

MDC HOLDINGS INC
Form 10-Q
July 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

Commission File No. 1-8951

M.D.C. HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

4350 South Monaco Street, Suite 500

Denver, Colorado
(Address of principal executive offices)

80237
(Zip code)

(303) 773-1100

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

As of July 25, 2013, 48,869,726 shares of M.D.C. Holdings, Inc. common stock were outstanding.

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M.D.C. HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2013

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 208,883	\$ 129,535
Marketable securities	610,404	519,465
Restricted cash	2,679	1,859
Trade and other receivables	36,676	28,163
Inventories:		
Housing completed or under construction	569,218	512,949
Land and land under development	628,282	489,572
Total inventories	1,197,500	1,002,521
Property and equipment, net	32,184	33,125
Deferred tax asset, net of valuation allowance of \$39,697 and \$248,306 at June 30, 2013 and December 31, 2012, respectively	184,221	
Other assets	61,103	44,777
Total homebuilding assets	2,333,650	1,759,445
Financial Services:		
Cash and cash equivalents	40,535	30,560
Marketable securities	24,037	32,473
Mortgage loans held-for-sale, net	92,463	119,953
Other assets	5,857	3,010
Total financial services assets	162,892	185,996
Total Assets	\$ 2,496,542	\$ 1,945,441
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$ 22,267	\$ 73,055
Accrued liabilities	137,209	118,456
Senior notes, net	1,095,225	744,842
Total homebuilding liabilities	1,254,701	936,353
Financial Services:		
Accounts payable and accrued liabilities	53,798	51,864
Mortgage repurchase facility	48,848	76,327
Total financial services liabilities	102,646	128,191
Total Liabilities	1,357,347	1,064,544

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Stockholders Equity		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.01 par value; 250,000,000 shares authorized; 48,869,726 and 48,698,757 issued and outstanding at June 30, 2013 and December 31, 2012, respectively		
	489	487
Additional paid-in-capital	907,192	896,861
Retained earnings (accumulated deficit)	226,136	(21,289)
Accumulated other comprehensive income	5,378	4,838
Total Stockholders Equity	1,139,195	880,897
Total Liabilities and Stockholders Equity	\$ 2,496,542	\$ 1,945,441

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share amounts) (Unaudited)			
Homebuilding:				
Home sale revenues	\$ 400,327	\$ 256,532	\$ 732,075	\$ 441,210
Land sale revenues	1,807	1,815	1,807	3,405
Total home sale and land revenues	402,134	258,347	733,882	444,615
Home cost of sales	(327,927)	(220,220)	(602,003)	(378,874)
Land cost of sales	(1,435)	(1,718)	(1,435)	(3,208)
Total cost of sales	(329,362)	(221,938)	(603,438)	(382,082)
Gross margin	72,772	36,409	130,444	62,533
Selling, general and administrative expenses	(51,908)	(39,223)	(100,109)	(73,347)
Interest income	8,504	5,373	14,686	11,286
Interest expense	(909)		(1,726)	(808)
Other income (expense)	1,330	418	1,341	576
Homebuilding pretax income	29,789	2,977	44,636	240
Financial Services:				
Revenues	13,884	10,587	26,390	18,306
Expenses	(6,581)	(4,640)	(12,223)	(8,305)
Interest and other income	920	731	1,795	1,539
Financial services pretax income	8,223	6,678	15,962	11,540
Income before income taxes	38,012	9,655	60,598	11,780
Benefit from income taxes	186,897	983	186,827	1,123
Net income	\$ 224,909	\$ 10,638	\$ 247,425	\$ 12,903
Other comprehensive income (loss):				
Unrealized gain (loss) related to available-for-sale securities, net of tax	(1,995)	(698)	540	5,850
Comprehensive income	\$ 222,914	\$ 9,940	\$ 247,965	\$ 18,753
Earnings per share:				
Basic	\$ 4.60	\$ 0.22	\$ 5.07	\$ 0.27
Diluted	\$ 4.56	\$ 0.22	\$ 5.02	\$ 0.27
Weighted average common shares outstanding:				
Basic	48,447,005	47,398,088	48,410,486	47,367,051

