MDC HOLDINGS INC
Form 10-K
February 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the Transition period from to

Commission file number 1-08951

M.D.C. HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**84-0622967**
(State or other jurisdiction	**(I.R.S. Employer**

of incorporation or organization)	**Identification No.)**
4350 South Monaco Street, Suite 500	
Denver, Colorado	**80237**
(Address of principal executive offices)	**(Zip code)**

(303) 773-1100

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	**New York Stock Exchange**
5 3/8% Senior Notes due December 2014	**New York Stock Exchange**
5 3/8% Senior Notes due July 2015	**New York Stock Exchange**
5 5/8% Senior Notes due January 2020	**New York Stock Exchange**

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

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

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

As of June 30, 2011, the aggregate market value of the Registrants common stock held by non-affiliates of the Registrants was $928.7 million based on the closing sales price of $24.64 per share as reported on the New York Stock Exchange.

As of December 31, 2011, the number of shares outstanding of Registrant s common stock was 47,957,196.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant s 2012 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year.

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M.D.C. HOLDINGS, INC.

FORM 10-K

PART I

Forward-Looking Statements.

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

Item 1. Business.

(a) General Development of Business

M.D.C. Holdings, Inc. is a Delaware corporation. We refer to M.D.C. Holdings, Inc. as the Company, MDC, we or our in this Annual Report on Form 10-K, and these designations include our subsidiaries unless we state otherwise. We have two primary operations, homebuilding and financial services. Our homebuilding operations consist of wholly-owned subsidiary companies that generally purchase finished lots for the construction and sale of single-family detached homes to first-time and first-time move-up homebuyers under the name Richmond American Homes. Our homebuilding operations are comprised of many homebuilding subdivisions that we consider to be our operating segments. Homebuilding subdivisions in a given market are aggregated into reportable segments as follows: (1) West (Arizona, California, Nevada and Washington); (2) Mountain (Colorado and Utah); (3) East (Virginia and Maryland, which includes Pennsylvania, Delaware, and New Jersey); and (4) Other Homebuilding (Florida and Illinois).

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

(b) Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Anyone seeking information about our business can receive copies of our 2011

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Annual Report on Form 10-K, Annual Report to Shareholders, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other documents filed with the SEC at the public reference section of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549. These documents also may be obtained, free of charge, by: contacting our Investor Relations office at (303) 773-1100; writing to M.D.C. Holdings, Inc., Investor Relations, 4350 South Monaco Street, Suite 500, Denver, Colorado 80237; or accessing our website at http://ir.richmondamerican.com. We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available on our website as soon as reasonably practicable after we file or furnish the materials electronically with the SEC. To obtain any of this information, go to http://ir.richmondamerican.com and select SEC Filings. Our website also includes our: (1) Corporate Governance Guidelines; (2) Corporate Code of Conduct; (3) Rules for Senior Financial Officers; (4) Audit Committee Procedures for Handling Confidential Complaints; and (5) charters for the Audit, Compensation and Corporate Governance/Nominating Committees. These materials may be obtained, free of charge, at our website, http://ir.richmondamerican.com (select Corporate Governance).

(c) Financial Information About Industry Segments

Note 3 to the Consolidated Financial Statements contains information regarding our reportable segments for each of the years ended December 31, 2011, 2010 and 2009.

(d) Narrative Description of Business

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

Our financial services include subsidiary businesses which primarily provide mortgage financing and place title insurance and homeowner insurance for our homebuyers.

Homebuilding Operations.

Our homebuilding subsidiaries sell and close homes in geographically diverse markets. Our home sales revenue for the years ended December 31, 2011, 2010 and 2009 is set forth in the table below for each market within our homebuilding segments (dollars in thousands).

	Total Homes Sales Revenue			Percent of Total		
	2011	2010	2009	2011	2010	2009
Arizona	$ 81,115	$ 111,674	$ 151,175	10%	12%	18%
California	84,666	112,432	122,309	10%	12%	15%
Nevada	62,892	103,582	104,844	8%	12%	12%
Washington	38,782	-	-	5%	0%	0%
West	267,455	327,688	378,328	33%	36%	45%
Colorado	255,333	247,705	178,827	32%	27%	21%
Utah	62,573	104,296	66,035	8%	11%	8%
Mountain	317,906	352,001	244,862	40%	38%	29%

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	Total Homes Sales Revenue			Percent of Total		
	2011	2010	2009	2011	2010	2009
Maryland	90,958	101,501	84,470	11%	11%	10%
Virginia	91,953	110,819	91,602	11%	12%	11%
East	182,911	212,320	176,072	22%	23%	21%
Florida	43,819	44,801	45,896	5%	5%	5%
Illinois	2,706	-	6,887	1%	0%	1%
Other Homebuilding	46,525	44,801	52,783	6%	5%	6%
Intercompany adjustments	(9,633)	(15,788)	(14,991)	-1%	-2%	-1%
Total	$ 805,164	$ 921,022	$ 837,054	100%	100%	100%

Operating Divisions. In our homebuilding segments, our primary functions include land acquisition and development, home construction, purchasing, sales and marketing, and customer service. Operating decisions are made on a subdivision-by-subdivision basis under the oversight of our Chief Operating Decision Makers (CODMs), defined as our Chief Executive Officer and Chief Operating Officer. Generally, each operating division consists of a division president, land procurement, sales, construction, customer service, finance, purchasing, and office staff. The Company s organizational structure (i.e. the grouping and reporting of subdivisions and divisions) changes based upon the current needs of the Company. At December 31, 2011 and 2010, we had 10 and 9 active homebuilding operating divisions, respectively.

Corporate Management. We manage our homebuilding business primarily through members of senior management in our Corporate segment and our Asset Management Committees (AMCs). Each AMC is comprised of the COO and two of the Company s corporate officers or employees. Two of the AMCs review and approve all subdivision acquisition transactions in accordance with land resource allocation decisions made by the CODMs. Land acquisition transactions may not proceed without approval by the AMC. Generally, the role of our senior management team and/or AMC includes:

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

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

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

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Commencing in the latter half of 2010 and into 2011, we reorganized our finance and accounting operations, focusing on the centralization of certain back office functions. In addition, we reorganized our sales and marketing activities to (1) better communicate the value of our homes to our prospective homebuyers, thereby giving us the opportunity to reduce incentives and increase sales absorptions, (2) better align the compensation structure for our sales organization with Company goals, and (3) simplify our processes to reduce overhead expenses.

Furthermore, during the 2011 third quarter, we changed our approach to how we manage unsold started homes, which historically yielded Home Gross Margins (as defined below) significantly below those on homes that are started with a buyer under contract. Going forward, we plan to limit the number of unsold started homes that we build in most of our markets. See **Forward-Looking Statements** above.

In addition, we have instituted a new sales training program for our sales associates and managers that is focused on reducing our dependence on the use of large incentives to sell homes.

Housing. Generally, we build single-family detached homes in a number of standardized series, designed to provide variety in the size and style of homes for our potential homebuyers. Within each series, we build several different floor plans offering standard and optional features (such as upgraded appliances, cabinetry, flooring, etc.). Differences in sales prices of similar models from market-to-market depend primarily upon different costs (e.g. land acquisition costs), homebuyer demand, home prices offered by our competitors, market conditions impacting our sub-markets (such as home foreclosure levels), location, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, area demographics and, in certain cases, the requirements of major land sellers and local municipalities.

We seek to maintain limited levels of inventories of unsold started homes in our markets. Unsold started homes in various stages of completion allow us to meet the immediate and near-term demands of prospective homebuyers. In our efforts to mitigate the risk of carrying excess inventory, we have developed procedures through which we attempt to control the number of our unsold started homes. In reviewing these procedures, during the 2011 third quarter, we changed our strategy associated with building unsold started homes by further limiting the number of unsold started homes in our subdivisions. The table below shows the stage of construction for our unsold started homes completed or under construction, number of sold homes under construction and model homes (in units).

	December 31,		
	2011	**2010**	**2009**
Unsold Started Homes - Final	146	119	41
Unsold Started Homes - Frame	249	722	389
Unsold Started Homes - Foundation	79	103	109
Total Unsold Started Homes	474	944	539
Sold Started Homes	638	609	570
Model Homes	226	242	212
Total	1,338	1,795	1,321

Land Acquisition and Development. We acquire our lots with the intention of constructing and selling homes on the acquired land. Generally, we purchase finished lots using option contracts, in phases or in bulk for cash. However, under certain circumstances, we may acquire entitled land for development into finished lots when we believe that the risk is justified. In making land purchases, we consider a number of factors, including projected rates of return, estimated Home Gross Margins (defined as home sales revenue less home cost of sales as a percent of home sales revenue), sales prices of the homes to be built, population and employment growth patterns, proximity to developed areas, estimated costs of development, estimated levels of competition and demographic trends. Generally, we acquire

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finished lots and land for development only in areas that will have, among other things, available building permits, utilities and suitable zoning. We attempt to maintain a supply of finished lots sufficient to enable us to start homes promptly after a contract for a home sale is executed. See **Forward-Looking Statements** above.

In our option contracts, we generally obtain the right to purchase lots in consideration for an option deposit in the form of cash or letters of credit. In the event we elect not to purchase the lots within a specified period of time, we may be required to forfeit the option deposit. Our option contracts generally do not contain provisions requiring our specific performance. During the years ended December 31, 2011, 2010 and 2009, we wrote-off lot option deposits and pre-acquisition costs of $7.0 million, $3.1 million and $2.9 million, respectively, which have been included in other operating expenses in the Consolidated Statements of Operations. At December 31, 2011, we had the right to acquire 1,721 lots under option contracts, with $7.0 million of cash and $4.3 million of letters of credit option deposits at risk.

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

The table below shows the carrying value of land and land under development, by homebuilding segment, at December 31, 2011, 2010 and 2009 (in thousands).

	December 31,		
	2011	**2010**	**2009**
West	$ 199,941	$ 167,691	$ 97,220
Mountain	164,961	159,184	121,499
East	127,291	75,865	35,572
Other Homebuilding	13,145	12,497	8,569
Total	$ 505,338	$ 415,237	$ 262,860

The table below shows the number of lots owned and controlled under option (excluding lots in housing completed or under construction), by homebuilding segment, at December 31, 2011, 2010 and 2009 (in units).

	December 31,		
	2011	**2010**	**2009**
Lots Owned			
West	3,261	3,449	2,622
Mountain	3,475	3,513	3,059
East	1,001	733	423
Other Homebuilding	364	340	279
Total	8,101	8,035	6,383

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	December 31, 2011	2010	2009
Lots Controlled Under Option			
West	272	1,468	663
Mountain	338	1,081	654
East	771	877	767
Other Homebuilding	340	733	500
Total	1,721	4,159	2,584
Total Lots Owned and Controlled	9,822	12,194	8,967

The table below shows the amount of at risk option deposits (in thousands).

	December 31, 2011	2010	2009
Cash	$ 6,952	$ 9,019	$ 7,654
Letters of Credit	4,316	4,467	2,134
Total At Risk Option Deposits	$ 11,268	$ 13,486	$ 9,788

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

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

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

Backlog. At December 31, 2011 and 2010, homes under contract but not yet delivered (Backlog) totaled 1,043 and 842, respectively, with an estimated sales value of $330 million and $269 million, respectively. Our Cancellation Rates (as defined below) were 37% and 30% for the years ended December 31, 2011 and 2010, respectively. We define our home order Cancellation Rate as the approximate number of cancelled home order contracts during a reporting period as a percent of total home order contracts received during such reporting period. We anticipate that homes in Backlog at December 31, 2011 will close during 2012 under their existing home order contracts or through the replacement of an existing contract with a new home order contract. The estimated Backlog sales value at

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December 31, 2011 may be impacted by, among other things, subsequent home order cancellations and incentives provided, and options and upgrades selected after contract but prior to closing. See **Forward-Looking Statements** above.

The table below discloses our Backlog for the years ended December 31, 2011 and 2010 for each market within our homebuilding segments (dollars in thousands).

	December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Backlog (*Units*)				
Arizona	128	84	44	52%
California	118	79	39	49%
Nevada	156	76	80	105%
Washington	54	-	54	N/M*
West	456	239	217	91%
Colorado	233	273	(40)	-15%
Utah	68	69	(1)	-1%
Mountain	301	342	(41)	-12%
Maryland	113	126	(13)	-10%
Virginia	103	70	33	47%
East	216	196	20	10%
Florida	70	64	6	9%
Illinois	-	1	(1)	N/M*
Other Homebuilding	70	65	5	8%
Total	1,043	842	201	24%
Estimated Backlog Sales Value	$ 330,000	$ 269,000	$ 61,000	23%
Estimated Average Sales Price in Backlog	$ 316.4	$ 319.5	$ (3.1)	-1%

* N/M Not Meaningful

Our Backlog at a point in time is impacted by net orders for homes and closed homes during a reporting period, as well as any Backlog acquired during the reporting period. The increase in our Backlog at December 31, 2011 compared with December 31, 2010 can be attributed to our net orders for homes exceeding closed homes by 125 units for the year ended December 31, 2011, combined with our acquisition of 76 homes that were already sold but not closed associated with our acquisition of substantially all of the assets of a homebuilding company in the Seattle area in April 2011.

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

Marketing and Sales. Our sales and marketing programs are designed to attract homebuyers in a cost effective manner. Our home sales strategy is directed at communicating the inherent value of our homes to our prospective

homebuyers and distinguishing our product from our competitors or other home buying opportunities. To communicate our Richmond American Homes brand and sales promotions, we have a centralized in-house advertising and marketing department that oversees these efforts. The main objective of this team is to generate homebuyer leads, which are actively pursued by our community sales associates. Additionally, internal and external Company communications are managed by our marketing department in conjunction with our human resources department internally and our investor relations department externally. Our in-house merchandising team furnishes our model homes and sales offices.

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

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

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

Bonds and Letters of Credit. We are often required to obtain performance bonds and/or letters of credit in support of our obligations, primarily for land development and subdivision improvements, homeowner association dues and start-up expenses, land maintenance work required by local municipalities and/or homeowner associations, contractor license fees and earnest money deposits. At December 31, 2011 and 2010, we had outstanding performance bonds totaling $63.2 million and $74.2 million, respectively, and letters of credit totaling $20.6 million and $15.7 million, respectively. In the event performance bonds or letters of credit issued by third-parties are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit. See **Forward-Looking Statements** above.

Financial Services and Other Segment.

Mortgage Lending Operations.

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

HomeAmerican is authorized to originate Federal Housing Administration-insured (FHA), Veterans Administration-guaranteed (VA), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) (together the government sponsored entities) and private investor mortgage loans. HomeAmerican also is an authorized loan servicer for Fannie Mae and Freddie Mac and, as such, is subject to the rules and regulations of these entities.

