

MDC HOLDINGS INC  
Form 10-Q/A  
October 11, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A  
Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

Commission File No. 1-8951  
M.D.C. HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

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

80237  
(Zip code)

(303) 773-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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, 2006, 44,967,000 shares of M.D.C. Holdings, Inc. common stock were outstanding.

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EXPLANATORY NOTE: This Form 10-Q/A is being filed to provide additional segment reporting footnote disclosure related to our homebuilding operations. We have restated the accompanying Unaudited Consolidated Financial Statements to revise our segment disclosures for all periods presented by disaggregating our one homebuilding reportable segment into four reportable segments. See our revised disclosures in Note 11 to the Unaudited Consolidated Financial Statements. This amendment does not reflect events occurring after the filing of our Quarterly Report on Form 10-Q on August 7, 2006, nor does it modify or update those disclosures, except as discussed above or in Note 2 to the Unaudited Consolidated Financial Statements.

This Form 10-Q/A has all Items included in our Form 10-Q filed August 7, 2006. However, this Form 10-Q/A amends and restates only Part I, Items 1, 2 and 4 of the June 30, 2006 Quarterly Report on Form 10-Q, in each case solely to be responsive to certain disclosure comments, primarily relating to segment reporting, received from the Division of Corporation Finance of the Securities and Exchange Commission. The restatement has no impact for any periods presented on: our total assets, liabilities or stockholders' equity included in the Consolidated Balance Sheets; net income or earnings per share amounts included in the Consolidated Statements of Income; and the Consolidated Statements of Cash Flows.

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**M.D.C. HOLDINGS, INC. AND SUBSIDIARIES**  
**FORM 10-Q/A**  
**FOR THE QUARTER ENDED JUNE 30, 2006**  
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**Table of Contents****ITEM 1. Unaudited Consolidated Financial Statements**

**M.D.C. HOLDINGS, INC.**  
**Consolidated Balance Sheets**  
(In thousands)  
(Unaudited)

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 91,484	\$ 214,531
Restricted cash	6,855	6,742
Home sales receivables	98,629	134,270
Mortgage loans held in inventory	163,373	237,376
Inventories, net		
Housing completed or under construction	1,512,009	1,320,106
Land and land under development	1,760,077	1,677,948
Property and equipment, net	46,277	49,119
Deferred income taxes	71,131	54,319
Prepaid expenses and other assets, net	207,101	165,439
Total Assets	\$ 3,956,936	\$ 3,859,850
<b>LIABILITIES</b>		
Accounts payable	\$ 224,666	\$ 201,747
Accrued liabilities	410,455	442,409
Income taxes payable	30,933	102,656
Related party liabilities (See Note 15)		8,100
Homebuilding line of credit		
Mortgage line of credit	168,163	156,532
Senior notes, net	996,486	996,297
Total Liabilities	1,830,703	1,907,741
 <b>COMMITMENTS AND CONTINGENCIES</b>		
 <b>STOCKHOLDERS EQUITY</b>		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.01 par value; 250,000,000 shares authorized; 44,981,000 and 44,967,000 issued and outstanding at June 30, 2006 and 44,642,000 and 44,630,000 issued and outstanding at December 31, 2005	450	447
Additional paid-in capital	746,637	722,291
Retained earnings	1,382,427	1,232,971
Unearned restricted stock	(2,000)	(2,478)
Accumulated other comprehensive loss	(622)	(622)
Less treasury stock, at cost; 14,000 and 12,000 shares, respectively, at June 30, 2006 and December 31, 2005	(659)	(500)

Total Stockholders' Equity	2,126,233	1,952,109
Total Liabilities and Stockholders' Equity	\$ 3,956,936	\$ 3,859,850

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

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**M.D.C. HOLDINGS, INC.**  
**Consolidated Statements of Income**  
(In thousands, except per share amounts)  
(Unaudited)

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>REVENUE</b>				
Home sales revenue	\$ 1,195,083	\$ 1,029,553	\$ 2,314,391	\$ 1,946,384
Land sales revenue	13,639		15,476	1,296
Other revenue	24,214	16,787	45,763	32,576
<b>Total Revenue</b>	<b>1,232,936</b>	<b>1,046,340</b>	<b>2,375,630</b>	<b>1,980,256</b>
<b>COSTS AND EXPENSES</b>				
Home cost of sales	917,414	734,772	1,732,003	1,391,552
Land cost of sales	13,400		15,774	790
Marketing expense	31,568	25,008	60,603	47,326
Commission expense	37,394	28,680	70,237	54,526
General and administrative expenses	110,799	93,840	220,495	185,993
Related party expenses	127	63	1,803	163
<b>Total Costs and Expenses</b>	<b>1,110,702</b>	<b>882,363</b>	<b>2,100,915</b>	<b>1,680,350</b>
Income before income taxes	122,234	163,977	274,715	299,906
Provisions for income taxes	(45,743)	(61,354)	(102,803)	(112,652)
<b>NET INCOME</b>	<b>\$ 76,491</b>	<b>\$ 102,623</b>	<b>\$ 171,912</b>	<b>\$ 187,254</b>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 1.70	\$ 2.35	\$ 3.83	\$ 4.30
Diluted	\$ 1.66	\$ 2.25	\$ 3.74	\$ 4.10
<b>WEIGHTED-AVERAGE SHARES</b>				
Basic	44,939	43,718	44,880	43,584
Diluted	45,972	45,703	45,967	45,649
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 0.25</b>	<b>\$ 0.18</b>	<b>\$ 0.50</b>	<b>\$ 0.33</b>

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



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**M.D.C. HOLDINGS, INC.**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 171,912	\$ 187,254
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of deferred marketing costs	19,086	14,750
Depreciation and amortization of long-lived assets	9,423	6,836
Amortization of debt discount	189	149
Deferred income taxes	(16,812)	(1,409)
Stock-based compensation expense	7,142	699
Excess tax benefits from stock-based compensation	(1,486)	
Net changes in assets and liabilities		
Home sales receivables	35,641	(38,382)
Housing completed or under construction	(191,903)	(332,028)
Land and land under development	(82,129)	(193,156)
Prepaid expenses and other assets	(14,989)	(42,255)
Mortgage loans held in inventory	74,003	16,814
Accounts payable and accrued liabilities	(72,626)	52,795
Restricted cash	(113)	(1,941)
Other, net	(49,609)	1,830
Net cash used in operating activities	(112,271)	(328,044)
<b>INVESTING ACTIVITIES</b>		
Net purchase of property and equipment	(4,331)	(11,724)
<b>FINANCING ACTIVITIES</b>		
Lines of credit		
Advances	437,531	386,300
Principal payments	(425,900)	(380,899)
Excess tax benefits from stock-based compensation	1,486	
Dividend payments	(22,456)	(14,647)
Proceeds from exercise of stock options	2,894	9,412
Net cash (used in) provided by financing activities	(6,445)	166
Net decrease in cash and cash equivalents	(123,047)	(339,602)
Cash and cash equivalents		
Beginning of period	214,531	400,959
End of period	\$ 91,484	\$ 61,357

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



**Table of Contents****M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****1. Basis of Presentation**

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. ( MDC or the Company, which refers to M.D.C. Holdings, Inc. and its subsidiaries) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at June 30, 2006 and for all periods presented. These statements should be read in conjunction with MDC's Consolidated Financial Statements and Notes thereto included in MDC's Form 10-K/A for the year ended December 31, 2005 filed October 11, 2006.

The Company has experienced significant seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes closed and associated home sales revenue historically have increased during the third and fourth quarters, compared with the first and second quarters. The Company believes that this seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring with the goal of closing in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions. Also, the Company has experienced seasonality in the financial services operations because loan originations correspond with the closing of homes in the homebuilding operations. The Consolidated Statements of Income for the three and six months ended June 30, 2006 and Consolidated Statements of Cash Flows for the six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year. Refer to economic conditions described under the caption

Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q/A and Risk Factors Relating to our Business in Item 1A of the Company's December 31, 2005 Annual Report on Form 10-K. There are no assurances as to the results of operations for the third or fourth quarter of 2006.

The following table summarizes, by quarter, information concerning the home sales revenue associated with homes closed during 2006, 2005 and 2004 (in thousands).

	<b>March 31,</b>	<b>Three Months Ended</b>		
		<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
<b>2006</b>				
Home sales revenue	\$ 1,119,308	\$ 1,195,083	N/A	N/A
<b>2005</b>				
Home sales revenue	\$ 916,831	\$ 1,029,553	\$ 1,147,757	\$ 1,708,734
<b>2004</b>				
Home sales revenue	\$ 746,429	\$ 861,537	\$ 1,007,134	\$ 1,316,913

**2. Reclassifications**

In conjunction with the filing of this Form 10-Q/A, the Company has reclassified the presentation of the Consolidated Balance Sheets and Consolidated Statements of Income. The Consolidated Balance Sheets and Consolidated Statements of Income previously disclosed assets, liabilities, revenue and expenses by each reportable segment. As a result of the restatement to the segment disclosures (see Note 11), assets, liabilities, revenue and expenses are now being presented on a consolidated basis. The Company's total assets, total liabilities and net income have not been affected for any periods presented as a result of this reclassification. Certain other prior year balances have been reclassified to conform to the current year's presentation.

**Table of Contents****M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****3. Recent Accounting Pronouncements**

On July 13, 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 is an interpretation of Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. 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. FIN 48 also requires companies to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, and the cumulative effect of applying FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the impact, if any, that FIN 48 may have on its financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 ( SFAS 155 ). SFAS 155 eliminates the exemption from applying SFAS 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instrument. SFAS 155 also allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise be bifurcated. At the adoption of SFAS 155, any difference between the total carrying amount of the individual components of any existing hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative-effect adjustment to the Company's beginning retained earnings. SFAS 155 is effective for the Company for all financial instruments acquired or issued after January 1, 2007. The Company is currently evaluating the impact, if any, that SFAS 155 may have on its financial position, results of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets ( SFAS 156 ), an amendment of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 156 requires that servicing assets and servicing liabilities be recognized at fair value, if practicable, when the Company enters into a servicing agreement and allows two alternatives, the amortization and fair value measurement methods, as subsequent measurement methods. This accounting standard is effective for all new transactions occurring as of the beginning of fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact, if any, that SFAS 156 may have on its financial position, results of operations or cash flows.

**4. Stock-Based Compensation**

*Stock-Based Compensation Policy* - Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), using the modified prospective transition method and, therefore, has not restated results for prior periods. Under this transition method, stock-based compensation expense for the three and six months ended June 30, 2006 includes compensation expense for all share-based payment awards granted prior to, but not yet vested at December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ). Stock-based compensation expense for all share-based payment awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes these compensation costs net of an estimated annual forfeiture rate and recognizes the compensation costs for only those awards expected to vest on a straight-line basis over the requisite

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

service period of the award, which is currently the option vesting term of up to seven years. Prior to the adoption of SFAS 123(R), the Company recognized stock-based compensation expense in accordance with Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ).

In March 2005, the SEC issued Staff Accounting Bulletin No. 107, Share-Based Payment ( SAB 107 ), regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payment awards for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Additionally, upon the adoption of SFAS 123(R), tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. Prior to the adoption of SFAS 123(R), the Company presented the tax benefit of stock option exercises as operating cash flows.

As a result of adopting SFAS 123(R), income before income taxes for the three and six months ended June 30, 2006 were \$3.0 million and \$6.0 million lower, respectively, and net income for the three and six months ended June 30, 2006 were \$1.9 million and \$3.8 million lower, respectively, than if the Company had continued to account for share-based payment awards under APB 25. The Company has recorded all stock-based compensation expense to general and administrative expense in the Consolidated Statements of Income.

*Pro Forma Disclosures Pursuant to SFAS 123* - As of December 31, 2005, the Company had only granted stock options with exercise prices that were equal to or greater than the fair market value of the Company's common stock on the date of grant. Accordingly, prior to January 1, 2006, stock-based compensation expense was recorded only in association with the vesting of restricted stock and unrestricted stock awards and was recorded to expense ratably over the associated service period, which was generally the vesting term. Additionally, prior to January 1, 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure ( SFAS 148 ), as if the fair value method defined by SFAS 123 had been applied to all share-based payment awards. The following table illustrates the effect on net income and earnings per share if the fair value method prescribed by SFAS 123, as amended by SFAS 148, had been applied to all outstanding and unvested share-based payment awards during the three and six months ended June 30, 2005 (in thousands, except per share amounts).