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Diluted	48,914,984	47,516,258	48,916,988	47,462,544
Dividends declared per share	\$	\$ 0.25	\$	\$ 0.50

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

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

	Six Months Ended June 30, 2013 2012 (Dollars in thousands) (Unaudited)	
Operating Activities:		
Net income	\$ 247,425	\$ 12,903
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	5,214	7,721
Depreciation and amortization	2,072	2,656
Write-offs of land option deposits	499	311
Amortization of discount (premiums) on marketable debt securities	1,423	(151)
Deferred income tax benefit	(187,643)	
Net changes in assets and liabilities:		
Restricted cash	(820)	(1,593)
Trade and other receivables	(8,566)	(18,345)
Mortgage loans held-for-sale	27,490	12,648
Housing completed or under construction	(56,087)	(136,387)
Land and land under development	(138,509)	91,048
Other assets	(8,383)	3,956
Accounts payable and accrued liabilities	(30,358)	9,643
Net cash used in operating activities	(146,243)	(15,590)
Investing Activities:		
Purchase of marketable securities	(312,095)	(292,788)
Maturity of marketable securities	87,015	106,000
Sale of marketable securities	137,067	225,701
Purchase of property and equipment	(998)	(668)
Net cash provided by (used in) investing activities	(89,011)	38,245
Financing Activities:		
Payments on mortgage repurchase facility	(135,559)	(90,409)
Advances on mortgage repurchase facility	108,080	74,367
Dividend payments		(23,990)
Proceeds from issuance of senior notes	346,938	
Proceeds from exercise of stock options	5,118	140
Net cash provided by (used in) financing activities	324,577	(39,892)
Net increase (decrease) in cash and cash equivalents	89,323	(17,237)
Cash and cash equivalents:		
Beginning of period	160,095	343,361
End of period	\$ 249,418	\$ 326,124

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

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M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. (MDC, the Company, we, us, or our which refers to M.D.C. Holdings, Inc. and its subsidiaries) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at June 30, 2013 and for all periods presented. These statements should be read in conjunction with MDC s Consolidated Financial Statements and Notes thereto included in MDC s Annual Report on Form 10-K for the year ended December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year s presentation.

Refer to the economic conditions described under the caption Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q and Risk Factors Relating to our Business in Item 1A of our December 31, 2012 Annual Report on Form 10-K.

2. Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, (ASU 2013-02). ASU 2013-02 amends Accounting Standards Codification (ASC) 220, *Comprehensive Income* (ASC 220), and requires entities to present the changes in the components of accumulated other comprehensive income for the current period. Entities are required to present separately the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. These changes are permitted to be shown either before or net-of-tax and can be displayed either on the face of the financial statements or in the footnotes. ASU 2013-02 was effective for our interim and annual periods beginning January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on our consolidated financial position or results of operations.

3. Segment Reporting

Our 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 (CODMs) as two key executives the Chief Executive Officer and the Chief Operating Officer.

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

(1) West (Arizona, California, Nevada and Washington)

(2) Mountain (Colorado and Utah)

(3) East (Virginia, Florida, Illinois and Maryland, which includes Pennsylvania, Delaware and New Jersey)

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

combined reported loss of all operating segments that reported losses; or (3) consolidated assets.

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

The following table summarizes home and land sale revenues for our homebuilding operations and revenues for our financial services operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding				
West	\$ 164,514	\$ 117,424	\$ 299,493	\$ 186,965
Mountain	133,768	79,699	267,145	140,290
East	103,852	61,224	167,244	117,360
Total home and land sale revenues	\$ 402,134	\$ 258,347	\$ 733,882	\$ 444,615
Financial Services				
Mortgage operations	\$ 10,494	\$ 8,433	\$ 19,538	\$ 13,889
Other	3,390	2,154	6,852	4,417
Total financial services revenues	\$ 13,884	\$ 10,587	\$ 26,390	\$ 18,306