HomeAmerican uses a mortgage repurchase facility, in addition to Company generated funds, to finance the origination of mortgage loans until they are sold. HomeAmerican sells originated mortgage loans to third-party purchasers on either a bulk or flow basis. Mortgage loans sold on a bulk basis include the sale of a package of substantially similar originated mortgage loans, while sales of mortgage loans on a flow basis are completed as HomeAmerican originates each loan. Mortgage loans sold to third-party purchasers include HomeAmerican s representations and warranties with respect to certain borrower payment defaults, credit quality issues and/or misrepresentations made by us or our homebuyers. Substantially all of the mortgage loans originated by HomeAmerican are sold to third-party purchasers within 60 days of origination.

The following table sets forth the percent of mortgage loans sold by HomeAmerican to its primary third party purchasers during 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	**2010**	**2009**
Wells Fargo Funding, Inc.	52%	44%	45%
Bank of America, N.A.	17%	38%	34%
JPMorgan Chase Bank, N.A.	29%	16%	18%

On August 31, 2011, Bank of America announced its intention to sell its third-party mortgage operation and exit its correspondent mortgage lending business. Subsequently, Bank of America amended its prior announcement and indicated that no sale of the third-party mortgage operation was forthcoming, but that it would proceed with its original plan to exit its correspondent mortgage lending business, with the last date that they would purchase a mortgage being December 15, 2011.

Pipeline. HomeAmerican s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed (the Locked Pipeline) at December 31, 2011 and 2010 had an aggregate principal balance of approximately $22.9 million and $32.7 million, respectively, and were under interest rate lock commitments (IRLC) at an average interest rate of 3.93% and 4.17%, respectively. In addition, HomeAmerican had $78.3 million and $65.1 million of mortgage loans held-for-sale at December 31, 2011 and 2010, respectively.

Forward Sales Commitments. HomeAmerican is exposed to market risks related to fluctuations in interest rates. HomeAmerican creates certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (IRLC or Locked Pipeline). HomeAmerican uses forward sales of mortgage-backed securities and commitments to sell whole loans to hedge the interest rate risk inherent in the IRLC and its loan inventory held-for-sale. Forward sales securities commitments and flow loan sales commitments are used to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At December 31, 2011, HomeAmerican had $12.5 million in forward sales commitments.

HomeAmerican records its mortgage loans held-for-sale at fair value to achieve matching of the changes in the fair value of its derivative instruments with the changes in fair values of the loans it is hedging, without having to designate its derivatives as hedging instruments. For forward sales commitments, as well as commitments to originate mortgage loans that are still outstanding at the end of a reporting period, HomeAmerican records the changes in fair value of the derivatives in other revenue in the Consolidated Statements of Operations with an offset to either prepaid and other assets or accrued liabilities in the Consolidated Balance Sheets, depending on the nature of the change. The changes in fair value of HomeAmerican s derivatives were not material during the years ended December 31, 2011, 2010 or 2009.

Competition. The mortgage industry is consolidating with a handful of entities responsible for an increasing proportion of loans originated and serviced. Increasingly, HomeAmerican finds itself directly competing with the end purchasers of the loans it originates who are aggressively pursuing the Richmond American homebuyer at the time of sale. This trend has become more pronounced as the number of third party loan purchasers has decreased over time. These competitors may offer product or pricing benefits that are unavailable to HomeAmerican or may have the ability to offer mortgages with borrower credit characteristics that are less stringent than those offered by HomeAmerican. The competitive nature of our business is described in more detail in our description of Risk Factors.

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

Insurance Operations.

General. Our insurance operations consist of three business divisions: (1) Allegiant; (2) StarAmerican; and (3) American Home Insurance.

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

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

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

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

Employees.

The table below summarizes the approximate number of employees for our Homebuilding, Financial Services and Other and Corporate segments at December 31, 2011 and 2010.

	December 31,	
	2011	**2010**
Homebuilding Segments Combined	585	763
Financial Services and Other	82	92
Corporate	187	264
Total	854	1,119

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Item 1A. Risk Factors.

The homebuilding industry has experienced a significant downturn, and its duration and ultimate severity are uncertain. A continuation or further deterioration in industry conditions or in the broader economic conditions could have additional adverse effects on our business and financial results.

The homebuilding industry has been in a sustained downturn since 2006, and it has become one of the most severe housing downturns in U.S. history. The significant declines in the demand for new homes, oversupply of homes on the market and reductions in the availability of financing for homebuyers that have marked the downturn are continuing. We have experienced uncertainty and continued low demand for new homes, which negatively impacted our financial and operating results during the year ending December 31, 2011.

Our ability to recover from the downturn in the housing market has been negatively impacted by adverse industry and economic conditions. Home mortgage foreclosures have driven down home selling prices, making the purchase of a foreclosed home an attractive alternative to purchasing a new home. Homebuilders have responded with significant concessions, further adding to price declines. With the decline in the values of homes and in the inability of some homeowners to make their mortgage payments, the credit markets have been significantly disrupted, putting strains on many households and businesses. In the face of these conditions, weak economic conditions have continued, with high unemployment levels and overall low consumer confidence, particularly regarding the housing market. As a result, demand for new homes has remained at historically low levels.

If the downturn in the homebuilding and mortgage lending industries were to continue, or if the national economy weakens, we could continue to experience declines in the market value of our inventory and demand for our homes, which could have a significant negative impact on our Home Gross Margins and financial and operating results. If energy costs should increase, demand for our homes could be adversely impacted (because we are primarily a suburban residential builder), and the cost of building homes may increase, both of which could have a significant negative impact on our Home Gross Margins and financial and operating results.

Additionally, as a result of the difficult economic environment, we may be subject to increased counterparty risks, which may include, among others, banks under our letter of credit facilities and mortgage purchasers who may not be willing or able to perform on obligations to us. To the extent a third-party is unable to meet its obligations to us, our financial position, results of operations and/or cash flows could be negatively impacted.

These challenging conditions are complex and interrelated. We cannot predict their duration or ultimate severity nor can we provide assurance that our responses to the homebuilding downturn will be successful.

Our strategies in responding to the adverse conditions in the homebuilding industry and in the U.S. economy have had limited success, and the continued implementation of these and other strategies may not be successful.

Our recent strategies for responding to the current economic environment have been focused primarily on our sales and marketing efforts and significant personnel changes. To the extent these changes in our personnel or shifts in our sales and marketing strategies do not result in increased closings or increased Home Gross Margins, we may continue to experience depressed levels of orders for homes and closed homes and may continue to incur losses from operations.

Increased competition levels in the homebuilding and mortgage lending industries could result in lower net home orders, closings and decreases in the average selling prices of sold and closed homes, which would have a negative impact on our home sales revenue and results of operations.

The homebuilding industry is fragmented and highly competitive. Our homebuilding subsidiaries compete with numerous public and private homebuilders, including a number that are substantially larger and have greater financial

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resources than we do. Our homebuilding subsidiaries also compete with subdivision developers and land development companies, some of which are themselves homebuilders or affiliates of homebuilders. Homebuilders compete for customers, land, building materials, subcontractor labor and desirable financing. Competition for home orders primarily is based upon home sales price, home style, financing available to prospective homebuyers, location of property, quality of homes built, customer service and general reputation in the community, and may vary market-by-market and/or submarket-by-submarket. Additionally, competition within the homebuilding industry can be impacted through an excess supply of new and existing homes available for sale resulting from a number of factors including, among other things, increases in unsold started homes available for sale and increases in home foreclosures. Increased competition, including lower home sales prices offered by our competitors as experienced during 2011, can cause us to decrease our home sales prices and/or increase home sales incentives in an effort to generate new home sales and maintain homes in Backlog until they close. These competitive pressures are likely to continue for some time and could affect our ability to maintain existing home sales prices, which may negatively impact our future financial and operating results.

Through our mortgage lending subsidiary, HomeAmerican, we also compete with numerous banks, thrifts and other mortgage bankers and brokers, many of which are larger and may have greater financial resources than we do. Competitive factors include pricing, mortgage loan terms, underwriting criteria and customer service. To the extent that we are unable to adequately compete with other companies that originate mortgage loans, total revenue and the results of operations from our Financial Services and Other segment may be negatively impacted.

Further decline in the market value of our homes or carrying value of our land would have a negative impact on our results of operations and financial position.

Our homebuilding subsidiaries acquire land for the replacement of land inventory and/or expansion within our current markets and may, from time to time, purchase land for expansion into new markets. The fair value of our land and land under development and housing completed or under construction inventory depends on market conditions. Factors that can impact our determination of the fair value of our inventory primarily include home sales prices, levels of home sales incentives and home construction costs. Our home sales prices and/or levels of home sales incentives can be impacted by, among other things, decreased demand for new homes, decreased home prices offered by our competitors, home foreclosure levels, decreased ability of our homebuyers to obtain suitable mortgage loan financing and high levels of home order cancellations. Additionally, our home construction costs can be impacted by, among other things, shortages of subcontractor labor and changes in costs associated with subcontracted labor, building materials and other resources. If we are required to decrease home sales prices and/or increase incentives in an effort to generate new home sales, maintain homes in Backlog or remain competitive with the home sales prices offered by our competitors, or if our home construction costs increase, we may not be able to recover the carrying costs of our inventory when our homebuilding subsidiaries build and sell homes. Under such circumstances, we may be required to record additional impairments of our inventory. Additionally, due to the uncertainty in the homebuilding and mortgage lending industries and the overall United States economy, it is reasonably possible for us to experience declines in the market value of our homes and, as a result, additional inventory impairments could be recorded in future reporting periods. Any such additional inventory impairments would have a negative impact on our financial position and results of operations in the future reporting period in which they were recorded.

Increases in our cancellations could have a negative impact on our Home Gross Margins and home sales revenue.

Home order cancellations can result from a number of factors, including declines in the market value of homes, increases in the supply of homes available to be purchased, increased competition, higher mortgage interest rates, homebuyers inability to sell their existing homes, homebuyers inability to obtain suitable financing, including providing sufficient down payments, and adverse changes in economic conditions.

Increased levels of home order cancellations would have a negative impact on our home sales revenue and financial and operating results in future reporting periods.

If land is not available at reasonable prices or terms, our homes sales revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations in a given market.

Our operations depend on our homebuilding subsidiaries ability to obtain land for the development of our residential communities at reasonable prices and with terms that meet our underwriting criteria. Our ability to obtain land for new residential communities may be adversely affected by changes in the general availability of land, the willingness of land sellers to sell land at reasonable prices given the deterioration in market conditions, competition for available land, availability of financing to acquire land, zoning, regulations that limit housing density, and other market conditions. If the supply of land, and especially finished lots, appropriate for development of residential communities continues to be limited because of these factors, or for any other reason, the number of homes that our homebuilding subsidiaries build and sell may decline. Additionally, the ability of our homebuilding subsidiaries to open new subdivisions could be impacted if we elect not to purchase lots under option contracts. To the extent that we are unable to timely purchase land or enter into new contracts for the purchase of land at reasonable prices, due to the lag time between the time we acquire land and the time we begin selling homes, our home sales revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations in a given market.

If mortgage interest rates rise or if mortgage financing otherwise becomes less affordable, it could adversely affect our sales and business, and the duration and ultimate severity of the effects are uncertain.

The mortgage lending industry continues to experience significant instability, including defaults on subprime loans and other nonconforming loans and expectations of increasing interest payment requirements and further defaults. These factors have resulted in a decline in the market value of many mortgage loans and related securities. Lenders, regulators and others have questioned the adequacy of lending standards and other credit requirements for several loan products and programs offered in prior years. Credit requirements tightened, and investor demand for mortgage loans and mortgage-backed securities declined. The deterioration in credit quality has caused almost all lenders to eliminate subprime mortgages and most other loan products that are not eligible for sale to Fannie Mae or Freddie Mac or loans that do not meet FHA and VA requirements. Fewer loan products, tighter loan qualifications and a reduced willingness of lenders to make loans in turn have made it more difficult for many homebuyers to finance the purchase of our homes. These factors have served to reduce the pool of qualified homebuyers and made it more difficult to sell to first-time and move-up buyers who have historically been our customers. These reductions in demand have adversely affected our business and financial results, and the duration and severity of the effects remain uncertain.

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

Because of the decline in the availability of other mortgage products, FHA and VA mortgage financing support has become a more important factor in marketing our homes. The American Housing Rescue and Foreclosure Prevention Act of 2008, however, increased a buyer s down payment requirement for FHA insured loans. In addition, increased demands on the FHA have resulted in a reduction of its cash reserves. These factors or further increases in down payment requirements or limitations or restrictions on the availability of FHA and VA financing support could adversely affect interest rates, mortgage availability and our sales of new homes and mortgage loans.

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

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If interest rates increase, the costs of owning a home will be affected and could result in further reductions in the demand for our homes. Similarly, potential changes to the tax code with respect to deduction of home mortgage interest payments or other changes may decrease affordability of homeownership.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and continued disruptions in these markets could have an adverse impact on our results of operations, financial position and/or cash flows.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets. Reduced investor demand for mortgage loans and mortgage-backed securities in the secondary mortgage markets and increased investor yield requirements for those loans and securities and the exit of third-party purchasers from the secondary market may have an adverse impact on our results of operations, financial position and/or cash flows. In addition, the sources and terms and conditions of warehouse financing and mortgage repurchase arrangements and other lending arrangements for the mortgage lending industry are changing. These changes can impact, among other things, availability of capital, terms and structures for debt and line of credit agreements, collateral requirements and collateral advance rates.

In the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows.

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

Further uncertainty in the mortgage lending industry, including repurchase requirements associated with HomeAmerican s sale of mortgage loans, could negatively impact our results of operations.

We are subject to risks associated with mortgage loans, including, besides conventional mortgage loans, previously originated and sold Alt-A, and sub-prime mortgage loans, second mortgage loans, high loan-to-value mortgage loans and jumbo mortgage loans (mortgage loans with principal balances that exceed various thresholds in our markets). These risks may include, among other things, compliance with mortgage loan underwriting criteria and the associated homebuyers performance, which could require HomeAmerican to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and/or the settlement of claims associated with such loans had in 2011 and could have in the future a substantial impact on HomeAmerican s results of operations, liquidity and cash flow.

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

We have invested $519.9 million in marketable securities at December 31, 2011, the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our statements of financial position, results of operations and cash flow.

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As of December 31, 2011, we are utilizing a new Enterprise Resource Planning (ERP) system in all but two of our homebuilding divisions and, if we encounter significant problems with this implementation or implementation throughout our remaining homebuilding divisions, it could have an adverse impact on our operating activities and/or financial reporting capabilities.

As of December 31, 2011, we have been utilizing a new ERP system in eight of our ten homebuilding divisions. The full implementation of this system throughout all of our homebuilding divisions is scheduled to take place over the course of the next year. To the extent that we encounter significant problems, delays or disruptions in our implementation process, our ability to effectively monitor and manage our operating activities and/or financial reporting capabilities could be adversely impacted.

Our financial services operations have concentration risks that could impact our results of operations.