	<b>Three Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2005</b>
Net income, as reported	\$ 102,623	\$ 187,254
Deduct stock-based compensation expense determined using the fair value method, net of related tax effects	(2,599)	(5,016)
Pro forma net income	\$ 100,024	\$ 182,238
Earnings per share		
Basic as reported	\$ 2.35	\$ 4.30
Basic pro forma	\$ 2.29	\$ 4.18
Diluted as reported	\$ 2.25	\$ 4.10
Diluted pro forma	\$ 2.19	\$ 3.99

*Determining Fair Value of Share-Based Awards* - As part of the adoption of SFAS 123(R), the Company examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee and non-employee populations. Based upon this evaluation, the Company identified three distinct

populations: (1) executives consisting of the Company's Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel

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

(collectively, the Executives ); (2) non-executive employees ( Non-Executives ); and (3) non-employee members of the Company s board of directors ( Directors ). The Company has used the Black-Scholes option pricing model to value stock options for each of these populations.

The fair values for stock options granted during the three and six months ended June 30, 2006 and 2005 were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Expected volatility	46.1%	44.2%	46.0%	44.6%
Risk-free interest rate	4.7%	3.8%	4.7%	3.8%
Dividend yield rate	1.2%	0.6%	1.2%	0.7%
Expected lives of options	3.8 yrs.	6.0 yrs.	3.8 yrs.	6.0 yrs.

Based on calculations using the Black-Scholes option pricing models, the weighted average grant date fair value of stock options was \$22.03 and \$30.50 for the three months ended June 30, 2006 and 2005, respectively, and \$22.41 and \$31.79 for the six months ended June 30, 2006 and 2005, respectively. These assumptions were used for the stock options granted only to Non-Executives during the three and six months ended June 30, 2006 and 2005. No stock option awards were granted during these periods to Executives or Directors.

The expected volatility is based on the historical volatility in the price of the Company s common stock over the most recent period commensurate with the estimated expected life of the Company s stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of the Company s employee stock options. The dividend yield assumption is based on the Company s history and expectation of dividend payouts. The expected life of employee stock options represents the weighted-average period for which the stock options are expected to remain outstanding and are derived primarily from historical exercise patterns.

SFAS 123(R) requires an annual forfeiture rate to be estimated at the time of grant for all share-based payment awards granted subsequent to January 1, 2006, and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the Company s estimate. Additionally, in accordance with SFAS 123(R), the Company has estimated an annual forfeiture rate to be applied to all share-based payment awards which were unvested as of December 31, 2005 in determining the number of awards expected to vest in the future. The Company estimated the annual forfeiture rate to be 25% for share-based payment awards granted to Non-Executives and 0% for share-based payment awards granted to Executives and Directors, based on the terms of their awards, as well as historical forfeiture experience. In the Company s pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

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

*Stock Option Award Activity* - Stock option activity under the Company's option plans at June 30, 2006 and changes during the six months ended June 30, 2006 were as follows.

	<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value  (in thousands)</b>
Outstanding at December 31, 2005	5,659,766	\$ 40.54		
Granted	25,000	\$ 60.15		
Exercised	(133,610)	\$ 21.66		
Cancelled	(200,669)	\$ 54.16		
Outstanding at June 30, 2006	5,350,487	\$ 40.59	6.40	\$ 62,407

The following table summarizes information concerning stock options granted to Executives, Non-Executives and Directors that are vested at June 30, 2006, as well as stock options granted but unvested at June 30, 2006 that the Company expects will vest in future periods.

**Vested and Expected to Vest at June 30, 2006**

	<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value  (in thousands)</b>
Executives	3,875,815	\$ 36.24		
Non-Executives	523,887	\$ 43.48		
Directors	303,325	\$ 61.41		
Total	4,703,027	\$ 38.67	6.22	\$ 62,363

The following table summarizes information concerning stock options granted to Executives, Non-Executives and Directors that are exercisable at June 30, 2006.

	<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Exercisable at June 30, 2006 Weighted-Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value  (in thousands)</b>
Executives	1,513,209	\$ 19.82		
Non-Executives	175,255	\$ 21.43		



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Directors	303,325	\$ 61.41		
Total	1,991,789	\$ 26.30	5.02	\$ 51,050

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

The following table summarizes information concerning outstanding and exercisable stock options at June 30, 2006.

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$7.92 - \$23.77	2,227,778	4.44	\$ 19.96	1,549,740	\$ 19.33
\$23.78 - \$31.69	283,895	1.74	\$ 26.69	146,048	\$ 26.94
\$31.70 - \$47.53	910,914	7.36	\$ 44.31	73,501	\$ 40.86
\$47.54 - \$71.30	1,787,900	8.88	\$ 63.62	97,500	\$ 57.66
\$71.31 - \$79.22	140,000	9.24	\$ 78.78	125,000	\$ 78.89
Total	5,350,487	6.40	\$ 40.59	1,991,789	\$ 26.30

The aggregate intrinsic values in the tables above represent the total pre-tax intrinsic values (the difference between the closing price of MDC's common stock on the last trading day of the 2006 second quarter and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all outstanding stock options been exercised on June 30, 2006. This amount changes based on changes in the fair market value of the Company's common stock. The total intrinsic value of options exercised and total fair value of stock options vested during the six months ended June 30, 2006 were \$4.0 million and \$0.3 million, respectively.

Total stock-based compensation expense relating to stock options granted by the Company was \$3.0 million and \$6.0 million, respectively, for the three and six months ended June 30, 2006. At June 30, 2006, \$41.0 million of total unrecognized compensation cost related to stock options is expected to be recognized as an expense by the Company in the future over a weighted-average period of 4.3 years.

Cash received from stock option exercises was \$2.9 million and the associated tax benefit realized totaled \$1.5 million for the six months ended June 30, 2006.

*Restricted and Unrestricted Stock Award Activity* - Non-vested restricted stock awards at June 30, 2006 and changes during the six months ended June 30, 2006 were as follows.

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2005	43,312	\$ 57.16
Granted	31,851	\$ 64.58
Vested	(17,365)	\$ 60.94
Forfeited	(5,623)	\$ 60.55
Non-vested at June 30, 2006	52,175	\$ 60.07

Total stock-based compensation expense relating to restricted stock and unrestricted stock awards was \$0.2 million and \$0.1 million for the three months ended June 30, 2006 and 2005, respectively, and was \$1.1 million and \$0.7 million for the six months ended June 30, 2006 and 2005, respectively. At June 30, 2006, there was \$2.2 million of unrecognized stock-based compensation expense related to non-vested restricted stock awards that is expected to be

recognized as an expense by the Company in the future over a weighted-average period of 3.0 years.

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

**Notes to Unaudited Consolidated Financial Statements (Continued)**

**5. Equity Incentive Plans**

A summary of the Company's equity incentive plans follows:

*Employee Equity Incentive Plans* - In April 1993, the Company adopted the Employee Equity Incentive Plan (the Employee Plan). The Employee Plan provided for an initial authorization of 2,100,000 shares of MDC common stock for issuance thereunder, subject to adjustment for stock dividends and stock splits, plus an additional annual authorization equal to 10% of the then authorized shares of MDC common stock under the Employee Plan as of each succeeding annual anniversary of the date the Employee Plan was adopted. Under the Employee Plan, the Company could grant awards of restricted stock, incentive and non-statutory stock options and dividend equivalents, or any combination thereof, to officers and employees of the Company or any of its subsidiaries. The incentive and non-statutory stock options granted under the Employee Plan are exercisable at prices not less than the market value on the date of grant and vest over periods of up to four years and expire within six years. The Company's ability to make further grants under the Employee Plan terminated pursuant to its terms on April 20, 2003.

Effective March 2001, the Company adopted the M.D.C. Holdings, Inc. 2001 Equity Incentive Plan (the Equity Incentive Plan). The Equity Incentive Plan provided for an initial authorization of 2,000,000 shares of MDC common stock for issuance thereunder, subject to adjustment for stock dividends and stock splits, plus an additional annual authorization equal to 10% of the then authorized shares of MDC common stock under the Equity Incentive Plan as of each succeeding annual anniversary of the date the Equity Incentive Plan was adopted. In April 2003, an additional 1,000,000 shares (also subject to adjustment for stock dividends and stock splits) were authorized for issuance by vote of the Company's shareowners. The Equity Incentive Plan provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock bonuses and other stock grants to employees of the Company. Incentive stock options granted under the Equity Incentive Plan must have an exercise price that is at least equal to the fair market value of the common stock on the date the incentive stock option is granted. Non-qualified option awards generally vest over periods of up to seven years and expire in ten years. Restricted stock awards are granted with vesting terms of up to four years.

*Director Equity Incentive Plan* - Effective March 2001, the Company adopted the M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors (the Director Stock Option Plan). Under the Director Stock Option Plan, non-employee directors of the Company are granted non-qualified stock options. The Director Stock Option Plan provided for an initial authorization of 500,000 shares of MDC common stock for issuance thereunder, subject to adjustment for stock dividends and stock splits, plus an additional annual authorization equal to 10% of the then authorized shares of MDC common stock under the Director Stock Option Plan as of each succeeding annual anniversary of the date the Director Stock Option Plan was adopted. Pursuant to the Director Stock Option Plan, on October 1 of each year, each non-employee director of the Company is granted options to purchase 25,000 shares of MDC common stock. Each option granted under the Director Stock Option Plan vests immediately and expires ten years from the date of grant. The option exercise price must be equal to the fair market value (as defined in the plan) of MDC common stock on the date of grant of the option. In October 2003, the Director Stock Option Plan, which was approved by the shareowners on May 21, 2001, was amended to terminate on May 21, 2011.

**Table of Contents****M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements (Continued)****6. Balance Sheet Components**

The following tables set forth information relating to accrued liabilities (in thousands).

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Accrued liabilities		
Warranty reserves	\$ 92,010	\$ 82,238
Land development and home construction accruals	52,746	74,955
Customer and escrow deposits	46,791	56,186
Insurance reserves	38,187	32,166
Accrued compensation and related expenses	72,847	99,541
Accrued pension liability	12,287	11,687
Other accrued liabilities	95,587	85,636
Total accrued liabilities	410,455	442,409

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**Table of Contents****M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements (Continued)****7. Earnings Per Share**

Pursuant to SFAS No. 128, Earnings per Share, the computation of diluted earnings per share takes into account the effect of dilutive stock options. The basic and diluted earnings per share calculations are shown below (in thousands, except per share amounts).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Basic Earnings Per Share</b>				
Net income	\$ 76,491	\$ 102,623	\$ 171,912	\$ 187,254
Basic weighted-average shares outstanding	44,939	43,718	44,880	43,584
Per share amounts	\$ 1.70	\$ 2.35	\$ 3.83	\$ 4.30
<b>Diluted Earnings Per share</b>				
Net income	\$ 76,491	\$ 102,623	\$ 171,912	\$ 187,254
Basic weighted-average shares outstanding	44,939	43,718	44,880	43,584
Stock options, net	1,033	1,985	1,087	2,065
Diluted weighted-average shares outstanding	45,972	45,703	45,967	45,649
Per share amounts	\$ 1.66	\$ 2.25	\$ 3.74	\$ 4.10

**8. Interest Activity**

The Company capitalizes interest incurred on its senior notes and Homebuilding Line (as defined below) during the period of active development and through the completion of construction of its homebuilding inventories. Interest incurred on the senior notes or Homebuilding Line that is not capitalized is reported as interest expense. Interest incurred by the Mortgage Line (as defined below) is charged to interest expense. Interest activity is shown below (in thousands).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Total Interest Incurred</b>				
Corporate and homebuilding	\$ 15,002	\$ 11,110	\$ 29,843	\$ 21,925
Financial services and other	2,317	654	4,281	1,138
Total interest incurred	\$ 17,319	\$ 11,764	\$ 34,124	\$ 23,063
<b>Total Interest Capitalized</b>				
Interest capitalized in homebuilding inventory, beginning of period	\$ 47,222	\$ 27,741	\$ 41,999	\$ 24,220
Interest capitalized	15,002	11,110	29,843	21,925

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Previously capitalized interest included in home cost of sales	(13,655)	(8,558)	(23,273)	(15,852)
Interest capitalized in homebuilding inventory, end of period	\$ 48,569	\$ 30,293	\$ 48,569	\$ 30,293

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

Interest income and interest expense are shown below (in thousands).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Interest Income, Net</b>				
Interest Income				
Financial services and other	\$ 3,459	\$ 1,397	\$ 6,300	\$ 2,421
Homebuilding	109	332	219	410
Corporate	183	234	615	1,222
Total	3,751	1,963	7,134	4,053
<b>Interest expense, net of interest capitalized</b>				
Financial services and other	2,317	654	4,281	1,138
Homebuilding				
Corporate				
Total interest income, net	\$ 1,434	\$ 1,309	\$ 2,853	\$ 2,915

**9. Warranty Reserves**

Warranty reserves presented in the table below relate to general and structural reserves, as well as reserves for known, unusual warranty-related expenditures not covered by the Company's general and structural warranty reserve. Warranty reserves are reviewed at least quarterly, using historical data and other relevant information, to determine the reasonableness and adequacy of both 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. If warranty payments for an individual house exceed the related reserve, then payments in excess of the reserve are evaluated in the aggregate to determine if an adjustment to the warranty reserve should be recorded, which could result in a corresponding adjustment to home cost of sales. Warranty reserves are included in accrued liabilities in the Consolidated Balance Sheets, and totaled \$92.0 million and \$82.2 million at June 30, 2006 and December 31, 2005, respectively. In addition, the reserves include additional qualified settlement fund warranty reserves created pursuant to litigation settled in 1996. Warranty reserve activity for the three and six months ended June 30, 2006 and 2005 is shown below (in thousands).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Warranty reserve balance at beginning of period	\$ 85,613	\$ 64,102	\$ 82,238	\$ 64,424
Warranty expense provision	11,797	7,200	23,293	16,487
Warranty cash payments	(7,790)	(10,552)	(15,911)	(20,161)
Warranty reserve adjustments	2,390		2,390	
Warranty reserve balance at end of period	\$ 92,010	\$ 60,750	\$ 92,010	\$ 60,750

**10. Insurance Reserves**

The Company records expenses and liabilities for costs to cover liabilities related to: (1) insurance policies issued by StarAmerican Insurance Ltd. and Allegiant Insurance Company, Inc., A Risk Retention Group; (2) self-insurance;



(3) deductible amounts under the Company's insurance policies; and

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

(4) losses and loss adjustment expenses associated with claims in excess of coverage limits or not covered by insurance policies. The establishment of the provisions for outstanding losses and loss adjustment expenses is based on actuarial studies that include known facts and interpretation of circumstances, including the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns such as those caused by natural disasters, fires, or accidents, depending on the business conducted and changing regulatory and legal environments.

