. Sale of a mortgage loan has occurred when the following criteria, among others, have been met: (1) fair consideration has been paid for transfer of the loan by a third party in an arms-length transaction, (2) all the usual risks and rewards of ownership that are in substance a sale have been transferred by us to the third party purchaser; and (3) we do not have a substantial continuing involvement with the mortgage loan.

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We measure mortgage loans held-for-sale at fair value with the changes in fair value being reported in earnings at each reporting date. The impact of recording changes in fair value to earnings did not have a material impact on our financial position, results of operations or cash flows during the years ended December 31, 2016, 2015 or 2014. Our net gains on the sale of mortgage loans were \$34.0 million, \$17.8 million and \$15.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, and are included as a component of revenues in the financial services section of the consolidated statements of operations and comprehensive income.

Home Cost of Sales. Home cost of sales includes the specific construction costs of each home and all applicable land acquisition, land development and related costs, both incurred and estimated to be incurred, warranty costs and finance and closing costs, including closing cost incentives. We use the specific identification method for the purpose of accumulating home construction costs and allocate costs to each lot within a subdivision associated with land acquisition and land development based upon relative fair value of the lots prior to home construction. Lots within a subdivision typically have comparable fair values, and, as such, we generally allocate costs equally to each lot within a subdivision. We record all home cost of sales when a home is closed on a house-by-house basis.

When a home is closed, we generally have not yet paid or incurred all costs necessary to complete the construction of the home and certain land development costs. At the time of a home closing, we compare the home construction budgets to actual recorded costs to determine the additional estimated costs remaining to be paid on each closed home. For amounts not incurred or paid as of the time of closing a home, we record an estimated accrual associated with certain home construction and land development costs. Generally, these accruals are established based upon contracted work which has yet to be paid, open work orders not paid at the time of home closing, as well as land completion costs more likely than not to be incurred, and represent estimates believed to be adequate to cover the expected remaining home construction and land development costs. We monitor the adequacy of these accruals on a house-by-house basis and in the aggregate on a subdivision-by-subdivision basis. At December 31, 2016 and 2015, we had \$8.7 million and \$11.5 million, respectively, of land development and home construction accruals for closed homes. Actual results could differ from such estimates.

Stock-Based Compensation Expense. In accordance with ASC Topic 718, *Compensation—Stock Compensation* (“ASC 718”), stock-based compensation expense for all share-based payment awards is based on the grant date fair value. For stock option awards granted with just service and/or performance conditions, we estimate the fair value using a Black-Scholes option pricing model. For any stock option awards granted that contain a market condition, we estimate the fair value using a Monte Carlo simulation model. We recognize expense for share-based payment awards based on their varying vesting conditions as follows:

Awards with service conditions only – Expense recognized on a straight-line basis over the requisite service period of the award.

Awards with performance conditions – Expense recognized on a straight-line basis for each performance criteria tranche (if applicable) over the period between the date that it is determined the performance conditions related to each tranche (if applicable) are probable to be met and the date the award vests

Awards with market conditions (“Market-Based”) – Expense recognized on a straight-line basis over the requisite service period, which is the lesser of the derived service period or the explicit service period, if one is present. However, if the market condition is satisfied prior to the end of the requisite service period, we will accelerate all remaining expense to be recognized.

Earnings (Loss) Per Common Share. For purposes of calculating earnings (loss) per share (“EPS”), a company that has participating security holders (for example, holders of unvested restricted stock that has nonforfeitable dividend rights) is required to utilize the two-class method for calculating earnings per share 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.

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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”), 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 do not plan to early adopt the guidance. We expect to adopt the new standard under the modified retrospective approach. Although we are still in the process of evaluating our contracts, we do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our revenues. Although 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 the update will have on recording revenue and our marketing costs in our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”), which amends the consolidation requirements in ASC Topic 810, *Consolidation*, primarily related to limited partnerships and variable interest entities. ASU 2015-02 was effective for our interim and annual reporting periods beginning January 1, 2016 and did not have a material impact on our consolidated financial statements.

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 still 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.

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 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. 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 is effective for our interim and annual reporting periods beginning January 1, 2017, and is to be applied using a retrospective transition method. Though permitted, we did not early adopt the guidance. The primary impact from this guidance on our consolidated financial statements will be to our tax provision line item as 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 of December 31, 2016, we had options covering 540,000 shares with exercise prices above the MDC closing share price at December 31, 2016 and the ability to exercise those options will expire at some point during 2017. 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 an additional \$2.6 million expense in our tax provision for 2017. We are continuing to evaluate additional impacts the update will have on our consolidated financial statements and related disclosures.

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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 the guidance and we are currently evaluating the impact the update will have on our consolidated financial statements and related disclosures.

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 the guidance 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.