There are a limited number of third-party purchasers of mortgage loans originated by HomeAmerican. On August 31, 2011, Bank of America, one of our third-party purchasers, announced its intention to sell its third-party mortgage operation and exit its correspondent mortgage lending business. Subsequently, Bank of America amended its prior announcement and indicated that no sale of the third-party mortgage operation was forthcoming, but that it would proceed with its original plan to exit its correspondent mortgage lending business, with the last date that they would purchase a mortgage being December 15, 2011. If we continue to see other third-party purchasers of mortgage loans exit the business, our operations could be impacted adversely due to reduced competition and having fewer bidders for originated mortgage loans we sell, which could result in us receiving a lower price for such originated mortgage loans.

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

Our operations are subject to continuing compliance requirements mandated by applicable federal, state and local statutes, ordinances, rules and regulations, including zoning and land use ordinances, building, plumbing and electrical codes, contractors licensing laws, state insurance laws, federal and state human resources laws and regulations and health and safety laws and regulations (including, but not limited to, those of the Occupational Safety & Health Administration). Various localities in which we operate have imposed (or may impose in the future) fees on developers to fund schools, road improvements and low and moderate-income housing.

From time to time, various municipalities in which our homebuilding subsidiaries operate restrict or place moratoria on the availability of utilities, including water and sewer taps. Additionally, certain jurisdictions in which our homebuilding subsidiaries operate have proposed or enacted slow growth or no growth initiatives and other measures that may restrict the number of building permits available in any given year. These initiatives or other slow or no growth measures could reduce our ability to open new subdivisions and build and sell homes in the affected markets and may create additional costs and administration requirements, which in turn could negatively impact our future home sales and results of operations. Although future conditions or governmental actions may impact our ability to obtain necessary permits or water and sewer taps, we currently believe that we have, or can obtain, water and sewer taps and building permits for our homebuilding subsidiaries land inventory and land held for development.

Our homebuilding operations also are affected by environmental laws and regulations pertaining to availability of water, municipal sewage treatment capacity, stormwater discharges, land use, hazardous waste disposal, dust controls, building materials, population density and preservation of endangered species, natural terrain and vegetation. Due to these considerations, our homebuilding subsidiaries generally obtain an environmental site assessment for parcels of land that they acquire. The particular environmental laws and regulations that apply to any given

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homebuilding project vary greatly according to a particular site s location, the site s environmental conditions and the present and former uses. These environmental laws may result in project delays, cause us to incur substantial compliance and other costs and/or prohibit or severely restrict homebuilding activity in certain environmentally sensitive locations.

We also are subject to rules and regulations with respect to originating, processing, selling and servicing mortgage loans, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities. The turmoil caused by the increased number of defaults in subprime and other mortgages has encouraged consumer lawsuits and the investigation of financial services industry practices by governmental authorities. These investigations could include the examination of consumer lending practices, sales of mortgages to financial institutions and other investors and the practices in the financial services segments of homebuilding companies. New rules and regulations or revised interpretations of existing rules and regulations applicable to our mortgage lending operations could result in more stringent compliance standards, which may substantially increase costs of compliance. Additionally, potential changes to regulations, including but not limited to the Real Estate Settlement Procedures Act (RESPA) could have a significant impact on the ability of our affiliated businesses to provide services to Richmond American Homes customers, which could have a significant negative impact on our financial and operating results.

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

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

Our income tax provision or benefit and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position.

From time to time, we are audited by various federal and state authorities regarding income tax matters. Significant judgment is required to determine our provision or benefit for income taxes and our liabilities for federal and state income taxes. Our current audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal and, in some cases, litigation process. Although we believe our approach to determining the appropriate tax treatment is supportable, it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision or benefit and other tax liabilities. As each audit is completed, adjustments, if any, are recorded in our Consolidated Financial Statements in the period determined. Such differences could have a material adverse effect on our income tax provision or benefit, or other tax liabilities, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

The homebuilding industry is cyclical and affected by changes in general economic, real estate or other business conditions that could adversely affect our business or financial results.

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

- employment levels;

- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;
- demographic trends; and
- housing demand.

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

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

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

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

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters may also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale of mortgages or may increase our potential exposure regarding those mortgage loan sales. Because of the uncertainties inherent in these matters, actual future obligations could differ significantly from our current estimates.

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

We may experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes closed and associated home sales revenue can increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring with closings scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets. During 2011, 2010 and 2009, this seasonality pattern was not apparent in our financial or operating results. The extent to which historical seasonality patterns may have contributed to actual 2011, 2010 and 2009 home sales and closing levels is unknown, and there can be no assurances that this seasonality pattern will be apparent in future reporting periods.

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

The residential construction industry experiences labor and material shortages from time to time, including: work stoppages; labor disputes and shortages in qualified trades people, insulation, drywall, concrete, steel and lumber; lack of availability of adequate utility infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured; and shortages, delays in availability, or fluctuations in prices, of building materials. These labor and material shortages can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Additionally, we could experience labor shortages as a result of subcontractors going out of business. Any of these circumstances could give rise to delays in the start or completion of our residential communities, increase the cost of developing one or more of our residential communities and increase the construction cost of our homes. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, finished lots, building materials, and other resources, through higher selling prices, our Home Gross Margins and results of operations could be affected negatively.

Increased costs of lumber, framing, concrete, steel and other building materials could cause increases in construction costs. We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts generally fix the price of the homes at the time the contracts are signed, which may be well in advance of the construction of the home. Sustained increases in construction costs may, over time, erode our Home Gross Margins, particularly if pricing competition restricts our ability to pass on any additional costs of materials or labor, thereby decreasing our Home Gross Margins.

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

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

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

Although we believe that the Company has made provision for adequately staffing current operations, because of our efforts to right-size our organization during the past five years, retaining our skilled people has become a critical area of focus. Our future success depends, in part, on our ability to attract, train and retain skilled personnel. If we are unable to retain our key employees or attract, train and retain other skilled personnel in the future, it could have an adverse impact on our financial and operating results.

The interests of certain controlling shareholders may be adverse to investors.

Larry A. Mizel, David D. Mandarich and other of our affiliates beneficially own, directly or indirectly, in the aggregate, approximately 25% of our common stock. To the extent they and their affiliates vote their shares in the same manner, their combined stock ownership may effectively give them the power to influence the election of members of our board of directors and other matters reserved for our shareholders. Circumstances may occur in which the interest of these shareholders could be in conflict with your interests. In addition, such persons may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in us, even though such transactions may involve risks to you.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Our corporate office is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease office space in a 144,000 square foot office building. Our homebuilding divisions and, in some markets, other MDC subsidiaries, including HomeAmerican, American Home Insurance and American Home Title, lease additional office space. The table below outlines the number of office facilities that are leased and the approximate square footage leased in each market at December 31, 2011. While currently we are satisfied with the suitability and capacity of our office locations, we continue to evaluate them in view of market conditions.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	3	39,000
California	2	34,000
Colorado	6	184,000
Florida	1	10,000
Maryland	2	21,000
Nevada	2	11,000
Utah	2	19,000
Virginia	3	25,000
Washington	2	22,000
Total	23	365,000

Item 3. Legal Proceedings.

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

West Virginia Litigation

Litigation has been filed by homeowners in West Virginia against MDC, its subsidiary Richmond American Homes of West Virginia, Inc. (RAH West Virginia) and various subcontractors alleging a failure to install functional passive radon mitigation systems in their homes. The plaintiffs seek compensatory and punitive damages and medical monitoring costs for alleged negligent construction, failure to warn, breach of warranty or contract, breach of implied warranty of habitability, fraud, and intentional and negligent infliction of emotional distress based upon alleged exposure to radon gas. The litigation includes the following actions:

Joy, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-204, Circuit Court of Jefferson County, West Virginia (*Joy*). This action was filed on May 16, 2008, by sixty-six plaintiffs from fifteen households. The Company and RAH West Virginia have answered and asserted cross-claims against the subcontractors for contractual and implied indemnity and contribution.

Bauer, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-431, Circuit Court of Jefferson County, West Virginia (*Bauer*). This action was filed on October 24, 2008, by eighty-six plaintiffs from twenty-one households. This action has been consolidated for discovery and pre-trial proceedings with the Joy action.

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Saliba, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 08-C-447, Circuit Court, Jefferson County, West Virginia (*Saliba*). This action was filed on November 7, 2008, by thirty-five plaintiffs from nine households. This action has been consolidated for discovery and pre-trial proceedings with the Joy action.

Thorin, et al. v. Richmond American Homes of West Virginia, Inc., et al., No. 10-C-154, Circuit Court of Jefferson County, West Virginia (*Thorin*). This litigation was filed on May 12, 2010, by forty plaintiffs from eleven households in Jefferson and Berkeley Counties. To date, this action has not been consolidated for any purposes with the prior three actions. The claims asserted and the relief sought in the Thorin case are substantially similar to the Joy, Bauer and Saliba cases.

These cases have been settled in principle subject to approval by the court. The Company does not expect that the settlement will result in a loss exceeding amounts already recognized.

Shareholder Derivative Litigation

On September 28, 2011, a shareholder derivative lawsuit was filed by Martha Woodford in the United States District Court for the District of Delaware, Civil Action No. 11-00879-RGA. In the lawsuit, the plaintiff makes claims against our board of directors and our executive officers for alleged breaches of fiduciary duty, violation of Section 14(a) of the Securities Exchange Act, corporate waste and unjust enrichment relating to the Company s executive officer compensation practices. The plaintiff seeks monetary damages and injunctive relief on behalf of the Company, and attorneys and other professional fees and costs. The parties have reached an agreement in principle, providing for the settlement of the lawsuit. Under the terms of the proposed settlement, the Company would implement certain corporate governance procedures and pay legal fees to the plaintiffs. The Company s directors and executive officers admit no liability. The proposed settlement is subject to shareholder notice and court approval. If the court approves the settlement, the lawsuit will be dismissed with prejudice. The Company does not expect that the settlement will result in a loss exceeding amounts already recognized.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

At December 31, 2011, MDC had 657 shareowners of record. The shares of MDC common stock are traded on the New York Stock Exchange. The following table sets forth, for the periods indicated, the closing price ranges of MDC s common stock.

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
2011				
High	$ 31.80	$ 29.19	$ 26.11	$ 23.09
Low	24.79	24.18	16.09	15.39
2010				
High	$ 35.51	$ 37.96	$ 29.72	$ 29.88
Low	30.04	26.33	25.69	24.63

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The following table sets forth the cash dividends declared and paid in 2011 and 2010 (dollars in thousands, except per share amounts).

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
2011				
First quarter	January 24, 2011	February 23, 2011	$ 0.25	$ 11,824
Second quarter	April 27, 2011	May 25, 2011	0.25	11,868
Third quarter	July 25, 2011	August 24, 2011	0.25	11,868
Fourth quarter	October 24, 2011	November 22, 2011	0.25	11,872
			$ 1.00	$ 47,432
2010				
First quarter	January 25, 2010	February 24, 2010	$ 0.25	$ 11,784
Second quarter	April 26, 2010	May 26, 2010	0.25	11,786
Third quarter	July 26, 2010	August 25, 2010	0.25	11,785
Fourth quarter	October 25, 2010	November 23, 2010	0.25	11,785
			$ 1.00	$ 47,140

On January 23, 2012, MDC s board of directors declared a quarterly cash dividend of twenty five cents ($0.25) per share. The dividend will be paid on February 22, 2012 to shareowners of record on February 8, 2012.

There were no shares of MDC common stock repurchased during the years ended December 31, 2011, 2010 or 2009. At December 31, 2011, we were authorized to repurchase up to 4,000,000 shares of our common stock.

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Performance Graph

Set forth below is a graph comparing the yearly change in the cumulative total return of the MDC s common stock with the cumulative total return of the Standard & Poor s 500 Stock Index and with that of a peer group of other homebuilders over the five-year period ending on December 31, 2011, weighted as of the beginning of that period.

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

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

COMPARISON OF CUMULATIVE TOTAL RETURN

OF MDC COMMON STOCK, THE S&P 500 STOCK INDEX

AND A SELECTED PEER GROUP

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Item 6. Selected Financial Data.

The data in these tables and related footnotes should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s Consolidated Financial Statements (in thousands, except per share and unit amounts).

	Year Ended December 31,				
	2011	2010	2009	2008	2007
INCOME STATEMENT DATA					
Home sales revenue	$ 805,164	$ 921,022	$ 837,054	$ 1,358,148	$ 2,765,981
Total revenue	844,168	958,655	898,303	1,458,108	2,885,659
Home cost of sales	686,661	745,085	686,854	1,184,865	2,380,427
Asset impairments	14,901	21,647	30,986	298,155	726,621
General and administrative expenses(1)	137,314	166,993	162,485	191,574	283,346
Loss on extinguishment of senior notes(2)	38,795	-	-	-	-
(Loss) income before income taxes(3)(4)	(107,472)	(70,601)	(107,335)	(382,135)	(756,464)
Net (loss) income(5)(6)	(98,390)	(64,770)	24,679	(380,545)	(636,940)
Basic (loss) earnings per common share	(2.12)	(1.40)	0.52	(8.25)	(13.94)
Diluted (loss) earnings per common share	(2.12)	(1.40)	0.52	(8.25)	(13.94)
Dividends declared per share	1.00	1.00	1.00	1.00	1.00

	December 31,				
	2011	2010	2009	2008	2007
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents	$ 343,361	$ 572,225	$ 1,234,252	$ 1,304,728	$ 1,004,763
Marketable securities	519,943	968,729	327,944	54,864	-
Housing completed or underconstruction	300,714	372,422	260,324	415,500	902,221
Land and land under development	505,338	415,237	262,860	241,571	574,085
Total assets	1,858,725	2,547,769	2,429,308	2,474,938	3,012,764
Debt and Line of Credit					
Senior notes(2)	$ 744,108	$ 1,242,815	$ 997,991	$ 997,527	$ 997,091
Mortgage repurchase facility	48,702	25,434	29,115	34,873	-
Mortgage line of credit	-	-	-	-	70,147
Total debt and lines of credit	$ 792,810	$ 1,268,249	$ 1,027,106	$ 1,032,400	$ 1,067,238
Stockholders Equity	$ 868,636	$ 983,683	$ 1,073,146	$ 1,080,920	$ 1,476,013
Stockholders Equity per Outstanding Share	$ 18.11	$ 20.87	$ 22.82	$ 23.16	$ 32.05

	Year Ended December 31,				
	2011	2010	2009	2008	2007
OPERATING DATA					
Homes closed (units)	2,762	3,245	3,013	4,488	8,195
Average selling price per home closed	$ 291.5	$ 283.8	$ 277.8	$ 302.6	$ 337.5
Orders for homes, net (units)	2,887	3,261	3,306	3,074	6,504
Homes in Backlog at period end (units)	1,043	842	826	533	1,947
Estimated Backlog sales value at period end	$ 330,000	$ 269,000	$ 265,000	$ 173,000	$ 650,000
Estimated average selling price of homes in Backlog	$ 316.4	$ 319.5	$ 320.8	$ 324.6	$ 333.8
Active subdivisions at year-end	187	148	133	191	278
Cash Flows From					
Operating activities	$ (80,284)	$ (209,081)	$ 202,454	$ 479,511	$ 592,583
Investing activities(7)	$ 404,264	$ (644,466)	$ (224,992)	$ (113,439)	$ (1,447)
Financing activities(2)(8)	$ (552,844)	$ 191,520	$ (47,938)	$ (66,107)	$ (94,320)

(1) General and administrative expenses declined from $167.0 million for the year ended December 31, 2010 to $137.3 million for the year ended December 31, 2011, largely due to the Company s efforts to reduce compensation expense.