The following table summarizes the insurance reserve activity for the three and six months ended June 30, 2006 and 2005 (in thousands).

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Insurance reserve balance at beginning of period	\$ 33,888	\$ 23,680	\$ 32,166	\$ 21,188
Insurance expense provisions	2,529	2,983	5,091	5,550
Insurance cash payments	(118)	(70)	(958)	(145)
Insurance reserve adjustments	1,888	202	1,888	202
Insurance reserve balance at end of period	\$ 38,187	\$ 26,795	\$ 38,187	\$ 26,795

**11. Information on Business Segments (As Restated)**

SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information ( SFAS 131 ), defines operating segments as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. The Company has identified its chief operating decision-makers ( CODMs ) as three key executives the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Subsequent to the issuance of the Company's Unaudited Consolidated Financial Statements for the three and six months ended June 30, 2006 and 2005, management determined that the homebuilding operations should be restated by disaggregating its one homebuilding reportable segment into four reportable segments. Accordingly, the Company has restated its segment disclosure for the three and six months ended June 30, 2006 and 2005. The restatement has no impact for any periods presented on: the Company's total assets, liabilities or stockholders' equity included in the Consolidated Balance Sheets; net income or earnings per share amounts included in the Consolidated Statements of Income; and the Consolidated Statements of Cash Flows.

The Company has identified each homebuilding subdivision as an operating segment in accordance with SFAS 131. Each homebuilding subdivision engages in business activities from which it earns revenue primarily from the sale of single-family detached homes, generally to first-time and first-time move-up homebuyers. Subdivisions in the reportable segments noted below have been aggregated because they have similar: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) similar methods used to construct and sell homes. The Company's homebuilding reportable segments are as follows:

- (1) West (Arizona, California and Nevada markets)
- (2) Mountain (Colorado and Utah markets)
- (3) East (Virginia and Maryland markets)
- (4) Other Homebuilding (Delaware Valley, Florida, Illinois and Texas markets)

The Company's financial services and other segment consists of the operations of the following operating segments:

- (1) HomeAmerican Mortgage Corporation ( HomeAmerican );
- (2) American Home

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

Insurance Agency, Inc. ( American Home Insurance ); (3) American Home Title and Escrow Company ( American Home Title ); (4) Allegiant Insurance Company, Inc., A Risk Retention Group ( Allegiant ); and (5) StarAmerican Insurance Ltd. ( StarAmerican ). American Home Title, Allegiant and StarAmerican were previously included in the Company's homebuilding segment and are now included in the financial services and other segment. Because these operating segments do not individually exceed 10 percent of the consolidated revenue, net income or total assets, they have been aggregated into one other reportable segment. The Company's corporate reportable segment incurs general and administrative expenses that are not identifiable specifically to another operating segment. Transfers between operating segments are recorded at cost.

The following table summarizes revenue and income before income taxes for each of the Company's six reportable segments (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Revenue</b>				
West	\$ 720,530	\$ 564,051	\$ 1,407,776	\$ 1,103,241
Mountain	187,724	212,935	350,914	375,732
East	160,534	150,195	307,715	284,716
Other Homebuilding	142,859	104,484	268,746	187,708
Total Homebuilding	1,211,647	1,031,665	2,335,151	1,951,397
Financial Services and Other	21,106	14,441	39,864	27,637
Corporate	183	234	615	1,222
Consolidated	\$ 1,232,936	\$ 1,046,340	\$ 2,375,630	\$ 1,980,256
<b>Income Before Income Taxes</b>				
West	\$ 98,817	\$ 128,692	\$ 220,880	\$ 249,568
Mountain	7,228	19,652	15,863	30,335
East	26,462	37,487	61,780	68,542
Other Homebuilding	15	297	4,897	(633)
Total Homebuilding	132,522	186,128	303,420	347,812
Financial Services and Other	10,988	5,624	22,172	9,297
Corporate	(21,276)	(27,775)	(50,877)	(57,203)
Consolidated	\$ 122,234	\$ 163,977	\$ 274,715	\$ 299,906

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

The following table summarizes total assets for each of the Company's six reportable segments (in thousands).

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>Total Assets</b>		
West	\$ 2,258,473	\$ 2,113,384
Mountain	528,589	466,362
East	388,573	368,848
Other Homebuilding	337,703	359,151
Total Homebuilding	3,513,338	3,307,745
Financial Services and Other	254,293	253,365
Corporate	189,305	298,740
Consolidated	\$ 3,956,936	\$ 3,859,850

**12. Other Comprehensive Income**

Total other comprehensive income includes net income plus unrealized gains or losses on securities available for sale and minimum pension liability adjustments which have been reflected as a component of stockholders' equity and have not affected consolidated net income. The Company's other comprehensive income was \$76.5 million and \$171.9 million for the three and six months ended June 30, 2006, respectively, and \$102.6 million and \$187.3 million for the three and six months ended June 30, 2005, respectively.

**13. Commitments and Contingencies**

The Company often is required to obtain bonds and letters of credit in support of its obligations relating to subdivision improvement, homeowner association dues and start-up expenses, warranty work, contractor license fees and earnest money deposits. At June 30, 2006, MDC had issued and outstanding performance bonds and letters of credit totaling \$456.4 million and \$88.9 million, respectively, including \$24.7 million in letters of credit issued by HomeAmerican, a wholly owned subsidiary of MDC. In the event any such bonds or letters of credit issued by third parties are called, MDC would be obligated to reimburse the issuer of the bond or letter of credit.

**14. Lines of Credit and Total Debt Obligations**

*Homebuilding* - The Company's homebuilding line of credit ( Homebuilding Line ) is an unsecured revolving line of credit with a group of lenders for support of our homebuilding operations. On March 22, 2006, the Company amended and restated the Homebuilding Line, increasing the aggregate commitment amount to \$1.25 billion, and extending the maturity date to March 21, 2011. The facility's provision for letters of credit is available in the aggregate amount of \$500 million. The amended and restated facility permits an increase in the maximum commitment amount to \$1.75 billion upon the Company's request, subject to receipt of additional commitments from existing or additional participant lenders. Interest rates on outstanding borrowings are determined by reference to LIBOR, with a spread from LIBOR which is determined based on changes in the Company's credit ratings and leverage ratio, or to an alternate base rate. At June 30, 2006, the Company did not have any borrowings and had \$61.4 million in letters of credit issued under the Homebuilding Line.

*Mortgage Lending* - The Company's mortgage line of credit ( Mortgage Line ) has a borrowing limit of \$225 million with terms that allow for increases of up to \$175 million in the borrowing limit to a

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

maximum of \$400 million, subject to concurrence by the participating banks. The terms of the Mortgage Line are set forth in the Third Amended and Restated Warehousing Credit Agreement dated as of October 31, 2003, as amended. Available borrowings under the Mortgage Line are collateralized by mortgage loans and mortgage-backed securities and are limited to the value of eligible collateral, as defined. At June 30, 2006, \$168.2 million was borrowed and an additional \$31.4 million was collateralized and available to be borrowed. The Mortgage Line is cancelable upon 120 days notice.

*General* - The agreements for the Company's bank lines of credit and the indentures for the Company's senior notes require compliance with certain representations, warranties and covenants. The Company believes that it is in compliance with these requirements, and the Company is not aware of any covenant violations. The agreements containing these representations, warranties and covenants for the bank lines of credit and the indentures for the Company's senior notes are on file with the SEC and are listed in the Exhibit Table in Part IV of the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and in Part II, Item 6, of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006.

The Company's debt obligations at June 30, 2006 and December 31, 2005 are as follows (in thousands):

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
7% Senior Notes due 2012	\$ 148,891	\$ 148,821
5 <sup>1</sup> / <sub>2</sub> % Senior Notes due 2013	349,318	349,276
5 <sup>3</sup> / <sub>8</sub> % Medium Term Senior Notes due 2014	248,597	248,532
5 <sup>3</sup> / <sub>8</sub> % Medium Term Senior Notes due 2015	249,680	249,668
<b>Total Senior Notes</b>	<b>996,486</b>	<b>996,297</b>
Homebuilding Line		
<b>Total Corporate and Homebuilding Debt</b>	<b>996,486</b>	<b>996,297</b>
Mortgage Line	168,163	156,532
<b>Total Debt</b>	<b>\$ 1,164,649</b>	<b>\$ 1,152,829</b>

**15. Related Party Transactions**

During the first quarter of 2006, the Company accrued \$1.6 million of contributions which were made to the MDC/Richmond American Homes Foundation (the Foundation), a Delaware non-profit corporation. These contributions were paid during the second quarter of 2006. No contributions to the Foundation were accrued in the 2006 second quarter.

**16. Income Taxes**

The Company's overall effective income tax rates were 37.4% for the three and six months ended June 30, 2006, and were 37.4% and 37.6% for the three and six months ended June 30, 2005, respectively.

**17. Stockholders' Equity**

On April 27, 2006, the Company amended the Certificate of Incorporation, as authorized by the Company's shareowners on April 24, 2006, thereby increasing the number of authorized shares of the Company's common stock from 100 million shares to 250 million shares.

**18. Supplemental Guarantor Information**

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

**Notes to Unaudited Consolidated Financial Statements (Continued)**

The Company's senior notes and Homebuilding Line are fully and unconditionally guaranteed on an unsecured basis, jointly and severally by the following subsidiaries (collectively, the Guarantor Subsidiaries), which are 100%-owned subsidiaries of the Company.

M.D.C. Land Corporation

RAH of Florida, Inc.

RAH of Texas, LP

RAH Texas Holdings, LLC

Richmond American Construction, Inc.

Richmond American Homes of Arizona, Inc.

Richmond American Homes of California, Inc.

Richmond American Homes of Colorado, Inc.

Richmond American Homes of Delaware, Inc.

Richmond American Homes of Florida, LP

Richmond American Homes of Illinois, Inc.

Richmond American Homes of Maryland, Inc.

Richmond American Homes of Nevada, Inc.

Richmond American Homes of New Jersey, Inc.

Richmond American Homes of Pennsylvania, Inc.

Richmond American Homes of Texas, Inc.

Richmond American Homes of Utah, Inc.

Richmond American Homes of Virginia, Inc.

Richmond American Homes of West Virginia, Inc.