(2) During 2011, we completed a debt tender offer and redemptions of our 7% Senior Notes due 2012 and 5 $^{1}/2$% Senior Notes due 2013. As a result of these transactions, we paid $537.7 million to extinguish $500 million in debt principal and recorded a $38.8 million expense for loss on extinguishment of debt.

(3) Loss before income taxes for the years ended December 31, 2011, 2010, 2009 and 2008 includes the impact of recording to interest expense $20.7 million, $38.2 million, $38.1 million and $18.0 million, respectively, of interest incurred on our senior notes that could not be capitalized due to our qualifying assets, i.e. inventory that is actively being developed, being less than our senior note debt.

(4) Loss before income taxes for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 includes the impact of generating $30.9 million, $26.6 million, $12.2 million, $35.8 million and $38.9 million of interest income and other, respectively.

(5) Net income for the year ended December 31, 2009 includes the income tax benefit of being able to carry back $142.6 million of net operating losses due to the expanded NOL carryback provisions contained in the Worker, Homeownership, and Business Assistance Act of 2009, signed into law on November 6, 2009.

(6) Net loss for the years ended December 31, 2011, 2010, 2008 and 2007 includes the impact of recording valuation allowances of $45.1 million, $25.1 million, $134.3 million and $160.0 million, respectively, against our deferred tax assets.

(7) Investing activities during the year ended December 31, 2011 include proceeds from the sale and maturity of investments, net of purchases, of $436.1 million. Investing activities during the years ended December 31, 2010, 2009 and 2008 include the purchases of $638.0 million, $273.1 million and $54.9 million in marketable securities, net of sales and maturities.

(8) Cash provided by financing activities during the year ended December 31, 2010 primarily resulted from $242.3 million raised through our issuance of senior notes in January 2010, partially offset by $47.1 million in cash dividends.

Seasonality and Variability in Quarterly Results

We may experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes closed and associated home sales revenue can increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring with closings scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets. During 2011 and 2010, this seasonality pattern was not apparent in our financial or operating results. However, the extent to which historical seasonality patterns may have contributed to actual 2011 and 2010 home sales and closing levels is unknown, and there can be no assurances that this seasonality patterns will be apparent in future reporting periods.

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The following table reflects our unaudited summarized quarterly consolidated financial and operational information for each of the twelve months ended December 31, 2011 and 2010 (in thousands, except per share and unit amounts). See **Forward-Looking Statements** above.

	Quarter			
	Fourth	**Third**	**Second**	**First**
2011				
Home sales revenue	$ 230,732	$ 204,886	$ 206,163	$ 163,383
Total revenue	247,376	211,360	215,685	169,747
Asset impairments	811	4,692	9,119	279
General and administrative expenses	28,745	35,580	36,237	36,752
Loss on extinguishment of senior notes	21,527	17,268	-	-
Loss before income taxes	(19,776)	(34,189)	(29,803)	(23,704)
Net income (loss)	(18,821)	(31,710)	(27,980)	(19,879)
Orders for homes, net (units)	523	595	1,064	705
Homes closed (units)	792	707	709	554
Home Gross Margins	15.0%	16.8%	13.1%	13.7%
Homes in Backlog at period end (units)	1,043	1,312	1,424	993
Estimated Backlog sales value at period end	$ 330,000	$ 405,000	$ 433,000	$ 312,000
Earnings (loss) per share				
Basic	$ (0.40)	$ (0.68)	$ (0.60)	$ (0.43)
Diluted	$ (0.40)	$ (0.68)	$ (0.60)	$ (0.43)

	Quarter			
	Fourth	**Third**	**Second**	**First**
2010				
Home sales revenue	$ 252,302	$ 216,501	$ 311,276	$ 140,943
Total revenue	259,566	225,681	326,330	147,078
Asset impairments	17,929	3,718	-	-
General and administrative expenses	42,933	39,269	44,588	40,203
Loss before income taxes	(35,066)	(10,594)	(3,699)	(21,242)
Net loss	(29,974)	(10,239)	(3,684)	(20,873)
Orders for homes, net (units)	519	796	1,015	931
Homes closed (units)	865	722	1,135	523
Home Gross Margins	17.0%	20.9%	18.1%	22.4%
Homes in Backlog at period end (units)	842	1,188	1,114	1,234
Estimated Backlog sales value at period end	$ 269,000	$ 368,000	$ 351,000	$ 381,000
Loss per share				
Basic	$ (0.65)	$ (0.22)	$ (0.08)	$ (0.45)
Diluted	$ (0.65)	$ (0.22)	$ (0.08)	$ (0.45)

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in Item 1A, Risk Factors Relating to our Business.

EXECUTIVE SUMMARY

Industry Overview

At the end of 2011, our industry began to see signs of a possible recovery in the housing market and for the U.S. economy as a whole. Nevertheless, during 2011, our industry continued to be impacted by (1) an oversupply of homes available for sale (primarily foreclosed units built in prior years); (2) depressed consumer demand, primarily due to low consumer confidence and elevated unemployment; (3) strong competition for prospective homebuyers; (4) a decrease in the availability of mortgage loan financing; and (5) the expiration of the federal homebuyer tax credit during 2010. These factors contributed to continued depressed operating results for our Company by many measures in 2011.

Summary Results

Revenue for the year ended December 31, 2011 was $844.2 million, down 12% from $958.7 million for the year ended December 31, 2010, primarily due to a 15% year-over-year decrease in the number of homes closed. Our pretax loss for the year ended December 31, 2011 was $107.5 million, including a $38.8 million charge related to the extinguishment of debt and $21.9 million of asset impairments and project abandonment charges. For the year ended December 31, 2010, our pretax loss was $70.6 million, which included no charges related to the extinguishment of debt and $24.7 million of asset impairments and project abandonment charges.

Home Gross Margins (as defined below) for the year ended December 31, 2011 were 14.7%, down 440 basis points from the 19.1% for the year ended December 31, 2010. The decrease can be explained in part by adjustments made to warranty reserves; for the year ended December 31, 2011, Home Gross Margins benefited from only a $5.5 million reduction in warranty reserves, down significantly from a $20.8 million benefit for the year ended December 31, 2010. In addition, Home Gross Margins in the first half of 2011 were negatively impacted by closing a high percentage of unsold started homes under construction, which historically are less profitable than homes that are started with a buyer under contract. The increase in the percentage of unsold started homes closed was driven by a strategy of offering elevated incentives to reduce our number of unsold started homes in inventory. During the second half of 2011, Home Gross Margins began to recover as our percentage of closed unsold started homes decreased.

General and administrative expenses declined from $167.0 million for the year ended December 31, 2010 to $137.3 million for the year ended December 31, 2011, largely due to the Company s efforts to reduce compensation expense. Also, interest expense decreased from $38.6 million for the year ended December 31, 2010 to $21.1 million for the year ended December 31, 2011 as the Company (1) capitalized more interest incurred to inventory during 2011, and (2) decreased the amount of interest incurred during 2011 by extinguishing $500 million of debt during the second half of 2011.

Net orders for the year ended December 31, 2011 decreased to 2,887 homes, compared with 3,261 net orders for the year ended December 31, 2010. The decrease in home orders is explained primarily by an increase in the number of Cancellations, with many of the Cancellations caused by homebuyers experiencing difficulty in obtaining mortgage

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financing. In addition, our home orders were impacted by the Company s initiative to reduce our available supply of unsold started homes. At December 31, 2011, we had 1,043 homes in Backlog, up 24% compared with 842 homes in Backlog at December 31, 2010.

Strategic Actions

Our Company is aggressively pursuing a goal of returning to profitability in 2012, even if overall market conditions do not improve. During the first half of 2011, the Company focused on achieving this goal largely by increasing community count, giving us the opportunity to capture additional market share and drive higher revenues in future periods. This effort resulted in a 26% year-over-year increase in our active subdivisions at December 31, 2011 through (1) growth in existing markets and (2) our expansion into the Seattle market as a result of our acquisition of substantially all of the assets of a homebuilding company in April 2011.

However, in mid-2011, the Company decided that its inventory of controlled lots was sufficient to meet current levels of demand. Therefore, during the second half of 2011, we shifted our focus to three major items that we believe will aid us in returning to profitability. These items are: (1) reducing our general and administrative expenses, (2) evaluating and improving our sales process and organization, and (3) reducing our capital costs.

1) ***Reducing our general and administrative expenses.*** During 2009 and 2010, we maintained a general and administrative structure designed to open new communities, implement a new enterprise resource planning system, and position ourselves for expected market improvement. However, as market conditions remained depressed, we took steps to substantially reduce general and administrative expenses during 2011. This was accomplished primarily by reducing our general and administrative headcount by approximately 35% during the year ended December 31, 2011, with the most significant reductions coming during the second half of the year. Other cost reduction initiatives include (1) reducing rent expense for the facilities we lease in different markets across the country, (2) lowering the operating costs associated with our Home Galleries (as defined below), (3) centralizing our finance and accounting operations, and (4) restructuring compensation programs for various Company departments.

2) ***Evaluating and improving our sales process and organization.*** As we looked at the communities we already owned in 2011, we closely analyzed our sales process and organization and made improvements in several areas in response to adverse economic conditions and significant competitive pressures. These changes are being managed by a new, highly experienced leader for our sales organization.

Over the past two years, we had relied on large promotions as a critical component of our sales strategy. While these promotions were successful in producing a high level of urgency for our sales personnel and customers, we also experienced increased volatility in sales absorptions and Cancellation Rates (as defined below), which created inefficiencies on the operational and back-office side of our business. As a result, during 2011, we modified our sales and marketing strategies to rely less on these large promotions in the future.

Furthermore, during the 2011 third quarter, we changed our approach to how we manage unsold started homes, which historically yielded Home Gross Margins significantly below these on homes that are started with a buyer under contract. Going forward, we plan to limit the number of unsold started homes that we build in most of our markets.

Also, we have adjusted the way we sell home upgrades to our customers. In many of our subdivisions across the Company, we plan to include a higher level of upgrades in our base home price, including many of the upgrades historically chosen most frequently by our customers. This approach should give our homebuyers a better understanding of the all-in sales price of their homes at the time of contract, while still providing them with the opportunity to upgrade further based on their preferences.

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In addition, we have instituted a new sales training program for our sales associates and managers that is focused on reducing our dependence on the use of large incentives to sell homes.

We believe that the combination of these changes to our sales organization and processes will give us the opportunity to increase Home Gross Margins and the pace of home orders in future periods. See **Forward-Looking Statements** above.

3) ***Reducing our capital costs.*** To start 2011, our total capital significantly exceeded our investment in our core homebuilding assets. Given that we decreased our focus on deploying capital in additional subdivisions, we decided in mid-2011 to eliminate some of our outstanding debt that we had no current need to use in our homebuilding business. As a result of this decision, we extinguished $500 million of debt during 2011. Although we incurred a charge of $38.8 million related to this extinguishment, our annualized interest incurred going forward will be reduced by roughly $30 million as a result. Even after the debt extinguishment, we have significant capital available for investment in opportunities that we may identify in the future.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

Homebuilding Inventory Valuation. Our homebuilding inventories include assets associated with subdivisions in which we intend to construct and sell homes. Homebuilding inventories are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We determine impairments on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

- actual and trending Operating Profit (which is defined as home sales revenue less home cost of sales and all direct incremental costs associated with the home closing) for closed homes;
- estimated future undiscounted cash flows and Operating Profit;
- forecasted Operating Profit for homes in Backlog;
- actual and trending net and gross home orders;
- base sales price and home sales incentive information for closed and sold homes, homes in Backlog and homes forecasted to close over the remaining life of the subdivision;
- market information for each sub-market, including competition levels, home foreclosure levels and the size and style of homes currently being offered for sale; and

known or probable events indicating that the carrying value may not be recoverable.

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On a quarterly basis, if events or circumstances indicate that the carrying value of our inventory may not be recoverable, such assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision to its carrying value. The evaluation for the recoverability of the carrying value of the assets for each individual subdivision can be impacted significantly by the following:

- estimates of future base selling prices;
- estimates of future home sales incentives; and
- estimates of future home construction and land development costs.

These estimates are dependent on specific market or sub-market conditions for each subdivision. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact these estimates for a subdivision include:

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

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

If the undiscounted future cash flows of a subdivision are less than its carrying value, the carrying value of the subdivision is written down to its then estimated fair value.

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

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

During the years ended December 31, 2011, 2010 and 2009, discount rates used in our estimated discounted cash flow assessments generally ranged from 13% to 18%. We recorded $10.9 million, $15.9 million and $21.0 million of impairments to our land and land under development during the years ended December 31, 2011, 2010 and 2009, respectively, and $2.0 million, $5.3 million and $8.4 million of impairments to our housing completed or under construction during the years ended December 31, 2011, 2010 and 2009, respectively. We allocate the impairments recorded between housing completed or under construction and land and land under development for each impaired subdivision based upon the status of construction of a home on each lot (i.e. if the lot is in housing completed or under construction, the impairment for that lot is recorded against housing completed or under construction). The allocation of impairment is the same with respect to each lot in a given subdivision. These impairments, together with impairments of our held-for-sale inventory and prepaid expenses and other assets of $1.9 million, $0.4 million and $0.6 million for the years ended December 31, 2011, 2010 and 2009, respectively, are presented as a separate line item in the Consolidated Statements of Operations. Changes in management s estimates, particularly the timing and amount of the estimated future cash inflows and outflows and forecasted average selling prices of homes to be sold and closed can materially affect any impairment calculation. Because our forecasted cash flows are impacted significantly by changes in market conditions, it is reasonably possible that actual results could differ significantly from those estimates.

Warranty Reserves. Our homes are sold with limited third-party warranties. We record expenses and warranty reserves for general and structural warranty claims, as well as reserves for known, unusual warranty-related expenditures. Warranty reserves are established based upon historical payment experience in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. The establishment of warranty reserves for closed homes and the evaluation of our warranty reserve balance are primarily based on an actuarial study that includes known facts and interpretations of circumstances, including, among other things, our trends in historical warranty payment levels and warranty payments for claims not considered to be normal and recurring.

Warranty reserves are included in accrued liabilities in the Consolidated Balance Sheet and adjustments to our warranty reserves are recorded as an increase or reduction to home cost of sales in the Consolidated Statement of Operations. A 1% change in our estimated ultimate warranty losses for homes that closed over the last ten years would result in an adjustment to our warranty reserve balance of approximately $2.0 million. Additionally, it is possible that changes in the warranty payment experience used in estimating our ultimate warranty losses could have a material impact on our warranty reserve balances. See **Forward-Looking Statements** above.

Insurance Reserves. We record expenses and liabilities for losses and loss adjustment expenses for claims associated with: (1) insurance policies issued by StarAmerican and Allegiant; (2) self-insurance; and (3) deductible amounts under our insurance policies. The establishment of the provisions for outstanding losses and loss adjustment

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expenses is based on actuarial studies that include known facts and interpretation of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns (such as those caused by natural disasters), fires or accidents, depending on the business conducted and changing regulatory and legal environments. The process of determining our insurance reserve balances necessarily requires estimates associated with various assumptions, each of which can positively or negatively impact our insurance reserve balances. A 1% change in our estimated ultimate insurance losses for homes that closed over the last ten years would result in an adjustment to our insurance reserve balance of approximately $1 million. Additionally, it is possible that changes in the claim rate or the average cost per claim used to estimate the self-insured reserves could have a material impact on our insurance reserve balances.

Litigation Accruals. In the normal course of business, we are a defendant in claims primarily relating to construction defects, product liability and personal injury claims. These claims seek relief from us under various theories, including breach of implied and express warranty, negligence, strict liability, misrepresentation and violation of consumer protection statutes. We have accrued for losses that may be incurred with respect to legal claims based upon information provided by our legal counsel, including counsel s on-going evaluation of the merits of the claims and defenses. Due to uncertainties in the estimation process, actual results could vary from those accruals and could have a material impact on our results of operations. At December 31, 2011 and 2010, we had legal accruals of $9.4 million and $14.2 million, respectively. We continue to evaluate litigation accruals and, based on historical results, believe that our existing estimation process is accurate and do not anticipate the process to change materially in the future. Additionally, because our litigation accruals can be impacted by a significant number of factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

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

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

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

- a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;

- an excess of appreciated asset value over the tax basis of a company s net assets in an amount sufficient to realize the deferred tax asset; and

- existing Backlog that will produce sufficient taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

Examples of negative evidence may include:

- the existence of cumulative losses (generally defined as a pre-tax cumulative loss for the current and previous two years);

- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;
- a history of operating loss or tax credit carryforwards expiring unused; and
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence. At December 31, 2011 and 2010, we had a full valuation allowance of $281.2 million and $231.4 million, respectively, recorded against our net deferred tax asset, primarily due to our experiencing a three-year cumulative operating loss as of December 31, 2011 and 2010. Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets.

In the future, changes in our valuation allowance may result from, among other things, additional pre-tax operating losses resulting in increases in our valuation allowance or pre-tax operating income resulting in decreases in our valuation allowance.

Liability for Unrecognized Tax Benefits. Accounting literature for liability for unrecognized tax benefits provides guidance for the recognition and measurement in financial statements for uncertain tax positions taken or expected to be taken in a tax return.

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

The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority. At December 31, 2011 and 2010, our liability for unrecognized tax benefits was $3.3 million and $55.9 million, respectively. This decrease resulted primarily from our settlement with the IRS on the audit of our 2004 and 2005 federal income tax returns and settlement of various state income tax matters as discussed in Note 7 to the Consolidated Financial Statements.

Revenue Recognition. In the process of selling homes, we negotiate the terms of a home sales contract with a prospective homebuyer, including base sales price, any options and upgrades (such as upgraded appliance, cabinetry, flooring, etc.), and any home sales incentives. Our home sales incentives generally come in the form of: (1) discounts on the sales price of the home (Sales Price Incentives); (2) homebuyer closing cost assistance paid by Richmond American Homes to a third-party (Closing Cost Incentives); (3) mortgage loan origination fees paid by Richmond American Homes to HomeAmerican (Mortgage Loan Origination Fees); and (4) interest rate buydowns by HomeAmerican in mortgage loan financing offered to our homebuyers. The combination of home sales incentives offered to prospective homebuyers may vary from subdivision-to-subdivision and from home-to-home, and may be revised during the home closing process based upon homebuyer preferences or upon changes in market conditions, such as changes in our competitors pricing. Revenue from a home closing includes the base sales price and any purchased options and upgrades and is reduced for any Sales Price Incentives or Mortgage Loan Origination Fees.

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

Our mortgage loans generally are sold to third-party purchasers with anti-fraud, warranty and limited early payment default provisions. Accordingly, a sale of a homebuyer mortgage loan has occurred when the following criteria have been met: (1) the payment from the third-party purchaser is not subject to future subordination; (2) we have transferred all the usual risks and rewards of ownership that is in substance a sale; and (3) we do not have a substantial continuing involvement with the mortgage loan. Factors that we consider in assessing whether a sale of a mortgage loan has occurred include, among other things: (1) the recourse, if any, to HomeAmerican for credit and interest rate risk; (2) the right or obligation, if any, of HomeAmerican to repurchase the loan; and (3) the control HomeAmerican retains, or is perceived to retain, over the administration of the loan post-closing.

Revenue from the sale of mortgage loan servicing is recognized upon the exchange of consideration for the mortgage loans and related servicing rights between the Company and the third-party.

We measure mortgage loans held-for-sale at fair value. Using fair value allows an offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

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

When a home is closed, we generally have not yet paid or incurred all costs necessary to complete the construction of the home and certain land development costs. At the time of a home closing, we compare the home construction budgets to actual recorded costs to determine the additional estimated costs remaining to be paid on each closed home. For amounts not incurred or paid as of the time of closing a home, we record an estimated accrual associated with certain home construction and land development costs. Generally, these accruals are established based upon contracted work that has yet to be paid, open work orders not paid at the time of home closing, punch list items identified during the course of the homebuyer s final walkthrough of the home, as well as land completion costs more likely than not to be incurred, and represent estimates believed to be adequate to cover the expected remaining home construction and land development costs. We monitor the adequacy of these accruals on a house-by-house basis and in the aggregate on both a market-by-market and consolidated basis. At December 31, 2011 and 2010, we had $10.6 million and $12.5 million, respectively, of land development and home construction accruals for closed homes. Actual results could differ from such estimates.

We may offer to pay all or a portion of a homebuyer s closing costs as an incentive. Closing Cost Incentives represent expenses that, over and above the price of the home, the Company and the homebuyer normally incur to complete the recording of the sales transaction. These costs may include items payable to third-parties such as

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mortgage loan origination fees, discount points, appraisal fees, document preparation fees, insurance premiums, title search and insurance fees, as well as government recording and transfer charges. We record Closing Cost Incentives at the time a home is closed and present them as a component of home cost of sales in the Consolidated Statements of Operations.

Mortgage Loan Loss Reserves. In the normal course of business, we establish reserves for potential losses associated with HomeAmerican s sale of mortgage loans to third-parties. These reserves are created to address repurchase and indemnity claims by third-party purchasers of the mortgage loans, which claims arise primarily out of allegations of homebuyer fraud at the time of origination of the loan. These reserves are based upon, among other matters: (1) pending claims received from third-party purchasers associated with previously sold mortgage loans; (2) a current assessment of the potential exposure associated with future claims of homebuyer fraud in mortgage loans originated in prior periods; and (3) historical loss experience. Significant changes in the number and magnitude of claims to repurchase previously sold mortgage loans could have a material impact on our results of operations. Our mortgage loan reserves are reflected as a component of accrued liabilities in the Consolidated Balance Sheets, and the associated expenses are included as a component of general and administrative expenses in the Consolidated Statements of Operations. At December 31, 2011 and 2010, we had mortgage loan loss reserves of $0.4 million and $6.9 million, respectively. As discussed in Note 10, we had a number of significant settlements of third-party purchasers claims and potential claims with respect to previously sold mortgage loans, including a recent comprehensive settlement with Bank of America. As a result, we incurred expenses and made cash payments of $8.0 million and $14.5 million, respectively, during the year ended December 31, 2011.

Stock-Based Compensation. Accounting for share-based payment awards, generally grants of stock options and restricted stock can require significant judgment in estimating the fair value of the share-based payment awards and related compensation. Stock-based compensation expense was $15.4 million, $17.5 million and $15.1 million for the years ended December 31, 2011, 2010 and 2009, respectively, and was recorded to general and administrative expenses in the Consolidated Statements of Operations.

Determining the appropriate fair value model and calculating the fair value of stock option awards requires judgment, including estimating stock price volatility, annual forfeiture rates and the expected life of an award. We estimated the fair value for stock options granted during the twelve months ended December 31, 2011, 2010 and 2009 using the Black-Scholes option pricing model. The Black-Scholes option pricing model calculates the estimated fair value of stock options based upon the following inputs: (1) closing price of the Company s common stock on the measurement date (generally the date of grant); (2) exercise price; (3) expected stock option life; (4) expected volatility; (5) risk-free interest rate; and (6) expected dividend yield rate. The expected life of employee stock options represents the period for which the stock options are expected to remain outstanding and is derived primarily from historical exercise patterns. The expected volatility is 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 expected dividend yield assumption is based on our historical dividend payouts. We determine the estimated fair value of the stock option awards on the date they were granted. The fair values of previously granted stock option awards are not adjusted as subsequent changes in the foregoing assumptions occur; for example, an increase or decrease in the price of the Company s common stock. However, changes in the foregoing inputs, particularly the price of the Company s common stock, expected stock option life and expected volatility, significantly change the estimated fair value of future grants of stock options.

An annual forfeiture rate is estimated at the time of grant, and revised if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate. We estimate the annual forfeiture rate generally to be 10% to 25% for share-based payment awards granted to Non-Executives (as defined in Note 13 to our Consolidated Financial

Statements) and generally 0% for share-based payment awards granted to our Executives (as defined in Note 13 to our Consolidated Financial Statements and currently consisting of our Chief Executive Officer, Chief Operating Officer and General Counsel) and Directors (as defined in Note 13 to our Consolidated Financial Statements), based on the terms of their awards, as well as historical forfeiture experience.

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

We have identified each homebuilding subdivision as an operating segment as 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 are similar in the following regards: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) methods used to manage the construction and sale of homes. In making the determination of whether or not our markets demonstrate similar economic characteristics, we review, among other things, actual and trending Home Gross Margins for homes closed within each market and forecasted Home Gross Margins. Accordingly, we may be required to reclassify our reportable segments if markets that currently are being aggregated do not continue to demonstrate similar economic characteristics.

Our homebuilding reportable segments are as follows:

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

THE FOLLOWING DISCUSSION COMPARES RESULTS FOR THE YEAR ENDED

DECEMBER 31, 2011 WITH THE YEAR ENDED DECEMBER 31, 2010.

Results of Operations

Home Sales Revenue. Home sales revenue from a home closing includes the base sales price and any purchased options and upgrades and is reduced for any Sales Price Incentives (defined as discounts on the sales price of a home) or Mortgage Loan Origination Fees (defined as mortgage loan origination fees paid by Richmond American Homes to HomeAmerican) and interest rate buydowns by HomeAmerican in mortgage loan financing offered to our homebuyers. The combination of base sales price and any purchased options and upgrades, less any of the foregoing incentives, for each closed home constitutes the selling price of our closed homes.

Our homes sales revenue can be impacted by changes in our home closing levels and changes in the average selling prices of closed homes. The combination of home sales incentives offered to prospective homebuyers may vary from subdivision-to-subdivision and from home-to-home, and may be revised during the home closing process based upon homebuyer preferences or upon changes in market conditions, such as changes in our competitors pricing. Additionally, the average selling price of our homes can be impacted by changes in the mix of homes that we close including: (1) closing a higher percentage of homes in higher-priced subdivisions within a given market versus lower-priced subdivisions; and (2) closing a higher percentage of homes in higher-priced markets such as our Virginia market versus lower-priced markets such as Arizona.

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The table below summarizes home sales revenue by reportable segment (dollars in thousands).

	Year Ended December 31, 2011	2010	Increase (Decrease) Amount	%
Homebuilding				
West	$ 267,455	$ 327,688	$ (60,233)	-18%
Mountain	317,906	352,001	(34,095)	-10%
East	182,911	212,320	(29,409)	-14%
Other Homebuilding	46,525	44,801	1,724	4%
Total Homebuilding	814,797	936,810	(122,013)	-13%
Intercompany adjustments	(9,633)	(15,788)	6,155	39%
Total	$ 805,164	$ 921,022	$ (115,858)	-13%

West Segment The decline in home sales revenue during the year ended December 31, 2011 primarily resulted from: (1) a decrease of $79.3 million due to closing 387 fewer homes in the Arizona, California and Nevada markets of this segment; and (2) a decline of $19.6 million associated with reductions in the average selling prices of homes in our Arizona and California markets. This was partially offset by the impact of closing 146 homes in our new Washington market, which generated $38.8 million of home sales revenue.

Mountain Segment During the year ended December 31, 2011, the impact of closing 199 fewer homes contributed to a $55.9 million reduction in home sales revenue. This was partially offset by a $20.6 million increase primarily resulting from a $27,500 increase in the average selling price of closed homes in the Colorado market.

East Segment The decline in home sales revenue during the year ended December 31, 2011 was the result of closing 49 fewer homes, which caused home sales revenue to decrease by $22.3 million, and a decline of $7.1 million primarily associated with reductions in the average selling prices of homes in the Virginia market of this segment.

Other Homebuilding Segment The impact of closing 9 homes in the Illinois market during the year ended December 31, 2011 compared with not closing any homes in this market during 2010 resulted in the $1.7 million increase in home sales revenue.

Home Gross Margins. We define Home Gross Margins to mean home sales revenue less home cost of sales as a percent of home sales revenue.

The following table sets forth our Home Gross Margins by reportable segment.

	Year Ended December 31, 2011	2010	Change
Homebuilding			
West	18.1%	27.3%	-9.2%
Mountain	13.2%	12.5%	0.7%
East	11.4%	16.2%	-4.8%
Other Homebuilding	15.1%	18.2%	-3.1%
Consolidated	14.7%	19.1%	-4.4%

Home Gross Margins can be impacted positively or negatively in a reporting period by adjustments to our warranty reserves. During the year ended December 31, 2011 and 2010, we continued to experience lower warranty

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payments on previously closed homes. As a result of favorable warranty payment experience relative to our estimates at the time of home closing, partially offset by increases in specific warranty reserves established for warranty-related issues in a limited number of subdivisions, we recorded adjustments to reduce our warranty reserve of $5.5 million and $20.8 million during the years ended December 31, 2011 and 2010, respectively.

Interest in home cost of sales as a percent of home sales revenue was 2.6% during the years ended December 31, 2011 and 2010.

The following table sets forth by reportable segment a reconciliation of our home cost of sales, as reported, to home cost of sales excluding warranty adjustments and interest in cost of sales, which is used in the calculation of Home Gross Margins, excluding warranty adjustments and interest in cost of sales (dollars in thousands).