Subsidiaries that do not guarantee the Company's senior notes and Homebuilding Line (collectively, the Non-Guarantor Subsidiaries) include:

American Home Insurance

American Home Title

HomeAmerican

Lion Insurance Company

StarAmerican

Allegiant

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

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**M.D.C. HOLDINGS, INC.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**Supplemental Combining Balance Sheet**  
**June 30, 2006**  
**(In thousands)**

	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
<b>ASSETS</b>					
Cash and cash equivalents	\$ 70,665	\$ 6,188	\$ 14,631	\$	\$ 91,484
Restricted cash		6,855			6,855
Home sales receivables		100,217	1,207	(2,795)	98,629
Mortgage loans held in inventory			163,373		163,373
Inventories, net					
Housing completed or under construction		1,512,009			1,512,009
Land and land under development		1,760,077			1,760,077
Investment in and advances to parent and subsidiaries	411,917	724	(15,469)	(397,172)	
Other assets	118,316	115,973	119,520	(29,300)	324,509
<b>Total Assets</b>	<b>\$ 600,898</b>	<b>\$ 3,502,043</b>	<b>\$ 283,262</b>	<b>\$ (429,267)</b>	<b>\$ 3,956,936</b>
<b>LIABILITIES</b>					
Accounts payable and related party liabilities	\$ 31,850	\$ 201,362	\$ 21,787	\$ (30,333)	\$ 224,666
Accrued liabilities	91,333	292,128	28,756	(1,762)	410,455
Advances and notes payable parent and subsidiaries	(2,583,804)	2,568,124	15,680		
Income taxes payable	(61,200)	86,647	5,486		30,933
Homebuilding line of credit					
Mortgage line of credit			168,163		168,163
Senior notes, net	996,486				996,486
<b>Total Liabilities</b>	<b>(1,525,335)</b>	<b>3,148,261</b>	<b>239,872</b>	<b>(32,095)</b>	<b>1,830,703</b>
<b>STOCKHOLDERS EQUITY</b>	<b>2,126,233</b>	<b>353,782</b>	<b>43,390</b>	<b>(397,172)</b>	<b>2,126,233</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 600,898</b>	<b>\$ 3,502,043</b>	<b>\$ 283,262</b>	<b>\$ (429,267)</b>	<b>\$ 3,956,936</b>



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**M.D.C. HOLDINGS, INC.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**Supplemental Combining Balance Sheet**  
**December 31, 2005**  
**(In thousands)**

	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
<b>ASSETS</b>					
Cash and cash equivalents	\$ 196,032	\$ 5,527	\$ 12,972	\$	\$ 214,531
Restricted cash		6,742			6,742
Home sales receivables		160,028	1,462	(27,220)	134,270
Mortgage loans held in inventory			237,376		237,376
Inventories, net					
Housing completed or under construction		1,320,106			1,320,106
Land and land under development		1,677,948			1,677,948
Investment in and advances to parent and subsidiaries	728,608	1,248	(4,687)	(725,169)	
Other assets	102,768	124,939	67,170	(26,000)	268,877
<b>Total Assets</b>	<b>\$ 1,027,408</b>	<b>\$ 3,296,538</b>	<b>\$ 314,293</b>	<b>\$ (778,389)</b>	<b>\$ 3,859,850</b>
<b>LIABILITIES</b>					
Accounts payable and related party liabilities	\$ 37,304	\$ 182,735	\$ 16,857	\$ (27,049)	\$ 209,847
Accrued liabilities	115,388	282,454	70,737	(26,170)	442,409
Advances and notes payable parent and subsidiaries	(1,892,320)	1,876,894	15,426		
Income taxes payable	(181,370)	275,602	8,424		102,656
Homebuilding line of credit					
Mortgage line of credit			156,532		156,532
Senior notes, net	996,297				996,297
<b>Total Liabilities</b>	<b>(924,701)</b>	<b>2,617,685</b>	<b>267,976</b>	<b>(53,219)</b>	<b>1,907,741</b>
<b>STOCKHOLDERS EQUITY</b>	<b>1,952,109</b>	<b>678,853</b>	<b>46,317</b>	<b>(725,170)</b>	<b>1,952,109</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,027,408</b>	<b>\$ 3,296,538</b>	<b>\$ 314,293</b>	<b>\$ (778,389)</b>	<b>\$ 3,859,850</b>

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**M.D.C. HOLDINGS, INC.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**Supplemental Combining Statements of Income**  
(In thousands)  
**Three Months Ended June 30, 2006**

	<b>MDC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated MDC</b>
<b>REVENUE</b>					
Home sales revenue	\$	\$ 1,195,083	\$	\$	\$ 1,195,083
Other revenue	171	16,804	21,248	(370)	37,853
Equity in earnings of subsidiaries	46,126			(46,126)	
Total Revenue	46,297	1,211,887	21,248	(46,496)	1,232,936
<b>COSTS AND EXPENSES</b>					
Home cost of sales		918,202	(788)		917,414
Marketing and commission expenses	306	68,656			68,962
General and administrative expenses	21,332	78,826	10,641		110,799
Other expenses	127	13,400			13,527
Corporate and homebuilding interest	(51,938)	51,938			
Total Costs and Expenses	(30,173)	1,131,022	9,853		1,110,702
Income before income taxes	76,470	80,865	11,395	(46,496)	122,234
Provision for income taxes	21	(41,431)	(4,333)		(45,743)
<b>NET INCOME</b>	<b>\$ 76,491</b>	<b>\$ 39,434</b>	<b>\$ 7,062</b>	<b>\$ (46,496)</b>	<b>\$ 76,491</b>

**Three Months Ended June 30, 2005**

	<b>MDC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated MDC</b>
<b>REVENUE</b>					
Home sales revenue	\$	\$ 1,029,553	\$	\$	\$ 1,029,553
Other revenue	226	1,981	14,580		16,787
Equity in earnings of subsidiaries	95,525			(95,525)	
Total Revenue	95,751	1,031,534	14,580	(95,525)	1,046,340
<b>COSTS AND EXPENSES</b>					
Home cost of sales		734,783	(11)		734,772
Marketing and commission expenses	(247)	53,935			53,688

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General and administrative expenses	27,946	57,048	8,846		93,840
Other expenses	63				63
Corporate and homebuilding interest	(37,425)	37,425			
Total Costs and Expenses	(9,663)	883,191	8,835		882,363
Income before income taxes	105,414	148,343	5,745	(95,525)	163,977
Provision for income taxes	(2,791)	(56,376)	(2,187)		(61,354)
<b>NET INCOME</b>	<b>\$ 102,623</b>	<b>\$ 91,967</b>	<b>\$ 3,558</b>	<b>\$ (95,525)</b>	<b>\$ 102,623</b>

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**M.D.C. HOLDINGS, INC.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**Supplemental Combining Statements of Income**  
(In thousands)  
**Six Months Ended June 30, 2006**

	<b>MDC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated MDC</b>
<b>REVENUE</b>					
Home sales revenue	\$	\$ 2,314,391	\$	\$	\$ 2,314,391
Other revenue	593	21,232	40,158	(744)	61,239
Equity in earnings of subsidiaries	128,924			(128,924)	
Total Revenue	129,517	2,335,623	40,158	(129,668)	2,375,630
<b>COSTS AND EXPENSES</b>					
Home cost of sales		1,735,188	(3,185)		1,732,003
Marketing and commission expenses	107	130,733			130,840
General and administrative expenses	49,689	150,505	20,301		220,495
Other expenses	1,803	15,774			17,577
Corporate and homebuilding interest	(101,457)	101,457			
Total Costs and Expenses	(49,858)	2,133,657	17,116		2,100,915
Income before income taxes	179,375	201,966	23,042	(129,668)	274,715
Provision for income taxes	(7,463)	(86,647)	(8,693)		(102,803)
<b>NET INCOME</b>	<b>\$ 171,912</b>	<b>\$ 115,319</b>	<b>\$ 14,349</b>	<b>\$ (129,668)</b>	<b>\$ 171,912</b>

**Six Months Ended June 30, 2005**

	<b>MDC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Consolidated MDC</b>
<b>REVENUE</b>					
Home sales revenue	\$	\$ 1,946,384	\$	\$	\$ 1,946,384
Other revenue	1,204	5,043	27,849	(224)	33,872
Equity in earnings of subsidiaries	178,598			(178,598)	
Total Revenue	179,802	1,951,427	27,849	(178,822)	1,980,256
<b>COSTS AND EXPENSES</b>					
Home cost of sales		1,391,798	(246)		1,391,552
	(68)	101,920			101,852

Marketing and commission expenses					
General and administrative expenses	58,262	109,115	18,616		185,993
Other expenses	163	790			953
Corporate and homebuilding interest	(70,412)	70,412			
Total Costs and Expenses	(12,055)	1,674,035	18,370		1,680,350
Income before income taxes	191,857	277,392	9,479	(178,822)	299,906
Provision for income taxes	(4,603)	(104,429)	(3,620)		(112,652)
<b>NET INCOME</b>	<b>\$ 187,254</b>	<b>\$ 172,963</b>	<b>\$ 5,859</b>	<b>\$ (178,822)</b>	<b>\$ 187,254</b>

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**M.D.C. HOLDINGS, INC.**  
**Notes to Unaudited Consolidated Financial Statements (Continued)**  
**Supplemental Combining Statements of Cash Flows**  
(In thousands)  
**Six Months Ended June 30, 2006**

	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
<b>Net cash provided by (used in) operating activities</b>	\$ 65,767	\$ (175,127)	\$ (2,165)	\$ (746)	\$ (112,271)
<b>Net cash used in investing activities</b>	(1,464)	(2,840)	(27)		(4,331)
<b>Financing activities</b>					
Net increase (reduction) in borrowings from parent and subsidiaries	(170,848)	178,628	(7,780)		
Lines of credits Advances	425,900		11,631		437,531
Principal payments	(425,900)				(425,900)
Excess tax benefit from stock- based compensation	1,486				1,486
Dividend payments	(23,202)			746	(22,456)
Proceeds from exercise of stock options	2,894				2,894
<b>Net cash provided by (used in) financing activities</b>	(189,670)	178,628	3,851	746	(6,445)
Net increase (decrease) in cash and cash equivalents	(125,367)	661	1,659		(123,047)
Cash and cash equivalents Beginning of period	196,032	5,527	12,972		214,531
End of period	\$ 70,665	\$ 6,188	\$ 14,631	\$	\$ 91,484

**Six Months Ended June 30, 2005**

	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
<b>Net cash provided by (used in) operating activities</b>	\$ 140,746	\$ (498,927)	\$ 30,361	\$ (224)	\$ (328,044)
<b>Net cash used in investing activities</b>	(4,195)	(7,294)	(235)		(11,724)

**Financing activities**

Net increase (reduction) in borrowings from parent and subsidiaries	(505,308)	507,720	(2,412)		
Lines of credits					
Advances	386,300				386,300
Principal payments	(356,300)		(24,599)		(380,899)
Dividend payments	(14,871)			224	(14,647)
Proceeds from exercise of stock options	9,412				9,412
<b>Net cash provided by (used in) financing activities</b>	(480,767)	507,720	(27,011)	224	166
Net increase (decrease) in cash and cash equivalents	(344,216)	1,499	3,115		(339,602)
Cash and cash equivalents Beginning of period	389,828	5,061	6,070		400,959
End of period	\$ 45,612	\$ 6,560	\$ 9,185	\$	\$ 61,357

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

*The following discussion should be read in conjunction with, and is qualified in its entirety by, the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q/A. 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 of our Annual Report on Form 10-K for the year ended December 31, 2005 and this Quarterly Report on Form 10-Q/A.*

**INTRODUCTION**

M.D.C. Holdings, Inc. is a Delaware Corporation. We refer to M.D.C. Holdings, Inc. as the Company, MDC, or our in this Form 10-Q/A, and these designations include our subsidiaries unless we state otherwise. Our primary business is owning and managing subsidiary companies that build and sell homes under the name Richmond American Homes. Richmond American Homes maintains operations in certain markets within the United States, including Arizona, California, Colorado, Delaware Valley (which includes Pennsylvania, Delaware and New Jersey), Florida, Illinois, Maryland, Nevada, Texas (although we recently reported our intention not to contract for the acquisition of additional land in our Texas markets), Utah and Virginia. 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 our homebuyers in Colorado, Delaware, Florida, Illinois, Maryland, Texas, Virginia, and West Virginia.

**EXECUTIVE SUMMARY**

The Company closed 3,376 and 6,574 homes during the three and six months ended June 30, 2006, compared with 3,512 and 6,670 during the same periods in 2005. We received 2,738 and 6,538 net home orders during the second quarter and first six months of 2006, compared with 4,832 and 9,378 net home orders during the same periods of 2005.

The homebuilding industry has been experiencing, and continues to experience, significant challenges that have impacted our operating results for the second quarter and first six months of 2006. These challenges include: uncertainty surrounding Federal Reserve policy on interest rates; increases in the cost of living, particularly higher energy costs; fluctuations in consumer confidence; reduced affordability of new homes; and homebuyer concerns about home price appreciation. These factors have contributed to, among other things: (1) lower demand for new homes; (2) significant increases in Cancellation Rates (as defined below) in nearly all markets in which we operate; (3) speculators exiting the new home market; (4) increases in the supply of new and existing homes available to be purchased; (5) increases in competition for new home orders; (6) prospective homebuyers having a more difficult time selling their existing homes in this more competitive environment; and (7) higher incentives required to stimulate new home orders and maintain homes in Backlog. This weaker homebuilding market has resulted in fewer net home orders, reduced year-over-year Backlog (as defined below) and lower Home Gross Margins (as defined below).