	Home Sales Revenue - As reported	Home Cost of Sales - As reported	Warranty Adjustments	Interest in Cost of Sales	Home Cost of Sales - Excluding Warranty Adjustments and Interest	Home Gross Margins - Excluding Warranty Adjustments and Interest(1)
Twelve Months Ended December 31, 2011						
West	$ 267,455	$ 218,982	$ (3,697)	$ 7,459	$ 215,220	19.5%
Mountain	317,906	275,883	(1,370)	7,811	269,442	15.2%
East	182,911	162,038	601	5,094	156,343	14.5%
Other	46,525	39,481	(1,012)	788	39,705	14.7%
Intercompany adjustments	(9,633)	(9,723)	-	-	(9,723)	N/A
Consolidated	$ 805,164	$ 686,661	$ (5,478)	$ 21,152	$ 670,987	16.7%
Twelve Months Ended December 31, 2010						
West	$ 327,688	$ 238,175	$ (23,403)	$ 8,795	$ 252,783	22.9%
Mountain	352,001	308,023	4,989	8,570	294,464	16.3%
East	212,320	178,014	(2,092)	5,626	174,480	17.8%
Other	44,801	36,661	(339)	821	36,179	19.2%
Intercompany adjustments	(15,788)	(15,788)	-	-	(15,788)	N/A
Consolidated	$ 921,022	$ 745,085	$ (20,845)	$ 23,812	$ 742,118	19.4%

(1) Home Gross Margins excluding the impact of warranty adjustments and interest in home cost of sales is a non-GAAP financial measure. We use this information to isolate the impact that warranty adjustments and interest have on our Home Gross Margins. We believe this information is useful to investors for purposes of comparing Home Gross Margins between periods.

West Segment Home Gross Margins excluding warranty and interest decreased during the year ended December 31, 2011, primarily due a decline of $66,000 in the average selling price of closed home in our California market without corresponding declines in the cost of home construction or cost of land, as well as, in our Arizona and Nevada markets, from closing a higher percentage of unsold started homes that had been in the final stage of completion when sold. These specific homes that were closed during the 2011 period yielded lower Home Gross Margins excluding warranty and interest than comparable homes sold as dirt starts.

Mountain Segment Home Gross Margins excluding warranty and interest decreased slightly during the year ended December 31, 2011, primarily resulting from an increase in land and construction costs, partially offset by a

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$27,500 increase in the average selling price of closed homes and a $2.3 million benefit from the impact of settling a construction defect claim the Company had against certain of its venders in Colorado.

East Segment Home Gross Margins excluding warranty and interest decreased during the year ended December 31, 2011, primarily resulting from a decline of $33,800 in the average selling price of closed home in our Virginia market without corresponding decreases in land and home construction costs.

Other Homebuilding Segment Home Gross Margins excluding warranty and interest decreased during the year ended December 31, 2011, primarily resulting from closing, in our Florida market, a higher percentage of unsold started homes that had been in the final stage of completion when sold. These specific homes that were closed during the 2011 period yielded lower Home Gross Margins excluding warranty and interest than comparable homes sold as dirt starts.

Land Sales Revenue. We had $11.9 million and $5.9 million, respectively, of land sales revenue during the years ended December 31, 2011 and 2010. During 2011, we sold 222 lots primarily in the Arizona and California markets of our West segment, compared with selling 110 lots during 2010.

Other Revenue. Gains on the sale of mortgage loans primarily represent revenue earned by HomeAmerican from the sale of HomeAmerican s originated mortgage loans to third-parties. Insurance revenue primarily represents premiums collected by StarAmerican and Allegiant from our homebuilding subcontractors in connection with the construction of homes. Title and other revenue primarily consist of forfeitures of homebuyer deposits on home sales contracts and revenue associated with our American Home Title operations.

The table below sets forth the components of other revenue (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Gains on sales of mortgage loans, net	$ 17,783	$ 21,791	$ (4,008)	-18%
Insurance revenue	6,613	6,622	(9)	0%
Title and other revenue	2,749	3,337	(588)	-18%
Total other revenue	$ 27,145	$ 31,750	$ (4,605)	-15%

Gains on sales of mortgage loans decreased during the year ended December 31, 2011, primarily due to a 900 basis point decline in the Capture Rate (as defined below) and the impact of the Company closing 483 fewer homes.

Home Cost of Sales. Home cost of sales primarily includes land acquisition, land development and related costs (both incurred and estimated to be incurred), specific construction costs of each home, warranty costs and finance and closing costs, including Closing Cost Incentives (defined as homebuyer closing costs assistance paid by Richmond American Homes to a third-party). Home cost of sales excludes expenses associated with commissions, amortization of deferred marketing costs and inventory impairment charges. However, while inventory impairment charges recorded during a reporting period do not impact home cost of sales, they do impact future home cost of sales as they lower the lot cost basis of the impaired inventory.

Our home cost of sales is impacted primarily by changes in our home closing levels and changes in the cost of land acquisition, development, construction cost of homes and changes in our estimated costs for warranty repairs.

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The table below sets forth the home cost of sales by reportable segment (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Homebuilding				
West	$ 218,982	$ 238,175	$ (19,193)	-8%
Mountain	275,883	308,023	(32,140)	-10%
East	162,038	178,014	(15,976)	-9%
Other Homebuilding	39,481	36,661	2,820	8%
Total Homebuilding	696,384	760,873	(64,489)	-8%
Intercompany adjustments	(9,723)	(15,788)	6,065	-38%
Total	$ 686,661	$ 745,085	$ (58,424)	-8%

West Segment Home cost of sales decreased during the year ended December 31, 2011 primarily resulting from a $71.8 million decline associated with closing 387 fewer homes in the Arizona, California and Nevada markets of this segment. This was partially offset by (1) a $33.2 million increase resulting from closing 146 homes in our new Washington market and (2) adjustments to decrease warranty reserves in 2010 that we did not experience during 2011, which caused a $19.3 million increase in home cost of sales.

Mountain Segment Home cost of sales decreased during the year ended December 31, 2011 as we closed 199 fewer homes, which caused a $52.3 million decline. Home cost of sales in 2011 also decreased by $6.4 million due to an adjustment to reduce warranty reserves by $1.4 million in 2011, whereas home cost of sales in 2010 included an adjustment to increase warranty reserves by $5.0 million. Additionally, we experienced a $2.3 million decrease in 2011 from the impact of settling a construction defect claim the Company had against certain of its venders in Colorado. These items partially were offset by an $18.9 million increase in home cost of construction associated with a change in the mix of homes that were closed during the 2011 period, compared with the 2010 period, and a $5.5 million increase in land cost of sales.

East Segment Home cost of sales decreased during the year ended December 31, 2011, resulting from closing 49 fewer homes, which caused an $18.7 million decline, partially offset by an increase of $2.7 million primarily resulting from adjustments in 2010 to decrease warranty reserves that we did not experience during 2011.

Other Homebuilding Segment Home cost of sales during the year ended December 31, 2011 increased primarily resulting from a $1.1 million increase associated with closing six more homes, and a $2.1 million increase associated with a change in the mix of homes that were closed during the 2011 period compared with the 2010 period.

Land Cost of Sales. We had $10.8 million and $5.4 million, respectively, of land cost of sales during the years ended December 31, 2011 and 2010.

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Asset Impairments. The following table sets forth asset impairments recorded by reportable segment (in thousands).

	Year Ended December 31, 2011	2010	Increase (Decrease)
Land and Land Under Development			
West	$ 7,270	$ 14,808	$ (7,538)
Mountain	1,850	555	1,295
East	285	421	(136)
Other Homebuilding	1,519	121	1,398
Subtotal	10,924	15,905	(4,981)
Housing Completed or Under Construction			
West	1,499	3,163	(1,664)
Mountain	449	964	(515)
East	-	569	(569)
Other Homebuilding	93	594	(501)
Subtotal	2,041	5,290	(3,249)
Total inventory impairments	12,965	21,195	8,230
Other asset impairments	1,936	452	1,484
Total	$ 14,901	$ 21,647	$ (6,746)

The following table sets forth the inventory impairments (excluding intangible and other assets) that were recorded on a quarterly basis during 2011 and 2010, as well as the fair value of those inventories and the number of lots and subdivisions at the period end to which the impairments relate (dollars in thousands).

Three Months Ended	Inventory Impairments	Fair Value of Impaired Inventory at Quarter End	Number of Lots Impaired During the Quarter	Number of Subdivisions Impaired During the Quarter
March 31, 2011	$ -	-	-	-
June 30, 2011	8,633	20,572	392	9
September 30, 2011	4,049	18,564	313	11
December 31, 2011	283	2,482	12	2
Total	$ 12,965			
September 30, 2010	$ 3,633	7,625	214	8
December 31, 2010	17,562	42,203	964	38
Total	$ 21,195			

During the year ended December 31, 2011, we recorded $14.9 million of asset impairments. These impairments primarily were incurred during the 2011 second and third quarters in select subdivisions primarily in the California and Nevada markets of our West segment, and the Utah market of our Mountain segment. The impairment of these specific subdivisions, most of which were purchased during 2010, primarily resulted from lowering anticipated home sales prices from those expected at the time we purchased the land, based on our experience with homes sold or closed in these subdivisions. As a result of declining home sales prices, we determined based upon our impairment evaluation that the fair market values of the land and homes in these subdivisions were less than their carrying values.

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During the year ended December 31, 2010, the impairments were concentrated in the Arizona and Nevada markets of our West segment and primarily resulted from lowering our estimated average selling prices of homes. This was primarily due to: (1) strong competition for sales of new homes; (2) overall low economic activity combined with high unemployment levels; (3) homebuyers having difficulty qualifying for new loans; and (4) the elevated levels of foreclosures and short sales of homes driving real estate values down.

Marketing Expenses. Marketing expenses primarily include advertising, amortization of deferred marketing costs, model home expenses, compensation related expenses and other selling costs. The following table summarizes our marketing expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Homebuilding				
West	$ 17,376	$ 18,508	$ (1,132)	-6%
Mountain	11,909	12,732	(823)	-6%
East	6,477	6,958	(481)	-7%
Other Homebuilding	3,029	3,124	(95)	-3%
Total	$ 38,791	$ 41,322	$ (2,531)	-6%

Marketing expenses during the year ended December 31, 2011 decreased for each of our homebuilding segments. This decline primarily resulted from decreases of $1.7 million in product advertising costs and a $1.0 million decrease in amortization of deferred marketing.

Commission Expenses. Commission expenses include direct incremental commissions paid for closed homes. The following table summarizes our commission expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Homebuilding				
West	$ 9,429	$ 12,554	$ (3,125)	-25%
Mountain	11,240	12,621	(1,381)	-11%
East	6,300	7,060	(760)	-11%
Other Homebuilding	1,978	2,020	(42)	-2%
Total	$ 28,947	$ 34,255	$ (5,308)	-15%

Commission expense in our West segment decreased during the year ended December 31, 2011 primarily due to closing a combined 387 fewer homes in the Arizona, Nevada and California markets of this segment. This decline was partially offset by incurring $1.4 million in commission expense in connection with closing homes in our new Washington market. The decline in commission expense during the year ended December 31, 2011 in our Mountain and East segments resulted from closing 199 and 49 fewer homes, respectively.

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

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Homebuilding				
West	$ 25,380	$ 29,898	$ (4,518)	-15%
Mountain	13,965	16,038	(2,073)	-13%
East	10,917	18,411	(7,494)	-41%
Other Homebuilding	3,266	5,128	(1,862)	-36%
Total Homebuilding	53,528	69,475	(15,947)	-23%
Financial Services and Other	25,946	22,890	3,056	13%
Corporate	57,840	74,628	(16,788)	-22%
Total	$ 137,314	$ 166,993	$ (29,679)	-18%

West Segment   The decrease primarily resulted from a $2.1 million decline in salary and compensation-related expenses and $2.0 million less in legal costs.

Mountain Segment   The decline primarily resulted from a $1.5 million decrease in salary and compensation-related expenses.

East Segment   The decrease primarily resulted from a $5.3 million decline associated with legal costs and a $2.4 million reduction in salary and compensation-related expenses.

Other Homebuilding Segment   The decrease primarily resulted from a $1.0 million reduction in legal costs and a $0.6 million reduction in salary and compensation-related expenses.

Financial Services and Other Segment   The increase primarily resulted from an $8.0 million increase in expenses associated with our mortgage loan loss reserve. During 2011, HomeAmerican reached settlements with third parties concerning claims and potential claims to repurchase certain previously sold mortgage loans, including a recent comprehensive settlement of claims with Bank of America. As a result of these settlements, the Company expensed $8.0 million during the year ended December 31, 2011. We believe that these settlements substantially reduce HomeAmerican s future exposure to liabilities associated with previously sold mortgage loans. This increase was offset partially by a $3.0 million reduction in insurance expense associated with closing fewer homes and a lower 2011 adjustment associated with our incurred but not reported reserves compared with 2010, and a $1.7 million decline in salary and compensation-related expenses.

Corporate Segment   During the year ended December 31, 2011, general and administrative expenses were down $16.8 million due to the following decreases: (1) $10.0 million associated with salary and compensation-related expenses; (2) $5.0 million associated with executive bonuses; (3) $2.5 million associated with Supervisory Fees (see Note 3 to the Consolidated Financial Statements); and (4) $1.0 million associated with other general and administrative expenses such as employee recruiting and bank service fees. These items partially were offset by an increase of $1.8 million associated with legal expenses and reserves and $1.0 million in depreciation associated with our enterprise resource planning system.

Other Operating Expenses. Other operating expenses increased by $2.0 million during the year ended December 31, 2011, primarily due to an increase of $3.9 million in write-offs of land option deposits and pre-acquisition costs associated with lot option contracts that we elected not to exercise and $0.6 million in due diligence costs associated with our acquisition of substantially all of the assets of a homebuilding company in the Seattle area in April 2011. These items partially were offset by the release of a $2.7 million employment tax contingency reserve as a result of the finalization of an IRS examination.

Other Income (Expense). Other income (expense) primarily includes interest and dividend income on our cash, cash equivalents and marketable securities, interest expense primarily on our senior notes, and loss on extinguishment of senior notes.

Interest income and other was $30.9 million and $27.2 million during the years ended December 31, 2011 and 2010, respectively.

We capitalize interest on our senior notes associated with our qualifying assets. We have determined that inventory is a qualifying asset during the period of active development of our land and through the completion of construction of a home. When construction of a home is complete, the home is no longer considered to be a qualifying asset and interest is no longer capitalized on that home. As a result of the increase in our inventory levels during 2011 compared with 2010, we capitalized $41.4 million of interest incurred during 2011 compared with $33.9 million during 2010. As a result, coupled with the previously discussed debt extinguishments, our interest expense decreased to $21.1 million during the year ended December 31, 2011 compared with $38.6 million during 2010. For a reconciliation of interest incurred, capitalized and expenses, see Note 14 to our Consolidated Financial Statements.