Our operating and financial results for the remainder of 2006 and into 2007 will depend largely on our ability to: (1) generate net home orders in this environment and maintain these orders in Backlog until they close; (2) effectively control our costs of building and selling homes, as well as our general and administrative costs; (3) execute on potential residential lot acquisition opportunities that may be presented in this challenging environment; and (4) adjust our portfolio of lots controlled to accommodate the current pace of net new home orders in our markets. Accordingly, and in response to the foregoing



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challenging market conditions, we have continued to modify and strengthen our sales and marketing strategies to address each specific sub-market and subdivision. In many cases, this has required increases in the level of incentives we have offered as a means of generating homebuyer interest and minimizing order cancellations. These incentives have reduced our selling prices on new home orders and have adversely impacted, and will adversely impact in the future, our Home Gross Margins. A continued slowdown in net new home orders could have a greater negative impact on our Home Gross Margins and net income in future periods. Additionally, during the second quarter of 2006, compared with the same period in 2005, we experienced increases in hard costs associated with the construction of new homes. In response to these increases, and in an effort to control our costs of building homes, we have been actively pursuing price concessions from our existing vendors. Also, during the second quarter of 2006, we continued to focus on reducing general and administrative costs through personnel reductions and consolidation of several homebuilding operating divisions. See **Forward-Looking Statements** below.

Consistent with our homebuilding inventory valuation policy, we evaluated facts and circumstances existing at June 30, 2006 to determine whether the carrying values of our homebuilding inventories were recoverable on a subdivision-by-subdivision basis. Based upon the procedures performed and the facts and circumstances existing as of June 30, 2006, we determined that no impairment of our homebuilding inventories were required. As market conditions for the homebuilding industry can fluctuate significantly period-to-period, we will continue to assess facts and circumstances existing at each quarter-end to determine whether the carrying values of our homebuilding inventories are recoverable. See **Forward-Looking Statements** below.

We remain focused on seeking to maintain approximately a two-year supply of lots in our markets to avoid over-exposure to any single sub-market and to create flexibility to react to changes in market conditions. In an effort to bring the number of lots we own and control closer to this objective, we have tightened our underwriting review of new land acquisition opportunities. As a result, during the second quarter of 2006, compared with the same period in 2005, the write-offs of deposits and capitalized costs associated with lot option contracts that we chose not to exercise increased by approximately \$7.9 million. We actively have been pursuing cost control measures associated with land acquisition costs through reduced option deposit requirements and modifications of lot takedown prices, as well as extending the dates for specified lot takedowns. Additionally, we have continued to monitor closely the number of lots we control and the estimated returns from the sale of homes on those lots in an attempt to confirm that our supply of lots and risk-adjusted returns are consistent with our operating strategy. A further slowdown in the pace of net new home orders in particular markets could cause our inventory levels to further exceed our objective of maintaining a two-year supply of lots. See **Forward-Looking Statements** below.

During the second quarter of 2006, we continued to maintain a high level of cash and borrowing capacity, reaching \$1.31 billion at June 30, 2006. This provides us flexibility to take advantage of potential opportunities that we believe may be presented by these changing market conditions. We will continue to evaluate our cash management strategies during this challenging period, including but not limited to lot acquisitions, potential repurchases of MDC common stock and dividend payments. See **Forward-Looking Statements** below.

**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 periods. 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

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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** below.

The accounting policies and estimates which we believe are critical and require the use of complex judgment in their application are those related to (1) stock-based compensation; (2) homebuilding inventory valuation; (3) estimates to complete land development and home construction; (4) warranty costs; (5) revenue recognition; and (6) land options. With the exception of Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), our other critical accounting estimates and policies have not changed from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005.

*Stock-Based Compensation.* Effective January 1, 2006, we adopted SFAS 123(R) and have included it as a critical accounting estimate and policy given the significant judgment and estimates required when applying SFAS 123(R). See Note 4 to the Unaudited Consolidated Financial Statements for a further discussion on share-based payment awards.

Stock-based compensation expense for all share-based payment awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires judgment, including estimating stock price volatility, annual forfeiture rates and the expected life of an award. We estimated the fair value for stock options granted during the six months ended June 30, 2006 using the Black-Scholes option pricing model. The Black-Scholes option pricing model includes making estimates and judgments associated with the (1) expected stock option life; (2) expected volatility; (3) risk-free interest rate; and (4) dividend yield rate.

The expected volatility is based on the historical volatility in the price of our common stock over the most recent period commensurate with the estimated expected life of our employee stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of our employee stock options. The dividend yield assumption is based on our historical and expected dividend payouts. The expected life of employee stock options represents the weighted-average period for which the stock options are expected to remain outstanding and is derived primarily from historical exercise patterns.

SFAS 123(R) requires an annual forfeiture rate to be estimated at the time of grant for all awards granted subsequent to January 1, 2006, and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate. Additionally, in accordance with SFAS 123(R), we have estimated an annual forfeiture rate to be applied to all share-based payment awards that were unvested as of December 31, 2005 in determining the number of awards expected to vest in the future. We estimated the annual forfeiture rate to be 25% for share-based payment awards granted to Non-Executives (as defined in Note 4 to our Unaudited Consolidated Financial Statements) and 0% for share-based payment awards granted to Executives and Directors (as defined in Note 4 to our Unaudited Consolidated Financial Statements), based on the terms of their awards, as well as historical forfeiture experience.

Table of Contents**RESULTS OF OPERATIONS****Consolidated Results**

The following discussion for both consolidated results of operations and segment results refers to the three and six months ended June 30, 2006, compared with June 30, 2005. The table below summarizes our results of operations (dollars in thousands, except per share amounts).

	<b>Three Months Ended June 30,</b>				<b>Six Months Ended June 30,</b>			
	<b>2006</b>	<b>2005</b>	<b>Change</b>		<b>2006</b>	<b>2005</b>	<b>Change</b>	
			<b>Amount</b>	<b>%</b>			<b>Amount</b>	<b>%</b>
Revenue	\$1,232,936	\$1,046,340	\$186,596	18%	\$2,375,630	\$1,980,256	\$395,374	20%
Income Before Income Taxes	\$ 122,234	\$ 163,977	\$ (41,743)	-25%	\$ 274,715	\$ 299,906	\$ (25,191)	-8%
Net Income	\$ 76,491	\$ 102,623	\$ (26,132)	-25%	\$ 171,912	\$ 187,254	\$ (15,342)	-8%
Earnings Per Share:								
Basic	\$ 1.70	\$ 2.35	\$ (0.65)	-28%	\$ 3.83	\$ 4.30	\$ (0.47)	-11%
Diluted	\$ 1.66	\$ 2.25	\$ (0.59)	-26%	\$ 3.74	\$ 4.10	\$ (0.36)	-9%

Revenue for the three and six months ended June 30, 2006 increased by 18% and 20%, respectively, from the three and six months ended June 30, 2005, primarily due to 21% increases in the average selling prices of homes closed. Income before income taxes decreased \$41.7 million and \$25.2 million in the second quarter and first six months of 2006, compared with the same periods in 2005, primarily due to decreases from our homebuilding segments resulting in part from lower Home Gross Margins (as defined below), increases in marketing, commission and general and administrative expenses, and fewer home closings. These decreases partially were offset by increases in our financial services and other segment and lower corporate general and administrative expenses.

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**Table of Contents****Homebuilding Operating Activities**

The tables below set forth information relating to our homebuilding operations (dollars in thousands).

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2006	2005	Amount	%	2006	2005	Amount	%
Home Sales								
Revenue	\$1,195,083	\$1,029,553	\$165,530	16%	\$2,314,391	\$1,946,384	\$368,007	19%
Average Selling Price Per Home Closed	\$ 354.0	\$ 293.2	\$ 60.8	21%	\$ 352.1	\$ 291.8	\$ 60.3	21%
Cancellation Rate	43.2%	19.3%	23.9%		36.7%	19.8%	16.9%	
Home Gross Margins	23.2%	28.6%	-5.4%		25.2%	28.5%	-3.3%	
Orders For Homes, net (units)								
Arizona	679	1,090	(411)	-38%	1,598	2,242	(644)	-29%
California	392	702	(310)	-44%	936	1,233	(297)	-24%
Colorado	291	594	(303)	-51%	742	1,258	(516)	-41%
Delaware Valley	35	57	(22)	-39%	74	100	(26)	-26%
Florida	177	359	(182)	-51%	449	679	(230)	-34%
Illinois	18	31	(13)	-42%	62	60	2	3%
Maryland	98	131	(33)	-25%	250	276	(26)	-9%
Nevada	519	1,209	(690)	-57%	1,298	1,959	(661)	-34%
Texas	90	189	(99)	-52%	157	510	(353)	-69%
Utah	326	236	90	38%	665	484	181	37%
Virginia	113	234	(121)	-52%	307	577	(270)	-47%
Total	2,738	4,832	(2,094)	-43%	6,538	9,378	(2,840)	-30%
Homes Closed (units)								
Arizona	843	859	(16)	-2%	1,621	1,655	(34)	-2%
California	405	377	28	7%	869	763	106	14%
Colorado	421	568	(147)	-26%	820	1,016	(196)	-19%
Delaware Valley	41	1	40	N/A	72	1	71	N/A
Florida	255	285	(30)	-11%	507	580	(73)	-13%
Illinois	37	16	21	N/A	73	21	52	N/A
Maryland	112	80	32	40%	186	154	32	21%
Nevada	738	626	112	18%	1,413	1,235	178	14%
Texas	152	237	(85)	-36%	291	402	(111)	-28%

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Utah	201	233	(32)	-14%	374	401	(27)	-7%
Virginia	171	230	(59)	-26%	348	442	(94)	-21%
Total	3,376	3,512	(136)	-4%	6,574	6,670	(96)	-1%

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	<b>June 30, 2006</b>	<b>December 31, 2005</b>	<b>June 30, 2005</b>
Backlog ( <i>units</i> )			
Arizona	2,076	2,099	2,730
California	832	765	1,277
Colorado	499	577	934
Delaware Valley	183	181	122
Florida	541	599	737
Illinois	69	80	57
Maryland	315	251	347
Nevada	908	1,023	1,470
Texas	104	238	364
Utah	629	338	372
Virginia	340	381	803
Total	6,496	6,532	9,213
Backlog Estimated Sales Value	\$ 2,440,000	\$ 2,440,000	\$ 3,140,000
Estimated Average Selling Price of Homes in Backlog	\$ 375.6	\$ 373.5	\$ 340.8
Active Subdivisions			
Arizona	61	54	44
California	45	34	31
Colorado	45	57	55
Delaware Valley	7	7	5
Florida	28	19	23
Illinois	7	8	5
Maryland	18	11	14
Nevada	35	43	45
Texas	4	21	25
Utah	20	18	17
Virginia	23	20	18
Total	293	292	282
Average for quarter ended	300	287	275

*Homes Closed* Our home closings were down in the second quarter and first six months of 2006, compared with the same periods in 2005. In our California, Maryland and Nevada markets, we closed 1,255 homes during the three months ended June 30, 2006, compared with 1,083 homes closed for the same period in 2005. The increases in Maryland and Nevada primarily were due to having more homes under construction in Backlog at the beginning of the 2006 second quarter. The increase in California primarily resulted from selling and closing more speculative homes in the second quarter of 2006, compared with the second quarter of 2005. In our Colorado, Florida and Virginia markets, we closed 847 homes during the three months ended June 30, 2006, compared with 1,083 homes closed for the same

period in 2005. We closed fewer homes in these three markets primarily due to increased competition for new home orders and higher home order cancellations, as well as having fewer homes in Backlog at the beginning of the second quarter of 2006, compared with the beginning of the 2005 second quarter. We also closed fewer homes in Utah during the 2006 second quarter as a result of selling and closing more speculative homes in the 2005 second quarter, and having more homes in the earlier stages of construction in Backlog at the beginning of the 2006 second quarter that could not be closed during the quarter. Home closings also decreased in Texas as we continued to close down our operations in this

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market. Additionally, during the second quarter of 2006, we experienced a shift in the timing of our home order cancellations in most of our markets, with a higher percentage of our cancellations occurring subsequent to the start of construction of the homes, contributing to the decline in home closings during the quarter.

*Average Selling Prices Per Home Closed* - During the second quarter and first six months of 2006, we experienced 21% increases in the average selling prices of homes closed, compared with the same periods in 2005, as the average selling prices of homes closed increased in all of our markets except Illinois. Increases were most notable in Maryland, Arizona, Florida and Utah, where the average selling prices for homes closed increased in excess of \$75,000, primarily due to a combination of residential home price appreciation in these markets and changes in product mix. In California, we closed more homes during the second quarter and first six months of 2006, compared with the same periods in 2005, where the average selling prices per home closed exceeded the Company average by more than \$200,000. The average selling prices for home closings in Virginia increased in excess of \$65,000 for the three and six months ended June 30, 2006, respectively, compared with the same periods in 2005, primarily resulting from a change in product mix. Our average selling prices of homes closed were impacted favorably by closing fewer homes in Texas during the three and six months ended June 30, 2006, compared with the same periods in 2005, where the average selling prices were more than \$180,000 below the Company average.

The following table displays our average selling prices per home closed, by market (in thousands).