During 2011, we completed a debt tender offer and redemptions of our 7% Senior Notes due 2012 and 5 1/2% Senior Notes due 2013. As a result of these transactions, we paid $537.7 million to extinguish $500 million in debt principal with a carrying value of $498.9 million and recorded a $38.8 million expense for loss on extinguishment of debt.

(Loss)/Income Before Income Taxes. The table below summarizes our (loss)/income before income taxes by reportable segment (dollars in thousands).

	Year Ended December 31,		Change	
	2011	2010	Amount	%
Homebuilding				
West	$ (16,889)	$ 9,909	$ (26,798)	270%
Mountain	1,397	1,059	338	-32%
East	(3,579)	91	(3,670)	4033%
Other Homebuilding	(3,617)	(3,140)	(477)	-15%
Total Homebuilding	(22,688)	7,919	(30,607)	387%
Financial Services and Other	3,156	10,299	(7,143)	-69%
Corporate	(87,940)	(88,819)	879	1%
Total	$ (107,472)	$ (70,601)	$ (36,871)	-52%

West Segment We had a loss before income taxes of $16.9 million during the year ended December 31, 2011 compared with income before income taxes of $9.9 million during 2010. This decline primarily resulted from: (1) a 340 basis point decline in Home Gross Margins excluding warranty and interest; (2) recording $23.4 million to reduce warranty reserves during 2010 compared with only $3.7 million of adjustments to reduce warranty reserves during 2011; and (3) closing 387 fewer homes in the Arizona, California and Nevada markets of this segment. These items partially were offset by a $9.2 million decline in inventory impairments and a combined decrease of $8.8 million in sales and marketing, commission and general and administrative expenses.

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Mountain Segment Income before income taxes increased $0.3 million during the year ended December 31, 2011 primarily resulting from a $4.3 million combined decline in sales and marketing, commission and general and administrative expenses, and adjustments to reduce warranty reserves by $1.4 million during 2011 compared with incurring charges of $5.0 million during 2010. These items partially were offset by: (1) closing 199 fewer homes; (2) a 110 basis point decrease in Home Gross Margins excluding warranty and interest; and (3) $0.8 million increase in inventory impairments.

East Segment We had a loss before income taxes of $3.6 million during the year ended December 31, 2011 compared with income before income taxes of $0.1 million during 2010. This decline primarily resulted from: (1) closing 49 fewer homes; (2) the impact of recording adjustments to increase warranty reserves by $0.6 million during 2011 compared with adjustments of $2.1 million to reduce warranty reserves during 2010; and (3) a 330 basis point decrease in Home Gross Margins excluding warranty and interest. These items partially were offset by a combined decrease of $8.7 million in sales and marketing, commission and general and administrative expenses and a $0.7 million decrease in inventory impairments.

Other Homebuilding Segment Our loss before income taxes during the year ended December 31, 2011 increased by $0.5 million primarily resulting from a $0.9 million increase in inventory impairments and a 450 basis reduction in Home Gross Margins excluding warranty and interest. These items partially were offset by a combined decrease of $2.0 million in sales and marketing, commission and general and administrative expenses and a benefit of $1.0 million associated with reductions to warranty reserves.

Financial Services and Other Segment Income before income taxes during the year ended December 31, 2011 decreased by $7.1 million primarily due to a $4.0 million decline in gains on sale of mortgage loans and a $3.1 million increase in general and administrative expenses, which primarily resulted from increases in our mortgage loan loss reserves.

Corporate Segment Loss before income taxes during the year ended December 31, 2011 decreased by $2.8 million, primarily resulting from a $17.5 million decline in interest expense and a $3.7 million increase in interest income. These items partially were offset from a $38.8 million expense associated with the extinguishment of our debt during 2011.

Income Taxes. Our income tax assets and liabilities and related effective tax rate are affected by various factors, the most significant of which is the valuation allowance recorded against our deferred tax assets. Due to the effects of the deferred tax valuation allowance and changes in unrecognized tax benefits, our effective tax rates in 2011 and 2010 are not meaningful as the income tax benefit is not directly correlated to the amount of pretax loss.

Our income tax benefits were $9.1 million and $5.8 million for the years ended December 31, 2011 and 2010, respectively. The $9.1 million income tax benefit for the year ended December 31, 2011 resulted primarily from settlements of various state income tax matters and our settlement with the IRS on its audit of the 2004 and 2005 federal income tax returns. The $5.8 million income tax benefit for the year ended December 31, 2010 resulted primarily from our finalization of various state income tax examinations.

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Homebuilding Operating Activities

The table below sets forth information relating to orders for homes (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Orders For Homes, net *(Units)*				
Arizona	467	552	(85)	-15%
California	311	301	10	3%
Nevada	411	532	(121)	-23%
Washington	124	-	124	N/M*
West	1,313	1,385	(72)	-5%
Colorado	708	855	(147)	-17%
Utah	224	358	(134)	-37%
Mountain	932	1,213	(281)	-23%
Maryland	194	231	(37)	-16%
Virginia	244	233	11	5%
East	438	464	(26)	-6%
Florida	196	198	(2)	-1%
Illinois	8	1	7	N/M*
Other Homebuilding	204	199	5	3%
Total	2,887	3,261	(374)	-11%
Estimated Value of Orders for Homes, net	$ 835,000	$ 920,000	$ (85,000)	-9%
Estimated Average Selling Price of Orders for Homes, net	$ 289.2	$ 282.1	$ 7.1	3%

Orders for Homes. During the year ended December 31, 2011, our net orders for homes decreased, primarily due to a 281 unit decline in the markets of our Mountain segment and 206 unit decline in the Arizona and Nevada markets of our West segment. The decline in these markets was driven primarily by the impact of the expiration of the 2010 federal homebuyer tax credit and increased volatility in our Cancellation Rates (as defined below). These declines partially were offset by the 124 net orders for homes we received in our new Washington market. In our East segment, net orders for homes decreased due to a 37 unit decline in Maryland

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Homes Closed. The following table sets forth homes closed for each market within our homebuilding segments (in units).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Arizona	423	571	(148)	-26%
California	272	298	(26)	-9%
Nevada	331	544	(213)	-39%
Washington	146	-	146	N/M*
West	1,172	1,413	(241)	-17%
Colorado	748	789	(41)	-5%
Utah	225	383	(158)	-41%
Mountain	973	1,172	(199)	-17%
Maryland	207	231	(24)	-10%
Virginia	211	236	(25)	-11%
East	418	467	(49)	-10%
Florida	190	193	(3)	-2%
Illinois	9	-	9	N/M*
Other Homebuilding	199	193	6	3%
Total	2,762	3,245	(483)	-15%

* N/M Not Meaningful

Homes closed during the year ended December 31, 2011 were down in each of our homebuilding segments except the Other Homebuilding segment. Contributing to the decline in home closings was the negative impact from the federal homebuyer tax credit, which expired during 2010. In our West segment, this impact was partially offset by closing 146 homes in our new Washington market.

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Backlog. The following table sets forth information relating to Backlog within each market of our homebuilding segments (dollars in thousands).

	December 31, 2011	December 31, 2010	Increase (Decrease) Amount	Increase (Decrease) %
Backlog (*Units*)				
Arizona	128	84	44	52%
California	118	79	39	49%
Nevada	156	76	80	105%
Washington	54	-	54	N/M *
West	456	239	217	91%
Colorado	233	273	(40)	-15%
Utah	68	69	(1)	-1%
Mountain	301	342	(41)	-12%
Maryland	113	126	(13)	-10%
Virginia	103	70	33	47%
East	216	196	20	10%
Florida	70	64	6	9%
Illinois	-	1	(1)	N/M *
Other Homebuilding	70	65	5	8%
Total	1,043	842	201	24%
Estimated Backlog Sales Value	$ 330,000	$ 269,000	$ 61,000	23%
Estimated Average Sales Price in Backlog	$ 316.4	$ 319.5	$ (3.1)	-1%

* N/M Not Meaningful

We define Backlog as homes under contract but not yet delivered. Our Backlog at a point in time is impacted by net orders for homes and closed homes during a reporting period, as well as any backlog acquired during the reporting period. The increase in our Backlog at December 31, 2011 compared with December 31, 2010 can be attributed to our net orders for homes exceeding closed homes by 125 units for the year ended December 31, 2011, combined with our acquisition of 76 homes already sold but not closed in the Seattle market as a result of our acquisition of substantially all of the assets of a homebuilding company in April 2011.

Cancellation Rate. We define our home order Cancellation Rate as the approximate number of cancelled home purchase contracts during a reporting period as a percentage of total home purchase contracts received during such reporting period. The following tables set forth our Cancellation Rate by segment.

	Year Ended December 31, 2011	Year Ended December 31, 2010	Increase
Homebuilding			

West	36%	26%	10%
Mountain	37%	33%	4%
East	38%	33%	5%
Other Homebuilding	38%	36%	2%
Consolidated	37%	30%	7%

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Our Cancellation Rate during the year ended December 31, 2011 increased in each of our homebuilding segments as we experienced a significant increase in the number of home orders that were cancelled. As a result of our gross number of home orders remaining constant between the 2011 period compared with the 2010 period, coupled with the higher volume of cancellations in 2011, we experienced a higher Cancellation Rate.

The cancellations that we experienced during the year ended December 31, 2011 primarily resulted from: (1) our homebuyers having difficulties qualifying for mortgage loans; (2) low consumer confidence in the housing market; and (3) home orders that were contingent upon our prospective homebuyers being able to sell their existing home, which has been difficult given the challenging housing market.

Active Subdivisions. The following table displays the number of our active subdivisions for each market within our homebuilding segments. We define an active subdivision as a subdivision that has more than five homes available for sale and have closed at least five homes.

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Arizona	25	26	(1)	-4%
California	17	13	4	31%
Nevada	20	18	2	11%
Washington	9	-	9	N/M *
West	71	57	14	25%
Colorado	47	39	8	21%
Utah	21	19	2	11%
Mountain	68	58	10	17%
Maryland	16	14	2	14%
Virginia	15	8	7	88%
East	31	22	9	41%
Florida	17	11	6	55%
Illinois	-	-	-	N/M *
Other Homebuilding	17	11	6	55%
Total	187	148	39	26%

* N/M Not Meaningful

Our active subdivisions at December 31, 2011 increased in each of our homebuilding segments compared with December 31, 2010 as a result of the opening of nine active subdivisions in our new Washington market, as well as our efforts, primarily in the first half of 2011, to expand operations and generate more home closings in existing markets. However, as a result of continued uncertainty regarding the homebuilding industry, we slowed our pace of new asset purchases and opening of new subdivisions during the last six months of 2011. As of December 31, 2011, we had approximately 38 subdivisions we expect to become active in the near term and, assuming similar sales paces, we had 45 active subdivisions that we expect to become inactive in the near term.

Average Selling Prices Per Home Closed. The average selling price for our closed homes includes the base sales price, any purchased options and upgrades, reduced by any Sales Price Incentives (defined as discounts on the sales price of a home) or Mortgage Loan Origination Fees (defined as mortgage loan origination fees paid by Richmond American Homes to HomeAmerican). The following tables set forth our average selling prices per home closed, by market (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Arizona	$ 191.8	$ 195.6	$ (3.8)	-2%
California	311.3	377.3	(66.0)	-17%
Colorado	341.4	313.9	27.5	9%
Florida	230.6	232.1	(1.5)	-1%
Illinois	300.7	N/A	N/M*	N/M*
Maryland	439.4	439.4	-	0%
Nevada	190.0	190.4	(0.4)	0%
Utah	278.1	272.3	5.8	2%
Virginia	435.8	469.6	(33.8)	-7%
Washington	265.6	-	N/M*	N/M*
Consolidated	$ 291.5	$ 283.8	$ 7.7	3%

* N/M Not Meaningful

During the year ended December 31, 2011, the average selling price of closed homes increased by 3% as we closed a greater percentage of our homes in the higher-priced Colorado market and closed fewer homes in our lower-priced markets of Arizona and Nevada.

We did experience declines in the average selling price of closed homes in our California market during the year ended December 31, 2011, primarily resulting from closing homes in subdivisions with lower price points, as well as declines in the market value of homes in certain subdivisions of this market. The declines in the average selling prices of closed homes in our Virginia market during the year ended December 31, 2011 primarily resulted from changes in the mix of homes closed. In our Colorado market, the average selling price of closed homes increased during the year ended December 31, 2011 primarily driven by closing homes in higher-priced subdivisions.

Inventory. Our inventory consists of housing completed or under construction and land and land under development. Housing completed or under construction in our Consolidated Balance Sheets primarily includes: (1) land costs transferred from land and land under development; (2) hard costs associated with the construction of a house; (3) overhead costs, which include real property taxes, engineering and permit fees; (4) capitalized interest; and (5) certain indirect fees. Land and land under development on our Consolidated Balance Sheets primarily includes land acquisition costs, land development costs associated with subdivisions for which we have the intent to construct and sell homes and capitalized interest.

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The following table shows the carrying value of housing completed or under construction for each market within our homebuilding segments (dollars in thousands).

	December 31, 2011	December 31, 2010	Increase (Decrease) Amount	Increase (Decrease) %
Arizona	$ 18,382	$ 31,923	$ (13,541)	-42%
California	54,219	49,516	4,703	9%
Nevada	28,960	33,377	(4,417)	-13%
Washington	19,782	-	19,782	N/M*
West	121,343	114,816	6,527	6%
Colorado	63,913	111,397	(47,484)	-43%
Utah	17,051	26,372	(9,321)	-35%
Mountain	80,964	137,769	(56,805)	-41%
Maryland	35,440	48,740	(13,300)	-27%
Virginia	46,183	45,836	347	1%
East	81,623	94,576	(12,953)	-14%
Florida	16,256	24,262	(8,006)	-33%
Illinois	528	999	(471)	N/M*
Other Homebuilding	16,784	25,261	(8,477)	-34%
Total	$ 300,714	$ 372,422	$ (71,708)	-19%

* N/M Not Meaningful

The table below shows the stage of construction for our homes completed or under construction, number of sold homes under construction and model homes (in units).

	December 31, 2011	December 31, 2010	Increase (Decrease) Amount	Increase (Decrease) %
Unsold Started Homes - Final	146	119	27	23%
Unsold Started Homes - Frame	249	722	(473)	-66%
Unsold Started Homes - Foundation	79	103	(24)	-23%
Total Unsold Started Homes	474	944	(470)	-50%
Sold Started Homes	638	609	29	5%
Model Homes	226	242	(16)	-7%
Total	1,338	1,795	(457)	-25%

Our housing completed and under construction decreased by $71.7 million, as we decreased the total unsold started homes to 474 at December 31, 2011 from 944 at December 31, 2010. This decrease primarily resulted from our focused efforts to reduce our inventory of unsold started homes, which had increased during 2010, and the impact primarily during the 2011 third quarter of changing our strategy to limit the number of unsold started homes in our subdivisions. The increase during 2010 primarily resulted from the following: (1) building more unsold started homes as we anticipated increased net orders for homes prior to the expiration of the federal homebuyer tax credit, which required the sale of a home to be completed by April 30, 2010 with a closing date by September 30, 2010; and (2) increased unsold home levels as a result of our practice of building unsold started homes and stopping

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construction at drywall (we moved away from this practice beginning in the 2011 third quarter). However, as a result of low levels of net orders for homes during the year ended December 31, 2010, our total unsold started homes remained high at December 31, 2010.

The following table shows the carrying value of land and land under development for each market within our homebuilding segments (dollars in thousands).

	December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Arizona	$ 30,191	$ 41,892	$ (11,701)	-28%
California	103,961	93,194	10,767	12%
Nevada	49,756	32,605	17,151	53%
Washington	16,033	-	16,033	N/M*
West	199,941	167,691	32,250	19%
Colorado	137,285	128,727	8,558	7%
Utah	27,676	30,457	(2,781)	-9%
Mountain	164,961	159,184	5,777	4%
Maryland	57,037	31,782	25,255	79%
Virginia	70,254	44,083	26,171	59%
East	127,291	75,865	51,426	68%
Florida	11,806	9,274	2,532	27%
Illinois	1,339	3,223	(1,884)	-58%
Other Homebuilding	13,145	12,497	648	5%
Total	$ 505,338	$ 415,237	$ 90,101	22%

* N/M Not Meaningful

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The tables below show the total number of lots owned (excluding homes completed or under construction) and lots controlled under option agreements for each market within our homebuilding segments (in units).

	December 31,		Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Lots Owned				
Arizona	812	1,257	(445)	-35%
California	1,173	1,201	(28)	-2%
Nevada	1,001	991	10	1%
Washington	275	-	275	N/M*
West	3,261	3,449	(188)	-5%
Colorado	2,951	2,919	32	1%
Utah	524	594	(70)	-12%
Mountain	3,475	3,513	(38)	-1%
Maryland	456	319	137	43%
Virginia	545	414	131	32%
East	1,001	733	268	37%
Florida	241	210	31	15%
Illinois	123	130	(7)	-5%
Other Homebuilding	364	340	24	7%
Total	8,101	8,035	66	1%

	December 31,		Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Lots Controlled Under Option				
Arizona	92	408	(316)	-77%
California	-	222	(222)	-100%
Nevada	33	838	(805)	-96%
Washington	147	-	147	N/M*
West	272	1,468	(1,196)	-81%
Colorado	321	688	(367)	-53%
Utah	17	393	(376)	-96%
Mountain	338	1,081	(743)	-69%
Maryland	598	745	(147)	-20%
Virginia	173	132	41	31%
East	771	877	(106)	-12%

Florida	340	733	(393)	-54%
Illinois	-	-	-	0%
Other Homebuilding	340	733	(393)	-54%
Total	1,721	4,159	(2,438)	-59%
Total Lots Owned and Controlled	9,822	12,194	(2,372)	-19%

* N/M Not Meaningful

The decrease in total lots under option at December 31, 2011 compared to December 31, 2010 primarily resulted from electing not to enter into many option contracts during the last part of 2011, as we determined we had a sufficient lot supply to satisfy existing demand. As a result of electing not to exercise option rights with respect to certain lot purchase agreements, we recorded $7.0 million of expenses related to project write-off costs during the year ended December 31, 2011.

The table below shows the amount of at risk option deposits (in thousands).

	December 31,	
	2011	2010
Cash	$ 6,952	$ 9,019
Letters of Credit	4,316	4,467
Total At Risk Option Deposits	$ 11,268	$ 13,486

HomeAmerican Operating Activities.

The following table sets forth information relating to mortgage loans originated by our HomeAmerican operations, mortgage loans brokered and our Capture Rate (dollars in thousands). The Capture Rate is defined as the number of mortgage loans originated by HomeAmerican for our homebuyers as a percent of total Company home closings.

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Principal amount of mortgage loans originated	$ 556,558	$ 699,951	$ (143,393)	-20%
Principal amount of mortgage loans brokered	$ 4,518	$ 6,711	$ (2,193)	-33%
Capture Rate	72%	81%	-9%	
Including brokered loans	73%	82%	-9%	
Mortgage product (% of mortgage loans originated)				
Fixed rate	96%	97%	-1%	
Adjustable rate - other	4%	3%	1%	
Prime loans(1)	32%	28%	4%	
Government loans(2)	68%	72%	-4%	

(1) Prime loans are defined as loans with Fair, Isaac & Company (FICO) scores greater than 620 and which comply with the documentation standards of the government sponsored enterprise guidelines.
(2) Government loans are loans either insured by the FHA or guaranteed by the VA.

The principal amount of mortgage loans originated decreased during the year ended December 31, 2011, primarily due to the Company closing 483 fewer homes and a 900 basis point decline in the Capture Rate, compared with the year ended December 31, 2010.

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THE FOLLOWING DISCUSSION COMPARES RESULTS FOR THE YEAR ENDED

DECEMBER 31, 2010 WITH THE YEAR ENDED DECEMBER 31, 2009.

Results of Operations

Home Sales Revenue. The table below summarizes home sales revenue by reportable segment (dollars in thousands).

	Year Ended December 31, 2010	2009	Increase (Decrease) Amount	%
Homebuilding				
West	$ 327,688	$ 378,328	$ (50,640)	-13%
Mountain	352,001	244,862	107,139	44%
East	212,320	176,072	36,248	21%
Other Homebuilding	44,801	52,783	(7,982)	-15%
Total Homebuilding	936,810	852,045	84,765	10%
Intercompany adjustments	(15,788)	(14,991)	(797)	-5%
Total	$ 921,022	$ 837,054	$ 83,968	10%

The decrease in home sales revenue in our West segment was due to closing 179 fewer homes during the year ended December 31, 2010, which resulted in a decrease of $42.5 million and declines of $40,200 and $10,800 in the average selling prices of closed homes in our California and Nevada markets of this segment, respectively. The increase in home sales revenue in our Mountain segment was due to closing 377 more homes during the year ended December 31, 2010, which resulted in an increase of $116.1 million. This improvement was partially offset by declines of $14,800 and $2,600 in the average selling price of closed homes in the Utah and Colorado market, respectively.

In our East segment, home sales revenue increased due to closing 77 more homes during the year ended December 31, 2010. In our Other Homebuilding segment, home sales revenue decreased $9.6 million due to closing 43 fewer homes, partially offset by a $17,600 increase in the average selling price of closed homes in the Florida market of this segment.

Home Gross Margins. The following table sets forth our Home Gross Margins by reportable segment.

	Year Ended December 31, 2010	2009	Increase
Homebuilding			
West	27.3%	23.5%	3.8%
Mountain	12.5%	11.8%	0.7%
East	16.2%	14.8%	1.4%
Other Homebuilding	18.2%	12.0%	6.2%
Consolidated	19.1%	17.9%	1.2%

Home Gross Margins can be impacted positively or negatively in a reporting period by adjustments to our warranty reserves. During the year ended December 31, 2010, and consistent with the year ended December 31, 2009, we continued to experience lower warranty payments on previously closed homes. As a result of favorable warranty payment experience relative to our estimates at the time of home closing, we recorded adjustments to reduce our warranty reserve of $20.8 million and $27.8 million during the years ended December 31, 2010 and 2009, respectively.

Home Gross Margins are also impacted by interest included in home cost of sales. During the years ended December 31, 2010 and 2009, interest in home cost of sales was 2.6% and 3.7% percent of home sales revenue, respectively.

The following table sets forth by reportable segment a reconciliation of our home cost of sales, as reported, to home cost of sales excluding warranty adjustments and interest in cost of sales, which is used in the calculation of Home Gross Margins, excluding warranty adjustments and interest in cost of sales (dollars in thousands).

Twelve Months Ended December 31, 2009	Home Sales Revenue - As reported	Home Cost of Sales - As reported	Warranty Adjustments	Interest in Cost of Sales	Home Cost of Sales - Excluding Warranty Adjustments and Interest	Home Gross Margins - Excluding Warranty Adjustments and Interest[(1)]
West	$ 378,328	$ 289,381	$ (24,291)	$ 12,967	$ 300,705	20.5%
Mountain	244,862	215,989	185	9,155	206,649	15.6%
East	176,072	150,033	(2,965)	6,556	146,442	16.8%
Other	52,783	46,442	(712)	2,032	45,122	14.5%
Intercompany adjustments	(14,991)	(14,991)	-	-	(14,991)	N/A
Consolidated	$ 837,054	$ 686,854	$ (27,783)	$ 30,710	$ 683,927	18.3%

(1) Home Gross Margins excluding the impact of warranty adjustments and interest in home cost of sales is a non-GAAP financial measure. We use this information to isolate the impact that warranty adjustments and interest have on our Home Gross Margins. We believe this information is useful to investors for purposes of comparing Home Gross Margins between periods.

Land Sales Revenue. Land sales revenue was $5.9 million and $30.7 million during the years ended December 31, 2010 and 2009, respectively. Land sales revenue during 2009 primarily resulted from our sale of approximately 1,550 lots, primarily in our West and Other Homebuilding segments compared with less than 110 lots during 2010.

Other Revenue. The table below sets forth the components of other revenue (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	%
Gains on sales of mortgage loans, net	$ 21,791	$ 20,251	$ 1,540	8%
Insurance revenue	6,622	6,115	507	8%
Title and other revenue	3,337	4,153	(816)	-20%
Total other revenue	$ 31,750	$ 30,519	$ 1,231	4%

Other revenue increased during the year ended December, 2010 primarily due to increases in the gains on sales of mortgage loans as we increased our home closings during these periods by 8% from the year ended December 31, 2009.

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Home Cost of Sales. The table below sets forth the home cost of sales by reportable segment (dollars in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	%
Homebuilding				
West	$ 238,175	$ 289,381	$ (51,206)	-18%
Mountain	308,023	215,989	92,034	43%
East	178,014	150,033	27,981	19%
Other Homebuilding	36,661	46,442	(9,781)	-21%
Total Homebuilding	760,873	701,845	59,028	8%
Intercompany adjustments	(15,788)	(14,991)	(797)	5%
Total	$ 745,085	$ 686,854	$ 58,231	8%

Home cost of sales increased $58.2 million during the year ended December 31, 2010. Contributing to this increase was the impact of closing 232 more homes, which resulted in a $52.9 million increase to home cost of sales, and an increase in the lot cost per closed home, which resulted in a $54.1 million increase to home cost of sales. Partially offsetting these items was a $52.6 million decrease in home construction cost resulting from a decline in the cost of construction per closed home.

In our West segment, home cost of sales decreased $32.5 million due to closing 179 fewer homes during 2010 and $34.4 million from a decrease in the home cost of construction per closed home. These items were partially offset by a $20.1 million increase associated with higher lot costs per closed home. In our Mountain segment, home cost of sales increased by $102.4 million associated with closing 377 more homes and $6.7 million associated with higher lot costs per closed home. Partially offsetting these items was a decrease of $20.4 million associated with lower cost of home construction per closed home.

In our East segment, home cost of sales increased $29.6 million associated with closing 77 more homes and $12.8 million associated with an increase in the lot cost per closed home. Partially offsetting these items was a decrease of $14.5 million associated with lower cost of home construction per closed home. In our Other Homebuilding segment, home cost of sales decreased $8.5 million due to closing 43 fewer homes and $5.0 million associated with the lower cost of home construction per closed home. These items were partially offset by a $4.2 million increase associated with higher lot costs per closed home.

Land Cost of Sales. Land cost of sales was $5.4 million and $25.0 million during the years ended December 31, 2010 and 2009, respectively. Land cost of sales during 2009 primarily relates to the sale of approximately 1,550 lots in our West and Other Homebuilding segments compared with less than 110 lots during 2010.

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Asset Impairments. The following tables set forth, by reportable segment, the asset impairments recorded for the twelve months ended December 31, 2010 and 2009 (in thousands).

	Year Ended December 31, 2010	Year Ended December 31, 2009	Increase (Decrease)
Land and Land Under Development			
West	$ 14,808	$ 9,576	$ 5,232
Mountain	555	8,913	(8,358)
East	421	1,600	(1,179)
Other Homebuilding	121	610	(489)
Subtotal	15,905	20,699	(4,794)
Housing Completed or Under Construction			
West	3,163	5,379	(2,216)
Mountain	964	1,646	(682)
East	569	875	(306)
Other Homebuilding	594	537	57
Subtotal	5,290	8,437	(3,147)
Other asset impairments	452	1,850	(1,398)
Total	$ 21,647	$ 30,986	$ (9,339)

The 2010 impairments were concentrated in the Arizona and Nevada markets of our West segment and resulted from lowering our estimated average selling prices of homes. This was primarily due to: (1) strong competition for sales of new homes; (2) overall low economic activity combined with high unemployment levels; (3) homebuyers having difficulty qualifying for new loans; and (4) the elevated levels of foreclosures and short sales of homes driving real estate values down.

The following table sets forth the inventory impairments (excluding other assets) that were recorded on a quarterly basis during 2010 and 2009, as well as the fair value of those inventories and the number of lots and subdivisions at the period end to which the impairments relate (dollars in thousands).

Three Months Ended	Inventory Impairments: Held-for-Development	Held-for-Sale	Total Inventory Impairments	Fair Value of Impaired Inventory at Quarter End	Number of Lots Impaired During the Quarter	Number of Subdivisions Impaired During the Quarter
September 30, 2010	$ 3,633	$ -	$ 3,633	$ 7,625	214	8
December 31, 2010	17,562	-	17,562	42,203	964	38
Total	$ 21,195	$ -	$ 21,195			
March 31, 2009	$ 14,355	$ -	$ 14,355	$ 38,602	719	46
June 30, 2009	1,725	(557)	1,168	2,978	53	2
September 30, 2009	1,103	-	1,103	4,172	61	3
December 31, 2009	12,276	234	12,510	29,536	336	10
Total	$ 29,459	$ (323)	$ 29,136			

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Marketing Expenses. The following table summarizes our marketing expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	%
Homebuilding				
West	$ 18,508	$ 17,234	$ 1,274	7%
Mountain	12,732	9,810	2,922	30%
East	6,958	6,818	140	2%
Other Homebuilding	3,124	2,509	615	25%
Total	$ 41,322	$ 36,371	$ 4,951	14%

The $5.0 million increase in marketing expenses during the year ended December 31, 2010 reflects increases of: (1) $2.9 million in product advertising, primarily resulting from new advertising signs purchased in most of our subdivisions, and other advertising costs in conjunction with our sales efforts; and (2) $2.1 million in amortization of deferred marketing costs resulting from closing 232 more homes during 2010.

Commission Expenses. The following table summarizes our commission expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	%
Homebuilding				
West	$ 12,554	$ 13,443	$ (889)	-7%
Mountain	12,621	&nbs		