	Three Months		Change		Six Months		Change	
	Ended June 30,				Ended June 30,			
	2006	2005	Amount	%	2006	2005	Amount	%
Arizona	\$313.6	\$219.5	\$ 94.1	43%	\$300.0	\$211.7	\$ 88.3	42%
California	574.5	498.1	76.4	15%	552.5	508.4	44.1	9%
Colorado	308.3	286.2	22.1	8%	302.6	284.6	18.0	6%
Delaware Valley	387.5	347.3	40.2	12%	398.0	347.3	50.7	15%
Florida	293.5	206.4	87.1	42%	295.6	196.3	99.3	51%
Illinois	374.5	451.6	(77.1)	-17%	369.0	439.8	(70.8)	-16%
Maryland	573.9	418.2	155.7	37%	572.5	420.8	151.7	36%
Nevada	320.9	297.7	23.2	8%	321.9	293.3	28.6	10%
Texas	166.8	158.6	8.2	5%	167.9	157.2	10.7	7%
Utah	291.5	215.1	76.4	36%	277.3	214.2	63.1	29%
Virginia	573.3	507.4	65.9	13%	584.9	496.3	88.6	18%
Company average	\$354.0	\$293.2	\$ 60.8	21%	\$352.1	\$291.8	\$ 60.3	21%

*Home Gross Margins* - We define Home Gross Margins to mean home sales revenue less home cost of sales (which primarily includes land and construction costs, capitalized interest, closing costs, and reserves for warranty expenses) as a percent of home sales revenue. Home Gross Margins were 23.2% and 25.2% during the second quarter and first six months of 2006, respectively, compared with 28.6% and 28.5% during the same periods in 2005. The 2006 decreases primarily were attributable to reduced Home Gross Margins in Nevada and California, offset in part by increases in Arizona. As a result of lower demand for new homes in Nevada, our Home Gross Margins continued a year-long decline from the extraordinary levels in 2005 to margins much closer to our Company average. Home Gross Margins in Nevada also have been impacted by increases in the cost of land and home construction materials used in building new homes, as well as higher incentives being offered. Home Gross Margins in California moderated from the levels achieved in the second quarter of 2005, due in part to increased competition and increases in inventory of new and existing homes resulting in higher incentive levels. In addition,



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Home Gross Margins in the 2006 second quarter declined 120 basis points as a result of homes closed for which all revenue recognition criteria required by SFAS No. 66, Accounting for Sales of Real Estate ( SFAS 66 ), were not met as of June 30, 2006. These decreases in Home Gross Margins partially were offset by increases in Arizona, Utah and Florida primarily resulting from increases in the average selling prices of homes closed.

Future Home Gross Margins may be impacted by, among other things: (1) increased competition and continued high levels of cancellations, which would affect our ability to raise home prices and maintain lower levels of incentives; (2) increases in the costs of subcontracted labor, finished lots, building materials, and other resources, to the extent that market conditions prevent the recovery of increased costs through higher selling prices; (3) adverse weather; (4) shortages of subcontractor labor, finished lots and other resources, which can result in delays in the delivery of homes under construction and increases in related cost of sales; (5) the impact of changes in demand for housing in our markets, particularly Nevada, California and Arizona; (6) the impact of being unable to sell mortgage loans on a timely basis given the increase in low or no down payment mortgage products being offered by HomeAmerican, as this may affect the timing of recognizing the profit on homes closed that do not qualify for the full accrual method pursuant to SFAS 66; and (7) other general risk factors. See **Forward-Looking Statements** below.

*Orders for Homes* - During the three and six months ended June 30, 2006, we received 2,738 and 6,538 net home orders, respectively, compared with 4,832 and 9,378 net home orders for the same periods in 2005. Each of our markets, with the exception of Utah, experienced year-over-year declines in net home orders, driven in part by significant increases in our Cancellation Rate, as well as increases in competition resulting from higher inventory levels of new and existing homes. We believe, that prospective homebuyers have been choosing to delay home purchases until the market works through this period of uncertainty. We have responded to the increased Cancellation Rate and the uncertainty in the homebuilding market by increasing incentives at a measured pace, with the objective of improving our sales velocity without compromising our commitment to building a quality product. Net home orders increased in Utah, resulting primarily from the strong demand for new homes in this market, as well as a 17% increase in the average number of active subdivisions which were open during the 2006 second quarter, compared with the 2005 second quarter.

*Cancellation Rate* We define home order Cancellation Rate as total cancelled home order contracts during a specified period of time as a percent of total home orders received during such time period. Our Cancellation Rates were 43.2% and 19.3% for the three months ended June 30, 2006 and 2005, respectively, and 36.7% and 19.8% for the six months ended June 30, 2006 and 2005, respectively. Cancellation Rates during the second quarter of 2006, compared with the second quarter of 2005, increased significantly in nearly all markets and most notably Arizona, Virginia, California and Florida. The increases in Cancellation Rates in these markets resulted primarily from: what appears to be an exit of speculators from the new home market; an increased supply of new and previously owned homes available to be purchased, which has made it more difficult for homebuyers to sell their existing homes; slower home price appreciation; increased incentives being offered by competitors; and other factors related to higher mortgage interest rates.

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*Backlog* - We define *Backlog* as homes under contract but not yet delivered. At June 30, 2006 and 2005, we had 6,496 and 9,213 homes in Backlog, respectively. Because our Backlog equals total net home orders less homes closed, refer to the previous discussion on *Homes Closed* and *Orders for Homes* for an explanation of the change in the number of homes in Backlog. The estimated Backlog sales value decreased from \$3.1 billion at June 30, 2005 to \$2.4 billion at June 30, 2006, primarily due to a 29% decrease in homes in Backlog, offset in part by a 10% increase in the estimated average selling price of homes in Backlog.

*Land Inventory* The table below shows the carrying value of land and land under development, by market (in thousands).

	<b>June 30, 2006</b>	<b>December 31, 2005</b>	<b>June 30, 2005</b>
Arizona	\$ 289,959	\$ 263,849	\$ 268,123
California	498,073	503,491	293,332
Colorado	167,554	154,465	135,840
Delaware Valley	38,441	46,561	35,298
Florida	82,385	68,950	39,133
Illinois	23,757	33,421	38,655
Maryland	80,138	89,721	95,659
Nevada	365,206	341,437	253,900
Texas	1,831	15,511	23,748
Utah	85,560	62,264	39,321
Virginia	127,173	98,278	99,412
Total	\$ 1,760,077	\$ 1,677,948	\$ 1,322,421

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The table below shows the total number of lots owned and lots controlled under option agreements by market, along with the total non-refundable option deposits (dollars in thousands).

	<b>June 30, 2006</b>	<b>December 31, 2005</b>	<b>June 30, 2005</b>
<b>Lots Owned</b>			
Arizona	7,477	7,385	8,083
California	3,391	3,367	2,224
Colorado	3,390	3,639	3,756
Delaware Valley	372	471	363
Florida	1,307	1,201	806
Illinois	312	430	546
Maryland	558	679	757
Nevada	3,619	4,055	3,806
Texas	77	471	722
Utah	1,159	964	832
Virginia	822	783	826
<b>Total</b>	<b>22,484</b>	<b>23,445</b>	<b>22,721</b>
<b>Lots Controlled Under Option</b>			
Arizona	2,506	3,650	3,680
California	1,510	2,005	1,992
Colorado	1,785	2,198	2,785
Delaware Valley	966	1,283	1,223
Florida	2,367	3,202	3,453
Illinois	139	186	225
Maryland	1,156	1,173	1,072
Nevada	568	1,400	1,337
Texas		80	1,153
Utah	553	418	438
Virginia	2,642	3,224	2,969
<b>Total</b>	<b>14,192</b>	<b>18,819</b>	<b>20,327</b>
<b>Total Lots Owned and Controlled (excluding lots in work-in-process)</b>	<b>36,676</b>	<b>42,264</b>	<b>43,048</b>
<b>Non-refundable Option Deposits</b>			
Cash	\$ 37,993	\$ 48,157	\$ 38,891
Letters of Credit	17,640	23,142	26,544
<b>Total Non-refundable Option Deposits</b>	<b>\$ 55,633</b>	<b>\$ 71,299</b>	<b>\$ 65,435</b>

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At June 30, 2006, we owned a total of 22,484 lots, representing a 4% decrease from December 31, 2005. Of these total lots owned, 9,032 were finished, of which 1,674 lots were subject to home sales contracts for which construction had not started. The remaining 13,452 lots were unfinished and in the process of being developed for future home sales. Additionally, the total lots controlled under options decreased 25% to 14,192 from December 31, 2005. The decrease in total lots owned and controlled primarily resulted from our efforts to adjust our lot supply, given the current pace of net new home orders, to pursue our two-year supply objective.

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**Table of Contents****Results of Operations Three and Six Months Ended June 30, 2006 Compared with Three and Six Months Ended June 30, 2005**

*Home Sales Revenue.* Home sales revenue increased 16% and 19% during the three and six months ended June 30, 2006, respectively, compared with the same periods in 2005, primarily due to 21% increases in the average selling prices of homes closed (as discussed above).

*Other Revenue.* The table below sets forth the components of other revenue and selected financial data for our HomeAmerican operations (dollars in thousands).

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2006	2005	Amount	%	2006	2005	Amount	%
Broker origination fees	\$ 2,343	\$ 2,665	\$ (322)	-12%	\$ 4,423	\$ 4,833	\$ (410)	-8%
Gains on sales of mortgage loans, net	\$ 15,439	\$ 8,749	\$ 6,690	76%	\$ 28,466	\$ 16,647	\$ 11,819	71%
Other revenue	4,998	4,064	934	23%	10,021	8,181	1,840	22%
Interest income, net	1,434	1,309	125	10%	2,853	2,915	(62)	-2%
Total Other Revenue	\$ 24,214	\$ 16,787	\$ 7,427		\$ 45,763	\$ 32,576	\$ 13,187	
Principal amount of loans originated	\$ 604,419	\$ 421,223	\$ 183,196	43%	\$ 1,130,650	\$ 726,416	\$ 404,234	56%
Principal amount of loans brokered	\$ 172,438	\$ 227,960	\$ (55,522)	-24%	\$ 329,681	\$ 441,312	\$ (111,631)	-25%
Capture Rate	59%	48%	11%		57%	45%	12%	
Including brokered loans	75%	73%	2%		73%	71%	2%	
Mortgage products (% of loans originated)								
Fixed rate	49%	52%	-3%		49%	54%	-5%	
Adjustable rate interest only	43%	36%	7%		44%	34%	10%	
Adjustable rate other	8%	12%	-4%		7%	12%	-5%	

Gains on sales of mortgage loans increased \$6.7 million and \$11.8 million during the three and six months ended June 30, 2006, compared with the same period in 2005, as a result of 11% and 12% increases, respectively, in the Capture Rate (as defined below), as well as increases in the average principal amount of loans originated. Also impacting our gains on sales of mortgage loans was our ability to sell to third-party investors a significant number of mortgage loans originated by HomeAmerican pursuant to early purchase programs, which were initiated in the fourth

quarter of 2005 and the first quarter of 2006.

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The principal amount of originated mortgage loans increased 43% and 56% during the second quarter and first six months of 2006, respectively, compared with the same periods in 2005. These increases primarily were due to the previously discussed increases in our Capture Rate, as well as increases in the average principal amount of loans originated by HomeAmerican. These increases to our Capture Rate primarily were due to having more loan products offered through HomeAmerican, which include, among other things, interest only loans and mortgage programs with low or no down payments, as well as increased management focus on providing competitive mortgage loan products rather than brokering these loans to third parties. The Capture Rate is defined as the number of mortgage loans originated by HomeAmerican for our homebuyers as a percent of total MDC home closings. Brokered loans, for which HomeAmerican received a fee, have been excluded from the computation of the Capture Rate.

*Home Cost of Sales.* Home cost of sales increased \$182.6 million and \$340.5 million during the second quarter and first six months of 2006, respectively, compared to the same periods in 2005 as discussed above under the caption Home Gross Margins.

*Marketing Expenses.* Marketing expenses (which include advertising, amortization of deferred marketing costs, model home expenses and other costs) were \$31.6 million and \$25.0 million for the three months ended June 30, 2006 and 2005, respectively. The \$6.6 million increase in 2006 primarily was due to increases of (1) \$2.8 million in advertising expenses incurred in an effort to generate homebuyer traffic in our subdivisions; and (2) \$2.0 million in amortization of deferred marketing costs and \$1.2 million in sales office expenses associated with an increase in our active subdivisions and model homes from 2005.

Marketing expenses increased \$13.3 million to \$60.6 million for the six months ended June 30, 2006, compared with the same period in 2005, primarily due to increases of (1) \$5.2 million in advertising expenses incurred in an effort to generate homebuyer traffic in our subdivisions; and (2) \$4.3 million in amortization of deferred marketing costs, \$2.0 million in salaries and benefits and \$1.5 million in expenses, primarily attributable to an increase in our active subdivisions and model homes from 2005.

*Commission Expenses.* Commission expenses (which include direct incremental commissions paid for closed homes) were \$37.4 million and \$28.7 million for the three months ended June 30, 2006 and 2005, respectively, and \$70.2 million and \$54.5 million for the six months ended June 30, 2006 and 2005, respectively. The 2006 increases primarily were attributable to increases in commission rates paid to outside brokers in response to more competitive markets, as well as higher outside and in-house commissions resulting from 21% increases in the average selling prices of homes closed during the second quarter and first six months of 2006, compared with the same periods in 2005.

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*General and Administrative Expenses.* The following table summarizes our general and administrative expenses (in thousands).

	<b>Three Months Ended June</b>			
	<b>30,</b>			
	<b>2006</b>	<b>2005</b>	<b>Amount</b>	<b>%</b>
Homebuilding	\$ 79,987	\$ 57,209	\$ 22,778	40%
Financial services and other	9,480	8,685	795	9%
Corporate	21,332	27,946	(6,614)	-24%
Total general and administrative expenses	\$ 110,799	\$ 93,840	\$ 16,959	18%

	<b>Six Months Ended June</b>			
	<b>30,</b>			
	<b>2006</b>	<b>2005</b>	<b>Amount</b>	<b>%</b>
Homebuilding	\$ 152,231	\$ 110,295	\$ 41,936	38%
Financial services and other	18,575	17,436	1,139	7%
Corporate	49,689	58,262	(8,573)	-15%
Total general and administrative expenses	\$ 220,495	\$ 185,993	\$ 34,502	19%

General and administrative expenses for our homebuilding segments were \$80.0 million and \$57.2 million during the three months ended June 30, 2006 and 2005, respectively. The \$22.8 million increase primarily resulted from increases of (1) \$7.9 million in write-offs of due diligence costs and deposits on land projects under option that we elected not to exercise, as further discussed below; (2) \$6.4 million in compensation and other employee benefit-related costs; and (3) \$3.1 million in supervisory fees.

General and administrative expenses for our homebuilding segments for the six months ended June 30, 2006 and 2005 were \$152.2 million and \$110.3 million, respectively. The \$41.9 million increase primarily resulted from increases of (1) \$14.2 million in compensation and other employee benefit-related costs; (2) \$10.8 million in write-offs of due diligence costs and deposits on land projects under option that we elected not to exercise; and (3) \$6.6 million in supervisory fees.

Corporate general and administrative expenses totaled \$21.3 million and \$27.9 million for the three months ended June 30, 2006 and 2005, respectively. The \$6.6 million quarter-over-quarter decrease primarily was attributable to a \$4.9 million decrease in salaries and bonuses, an increase of \$3.1 million in supervisory costs charged to the homebuilding and financial services and other segments and a reduction in other general and administrative expenses, including professional services, information technology costs and travel expenses. These expense reductions were offset in part by an increase of approximately \$2.9 million in stock-based compensation expense resulting from our adoption of SFAS 123(R) in January 2006.

Corporate general and administrative expenses totaled \$49.7 million and \$58.3 million for the six months ended June 30, 2006 and 2005, respectively. The \$8.6 million decrease was attributable to a \$4.5 million decrease in salaries and bonuses, an increase of \$6.6 million in supervisory costs, and a reduction in other general and administrative expenses, including professional services, information technology costs and travel expenses. These expense reductions were offset in part by stock-based compensation expense of approximately \$6.5 million.

*Related Party Expenses.* Related party expenses were \$0.1 million and \$1.8 million for the three and six months ended June 30, 2006, respectively, compared with \$0.1 million and \$0.2 million for the three and six months ended June 30, 2005, respectively. The increase in the first six months of 2006,



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compared with the first six months of 2005, resulted from our first quarter 2006 contribution commitment to the MDC/Richmond American Homes Foundation (the Foundation). No charitable contribution commitment was made to the Foundation during the six months ended June 30, 2005.

*Income Taxes.* Our overall effective income tax rates were 37.4% for the three and six months ended June 30, 2006, and were 37.4% and 37.6% for the three and six months ended June 30, 2005, respectively.

**Other Operating Results**

*Interest Activity.* We capitalize interest on our homebuilding inventories during the period of active development and through the completion of construction. All corporate and homebuilding interest incurred in 2005 and 2004 was capitalized. Interest incurred by the financial services and other segment is charged to interest expense, which is deducted from interest income. Total interest incurred for our corporate and homebuilding segments was \$15.0 million and \$29.8 million for the three and six months ended June 30, 2006, respectively, compared with \$11.1 million and \$21.9 million for the same periods in 2005. These increases were the result of our issuance of \$250 million principal amount of debt in July 2005. For a reconciliation of interest incurred, capitalized and expensed, see Note 8 to our Unaudited Consolidated Financial Statements.

*Forward Sales Commitments.* HomeAmerican is exposed to market risks related to fluctuations in interest rates on its mortgage loan inventory. Derivative instruments utilized in the normal course of business by HomeAmerican include forward sales securities commitments, private investor sales commitments and commitments to originate mortgage loans. HomeAmerican utilizes the sales commitments to manage the price risk on fluctuations in interest rates on our mortgage loans owned and commitments to originate mortgage loans. Such contracts are the only significant financial derivative instruments utilized by us and are generally settled within 45 days of origination. Certain mortgage loans originated by HomeAmerican are able to be sold pursuant to the aforementioned early purchase program and generally are settled within five days of origination. Due to this hedging philosophy, the market risk associated with HomeAmerican's mortgages is limited. Reported gains on sales of mortgage loans may vary significantly from period to period depending on the volatility in the interest rate market. See **Forward-Looking Statements** below.

*Insurance Operations.* Allegiant Insurance Company, Inc., A Risk Retention Group (Allegiant), was organized as a risk retention group under the Federal Liability Risk Retention Act of 1981. Allegiant is licensed as a Class 3 stock insurance company by the Division of Insurance of the State of Hawaii and began operations in June 2004. Allegiant provides general liability coverage for products and completed operations to the Company and to subcontractors of homebuilding subsidiaries of MDC. Pursuant to agreements beginning in June 2004, StarAmerican Insurance Ltd., a Hawaii corporation and a wholly owned subsidiary of MDC, agreed to re-insure all Allegiant claims in excess of \$50,000 per occurrence, up to \$3.0 million. The results of insurance operations were not material for any of the periods presented.

**LIQUIDITY AND CAPITAL RESOURCES**

We use our liquidity and capital resources to (1) support our operations, including our homebuilding inventories; (2) provide working capital; and (3) provide mortgage loans for our homebuyers. Liquidity and capital resources are generated internally from operations and from external sources. Additionally, we have an effective shelf registration statement, which allows us to issue equity, debt or hybrid securities up to \$1.0 billion, with \$500 million earmarked for our medium-term senior notes program.

**Table of Contents****Capital Resources**

Our capital structure is a combination of (1) permanent financing, represented by stockholders' equity; (2) long-term financing, represented by our publicly traded 7% senior notes due 2012, 5-1/2% senior notes due 2013, 5-3/8% medium-term senior notes due 2014 and 2015 and our homebuilding line of credit (the Homebuilding Line); and (3) current financing, primarily our mortgage lending line of credit (the Mortgage Line). Based upon our current capital resources and additional capacity available under existing credit agreements, we believe that our current financial condition is both balanced to fit our current operating structure and adequate to satisfy our current and near-term capital requirements, including the acquisition of land and expansion into new markets. We continue to monitor and evaluate the adequacy of our Homebuilding Line and Mortgage Line. However, we believe that we can meet our long-term capital needs (including meeting future debt payments and refinancing or paying off other long-term debt as it becomes due) from operations and external financing sources, assuming that no significant adverse changes in our business or capital and credit markets occur as a result of the various risk factors described in Item 1A Risk Factors Relating to our Business which are included in our Annual Report on Form 10-K for the year ended December 31, 2005 and this Quarterly Report on Form 10-Q/A. See **Forward-Looking Statements** below.

**Lines of Credit and Senior Notes**

*Homebuilding* Our Homebuilding Line is an unsecured revolving line of credit with a group of lenders for support of our homebuilding operations. On March 22, 2006, we amended and restated the Homebuilding Line, increasing the aggregate commitment amount to \$1.25 billion, and extending the maturity date to March 21, 2011. The facility's provision for letters of credit is available in the aggregate amount of \$500 million. The amended and restated facility permits an increase in the maximum commitment amount to \$1.75 billion upon our request, subject to receipt of additional commitments from existing or additional participant lenders. Interest rates on outstanding borrowings are determined by reference to LIBOR, with a spread from LIBOR which is determined based on changes in our credit ratings and leverage ratio, or to an alternate base rate. At June 30, 2006, we did not have any borrowings and had \$61.4 million in letters of credit issued under the Homebuilding Line.

*Mortgage Lending* Our Mortgage Line has a borrowing limit of \$225 million with terms that allow for increases of up to \$175 million in the borrowing limit to a maximum of \$400 million, subject to concurrence by the participating banks. The terms of the Mortgage Line are set forth in the Third Amended and Restated Warehousing Credit Agreement dated as of October 31, 2003, as amended. Available borrowings under the Mortgage Line are collateralized by mortgage loans and mortgage-backed securities and are limited to the value of eligible collateral, as defined. At June 30, 2006, \$168.2 million was borrowed and an additional \$31.4 million was collateralized and available to be borrowed. The Mortgage Line is cancelable upon 120 days notice.

*General* The agreements for our bank lines of credit and the indentures for our senior notes require compliance with certain representations, warranties and covenants. We believe that we are in compliance with these requirements, and we are not aware of any covenant violations. The agreements containing these representations, warranties and covenants for the bank lines of credit and the indentures for our senior notes are on file with the Securities and Exchange Commission and are listed in the Exhibit Table in Part IV of our Annual Report on Form 10-K for the year ended December 31, 2005 and in Part II, Item 6, of our Quarterly Report on Form 10-Q for the period ended March 31, 2006.

The financial covenants contained in the Homebuilding Line agreement include a leverage test and a consolidated tangible net worth test. Under the leverage test, generally, our consolidated indebtedness is not permitted to exceed 55% (subject to adjustment in certain circumstances) of the sum of consolidated indebtedness and our adjusted consolidated tangible net worth, as defined. Under the consolidated tangible net worth test, our consolidated tangible net worth, as defined, must not be less

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than (1) \$1.360 billion; plus (2) 50% of consolidated net income, as defined, of the borrower, as defined, and the guarantors, as defined, earned after September 30, 2005; plus (3) 50% of the net proceeds or other consideration received for the issuance of capital stock after September 30, 2005; minus (4) the lesser of (A) the aggregate amount paid by borrower after September 30, 2005 to repurchase its common stock and (B) \$300 million. Failure to satisfy the foregoing financial covenant tests could result in a scheduled term-out of the facility. In addition, consolidated tangible net worth, as defined, must not be less than the sum of (1) \$850 million; (2) 50% of the quarterly consolidated net income of borrower and the guarantors earned after September 30, 2005; and (3) 50% of the net proceeds or other consideration received for the issuance of capital stock after September 30, 2005. Failure to satisfy this covenant could result in a termination of the facility. We believe that we are in full compliance with these covenants, and we are not aware of any covenant violations.

Our senior notes are not secured and, while the senior notes 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.

**MDC Common Stock Repurchase Program**

At June 30, 2006, 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 three or six months ended June 30, 2006 or 2005.

**Consolidated Cash Flow**

During the first six months of 2006, we used \$112.3 million of cash in our operating activities. We used \$274.0 million of cash to increase our home and land inventory levels, from December 31, 2005 inventory levels. We used \$72.6 million in cash to reduce accounts payable and accrued liabilities, primarily due to the payment of executive bonuses, as well as homebuilding construction payables. These uses of cash partially were offset by cash inflows of \$190.9 million resulting from income before depreciation and amortization, deferred income taxes and stock-based compensation expense. Our cash used from operations also was offset by \$24.4 million due to changes in mortgage loans held in inventory and other, net, primarily resulting from selling a high volume of mortgage loans that were originated during the fourth quarter of 2005. Additionally, a decrease in our home sales receivables balance provided \$35.6 million in cash.

During the six months ended June 30, 2006, we used a total of \$6.4 million in cash from financing activities. These cash uses primarily were the result of dividend payments of \$22.5 million, offset in part by net borrowings under our Homebuilding Line and Mortgage Line of \$11.6 million and \$4.4 million in proceeds and tax benefits from the exercise of stock options. As discussed in Note 4 to our Unaudited Consolidated Financial Statements, tax benefits from the exercise of stock options previously were reported as an operating activity and, pursuant to SFAS 123(R), are now reported as a financing activity.

Additionally, we used \$4.3 million of cash in investing activities in the first six months of 2006, primarily due to the purchase of property and equipment.

During the first six months of 2005, we used \$328.0 million of cash for operating activities. The 2005 operating cash use primarily was the result of a \$605.8 million increase in our homebuilding inventories, prepaid expenses and other assets, and home sales receivables in conjunction with our expanded homebuilding operations. These cash uses were offset partially by income before depreciation and amortization and deferred income taxes of \$207.6 million and an increase of \$52.8 million in mortgage loans held in inventory.

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Financing activities produced cash receipts of \$0.2 million during the six months ended June 30, 2005, primarily due to \$9.4 million proceeds from the exercise of stock options and net borrowings on our lines of credit totaling \$5.4 million, offset by dividend payments of \$14.6 million.

Additionally, we used \$11.7 million of cash in investing activities in the first six months of 2005, primarily due to the purchase of property and equipment.

**Off-Balance Sheet Arrangements**

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 significant lot positions with a minimal capital investment, which substantially reduces the risks associated with land ownership and development. At June 30, 2006, we had non-refundable deposits of \$38.0 million in the form of cash and \$17.6 million in the form of letters of credit to secure option contracts to purchase lots. At June 30, 2006, we had approximately \$1.0 billion in land available to be purchased under lot option purchase contracts. In limited circumstances, in the event that we exercise our right to purchase the lots or land under option, in addition to our purchase price, our obligation also includes certain costs we are required to reimburse the seller. Refer to Critical Accounting Estimates and Policies included in our Annual Report on Form 10-K for the year ended December 31, 2005 for additional information with respect to accounting for lot option purchase contracts that have been evaluated in accordance with the FASB's Interpretation No. 46,

Consolidation of Variable Interest Entities, as amended, and SFAS No. 49, Accounting for Product Financing Arrangements.

At June 30, 2006, we had outstanding performance bonds ( Bonds ) and letters of credit totaling approximately \$456.4 million and \$88.9 million, respectively, including \$24.7 million in letters of credit issued by HomeAmerican, with the remaining issued by third parties, to secure our performance under various contracts. We expect that the obligations secured by these 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 Bonds and letters of credit should be released and we should not have any continuing obligations.

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

**Contractual Obligations**

Our contractual obligations have not changed materially from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005.

**IMPACT OF INFLATION, CHANGING PRICES AND ECONOMIC CONDITIONS**

Real estate and residential housing prices are affected by a number of factors, including but not limited to inflation, interest rate changes and the supply of new and existing homes to be purchased. Inflation can cause increases in the price of land, raw materials and subcontracted labor. Unless these increased costs are recovered through higher sales prices, Home Gross Margins would decrease. If interest rates increase, construction and financing costs, as well as the cost of borrowings, could also increase, which can result in lower Home Gross Margins. Increases in home mortgage interest rates make it more difficult for our customers to qualify for home mortgage loans, potentially decreasing home sales revenue. Increases in interest rates also may affect adversely the volume of mortgage loan originations. Increases in the supply of unsold new and existing homes may have an adverse effect on our ability to generate new home orders and maintain home orders in Backlog, and may impact negatively our Home Gross Margins. For additional economic factors affecting real estate and residential housing prices, refer

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to conditions described under the caption Executive Summary in Part I, Item 2 of this Quarterly Report on Form 10-Q/A.

The volatility of interest rates could have an adverse effect on our future operations and liquidity. Reported gains on sales of mortgage loans may vary significantly from period to period depending on the volatility in the interest rate market. Derivative instruments utilized in the normal course of business by HomeAmerican include forward sales securities commitments, private investor sales commitments and commitments to originate mortgage loans. We utilize these commitments to manage the price risk on fluctuations in interest rates on our mortgage loans held in inventory and commitments to originate mortgage loans. Such contracts are the only significant financial derivative instruments we utilize.

Among other things, an increase in interest rates may affect adversely the demand for housing and the availability of mortgage financing and may reduce the credit facilities offered to us by banks, investment bankers and mortgage bankers.

We continue to follow our disciplined strategy of seeking to control approximately a two-year supply of land in nearly all of our markets. Operating within this conservative model allows us to evaluate each market and allocate our capital to those markets that present opportunity for growth. We endeavor to apply this disciplined approach and continue to monitor the economic conditions in each of our markets to actively manage our business, well-positioning us to respond to changes.

**OTHER**

**Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q/A, 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 may, will, should, expects, plans, anticipates, believes, 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 consulted. Additionally, information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained under the caption Risk Factors Relating to our Business in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005 and Item 1A of Part II of this Quarterly Report on Form 10-Q/A.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes from the 2005 Annual Report on Form 10-K related to the Company's exposure to market risk from interest rates.

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**Item 4. Controls and Procedures**

(a) *Conclusion regarding the effectiveness of disclosure controls and procedures* - An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed under the supervision, and with the participation, of our management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective at June 30, 2006.

As described in Note 11 to the Unaudited Consolidated Financial Statements, we have restated Note 11 to disaggregate our one homebuilding segment into four reportable segments. Our Company management, including our chief executive officer and our chief financial officer, have re-evaluated our disclosure controls and procedures as of the end of the period covered by this Report to determine whether the restatement changes their prior conclusion, and have determined that it does not change their conclusion that, as of June 30, 2006, our disclosure controls and procedures were effective. The restatement represents a change in judgment as to the application of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. The change in the way we report segment information did not result in any change to the Company's consolidated financial position, results of operations and cash flows for any of the periods presented.

(b) *Changes in internal control over financial reporting* - There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**M.D.C. HOLDINGS, INC.  
FORM 10-Q/A  
PART II**

**Item 1. Legal Proceedings**

The Company and certain of its subsidiaries and affiliates have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business, including moisture intrusion and related mold claims. In the opinion of management, the outcome of these matters will not have a material adverse effect upon the financial condition, results of operations or cash flows of the Company. See **Forward-Looking Statements** above.

The U.S. Environmental Protection Agency ( EPA ) filed an administrative action against Richmond American Homes of Colorado, Inc. ( RAH Colorado ), alleging that RAH Colorado violated the terms of Colorado s general permit for discharges of stormwater from construction activities at two of RAH Colorado s development sites. In its complaint, the EPA sought civil penalties against RAH Colorado in the amount of \$0.1 million. On November 11, 2003, the EPA filed a motion to withdraw the administrative action so that it could refile the matter in United States District Court as part of a consolidated action against RAH Colorado for alleged stormwater violations at not only the original two sites, but also two additional sites. The EPA s motion to withdraw was granted by the Administrative Law Judge on February 9, 2004. The EPA has not yet refiled the matter. The EPA has inspected a number of sites under development in Colorado and by RAH Colorado affiliates in Virginia, Maryland, Arizona and California, and claims to have found additional stormwater permit violations. RAH Colorado has substantial defenses to the allegations made by the EPA and also is exploring methods of resolving this matter with the EPA.

The EPA has issued two Notices of Violation against Richmond American Homes of Arizona, Inc. ( RAH Arizona ) alleging violations of the Clean Air Act. The EPA asserts that RAH Arizona has not controlled dust generated at construction sites in Maricopa County in that it has not operated a water application system or other approved control measures, installed suitable track-out control devices and/or cleaned-up materials tracked-out from project sites. RAH Arizona has substantial defenses to the EPA s allegations and is exploring methods of resolving these matters with the EPA.

Because of the nature of the homebuilding business, and in the ordinary course of its operations, the Company from time to time may be subject to product liability claims.

**Item 1A. Risk Factors**

*An adverse change in economic conditions could reduce the demand for homes and, as a result, could have a significant negative impact on our earnings.*

Changes in national and regional economic conditions, as well as local economic conditions where our subsidiaries conduct operations and where prospective purchasers of our homebuilding subsidiaries homes live, can have a significant negative impact on our business. Adverse changes in employment levels, job growth, consumer confidence, housing demand, interest rates and population growth may reduce demand and depress prices for our homebuilding subsidiaries homes. This, in turn, can reduce our earnings through slower orders for new homes, increased cancellations for existing home orders and decreased Backlog, as well as require increased incentive levels in an effort to maintain homes in Backlog. A material decline in the value of new residential housing also could result in a decreased value for the land, housing inventory and housing work-in-progress that we own. Any pronounced down

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cycle in the homebuilding industry, particularly in Nevada, California, Arizona and Colorado, could cause demand for our homes and land that we own to weaken significantly.

***Increases in our Cancellation Rate could have a significant negative impact on our Home Gross Margins, revenue and operating profits.***

Our Cancellation Rate has increased significantly during 2006, compared with 2004 and 2005 levels. Continued increases to our Cancellation Rates potentially resulting from a number of factors, including but not limited to, slower home price appreciation, increases in the supply of homes available to be purchased, higher mortgage interest rates and adverse changes in economic conditions, could have a significant negative impact on our Home Gross Margins, revenue and operating profit in future reporting periods.

***If the market value of our homes or carrying value of our land drops significantly, our profits could decrease.***

The market value of our land and housing inventories depends on market conditions. Our homebuilding subsidiaries acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. If demand for new homes continues to decrease, we may not be able to recover our costs when our homebuilding subsidiaries build and sell homes, may experience less than anticipated profits, and/or may not be able to make profits similar to what we have made in the past. Additionally, in future periods, if it should appear that we may not be able to recover our costs of inventory upon building and selling homes, we may be required to record an impairment of our inventory, which would have a negative impact on our homebuilding profits and net income.

Except as discussed above, there has been no material change in our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005. For a more complete discussion of risk factors that affect our business, see **Risk Factors Relating to our Business** in our Annual Report on Form 10-K for the year ended December 31, 2005, which include the following:

If land is not available at reasonable prices, our sales and earnings could decrease.

If our home prices continue to increase, our homes could become less affordable to the first-time and first-time move-up homebuyer and as such, they may not qualify for mortgage loans.

If the market value of our homes drops significantly, our profits could decrease.

Interest rate increases or changes in federal lending programs could lower demand for our home and our mortgage lending services.

Increased competition in the homebuilding industry could affect our ability to raise home prices and maintain lower levels of incentives, which could negatively impact our home sales revenue and operating profits.

Natural disasters could cause an increase in home construction costs, as well as delays, and could result in reduced profits.

Our business is subject to numerous environmental and other governmental regulations. These regulations could give rise to significant additional liabilities or expenditures, or restrictions on our business.

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



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The interest of certain control persons may be adverse to investors.

We depend on certain markets, and reduced demand for homes in these markets could reduce home sales revenue and earnings.

Labor and material shortages could cause delays in the construction of our homes.

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

We are reliant on a small number of third party purchasers of mortgage loans originated by HomeAmerican which could impact our results of operations.

If our potential homebuyers are not able to obtain suitable financing, our business may decline.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company did not repurchase any shares during the second quarter of 2006. Additionally, there were no sales of unregistered equity securities during the second quarter of 2006.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

The annual meeting of the Company's shareowners was held on April 24, 2006 (the Annual Meeting). The following members of the Board of Directors were re-elected as Class III Directors for three-year terms expiring in 2009:

	Votes For	Votes Withheld
Steven J. Borick	36,028,478	7,311,113
David D. Mandarich	43,088,717	250,874
David E. Blackford	37,241,246	6,098,345

Herbert T. Buchwald, Larry A. Mizel, Gilbert Goldstein and William B. Kemper continued to serve as directors of the Company after the annual meeting. On April 24, 2006, on the recommendation of the Corporate Governance/Nominating Committee, the Board of Directors increased the number of Directors on the Board from seven to eight and appointed Michael A. Berman as a Class I Director to fill the vacancy on the Board, with a term expiring in 2007.

At the Annual Meeting, the shareowners voted for a proposal to approve an amendment to the Company's Certificate of Incorporation, increasing the number of authorized shares of common stock from 100 million shares to 250 million shares. The number of votes cast for and against the proposal and the number of abstentions were as follows:

Votes For	Votes Withheld	Abstained
29,792,663	13,541,849	5,079

No other business was brought before the meeting.

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**Item 5. Other Information**

On July 24, 2006, MDC's Board of Directors declared a quarterly cash dividend of twenty five cents (\$0.25) per share. The dividend will be paid on August 23, 2006 to shareowners of record on August 9, 2006.

**Item 6. Exhibits**

- 3.1 Certificate of Amendment to the Certificate of Incorporation of M.D.C. Holdings, Inc. filed with the Delaware Secretary of State on April 27, 2006, and Certificate of Incorporation, dated May 17, 1985, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed May 10, 2006).\*
  
- 12 Ratio of Earnings to Fixed Charges Schedule (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q filed August 7, 2006). \*
  
- 31.1 Certification of Chief Executive Officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 31.2 Certification of Chief Financial Officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 32.1 Certification of Chief Executive Officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- 32.2 Certification of Chief Financial Officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Incorporated by reference.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 11, 2006

**M.D.C. HOLDINGS, INC.**  
(Registrant)

By: /s/ Paris G. Reece III  
Paris G. Reece III,  
Executive Vice President,  
Chief Financial Officer and  
Principal Accounting Officer

/s/ Larry A. Mizel  
Larry A. Mizel  
Chairman of the Board of Directors  
and Chief Executive Officer

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