The following table summarizes pretax income for our homebuilding and financial services operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding				
West	\$ 16,779	\$ 2,678	\$ 27,390	\$ 2,844
Mountain	14,142	4,636	27,138	6,795
East	4,523	136	6,051	2,236
Corporate	(5,655)	(4,473)	(15,943)	(11,635)
Total homebuilding pretax income	\$ 29,789	\$ 2,977	\$ 44,636	\$ 240
Financial Services				
Mortgage operations	\$ 6,855	\$ 5,749	\$ 12,854	\$ 9,088

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Other	1,368	929	3,108	2,452
Total financial services pretax income	\$ 8,223	\$ 6,678	\$ 15,962	\$ 11,540
Total pretax income	\$ 38,012	\$ 9,655	\$ 60,598	\$ 11,780

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Homebuilding assets		
West	\$ 610,824	\$ 459,807
Mountain	359,538	332,939
East	307,005	274,199
Corporate	1,056,283	692,500
Total homebuilding assets	\$ 2,333,650	\$ 1,759,445
Financial services assets		
Mortgage operations	\$ 98,589	\$ 122,941
Other	64,303	63,055
Total financial services assets	\$ 162,892	\$ 185,996
Total assets	\$ 2,496,542	\$ 1,945,441

4. Earnings Per Share

A company that has participating security holders (for example, unvested restricted stock that has non-forfeitable dividend rights) is required to utilize the two-class method for purposes of calculating earnings per share (EPS) unless the treasury stock method results in lower EPS. The two-class method is an allocation of earnings between the holders of common stock and a company's participating security holders. Under the two-class method, earnings for the reporting period are allocated between common shareholders and other security holders, based on their respective rights to receive distributed earnings (i.e., dividends) and undistributed earnings (i.e., net income or loss). Currently, we have one class of security and we have participating security holders consisting of shareholders of unvested restricted stock. The following table shows basic and diluted EPS calculations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share amounts)			
Numerator				
Net income	\$ 224,909	\$ 10,638	\$ 247,425	\$ 12,903
Less: distributed earnings allocated to participating securities		(149)		(308)
Less: undistributed earnings allocated to participating securities	(1,867)		(2,087)	

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Net income attributable to common stockholders (numerator for basic earnings per share)	223,042	10,489	245,338	12,595
Add back: undistributed earnings allocated to participating securities	1,867		2,087	
Less: undistributed earnings reallocated to participating securities	(1,849)		(2,066)	
Numerator for diluted earnings per share under two class method	\$ 223,060	\$ 10,489	\$ 245,359	\$ 12,595
Denominator				
Weighted-average common shares outstanding	48,447,005	47,398,088	48,410,486	47,367,051
Add: dilutive effect of stock options	467,979	118,170	506,502	95,493
Denominator for diluted earnings per share under two class method	48,914,984	47,516,258	48,916,988	47,462,544
Basic Earnings Per Common Share	\$ 4.60	\$ 0.22	\$ 5.07	\$ 0.27
Diluted Earnings Per Common Share	\$ 4.56	\$ 0.22	\$ 5.02	\$ 0.27

Diluted EPS includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Common stock equivalents include stock options. Diluted EPS for the three and six months ended June 30, 2013 excluded options to purchase approximately 3.2 million shares and 3.1 million shares, respectively, of common stock because the effect of their inclusion would be anti-dilutive. For the same periods in 2012, diluted EPS excluded options to purchase approximately 4.8 million shares and 5.1 million shares, respectively.

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The following table sets forth our changes in accumulated other comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Unrealized gains (losses) on available-for-sale marketable securities^a :				
Beginning balance	\$ 7,373	\$ (692)	\$ 4,838	\$ (7,240)
Other comprehensive income before reclassifications	(5,274)	419	(3,053)	6,838
Amounts reclassified from accumulated other comprehensive income ^b	(1,215)	(1,117)	(901)	(988)
Ending balance	\$ 884	\$ (1,390)	\$ 884	\$ (1,390)
Unrealized gains on available-for-sale metropolitan district bond securities^a :				
Beginning balance	\$	\$	\$	\$
Other comprehensive income before reclassifications	4,494		4,494	
Amounts reclassified from accumulated other comprehensive income				
Ending balance	\$ 4,494	\$	\$ 4,494	\$
Total ending accumulated other comprehensive income	\$ 5,378	\$ (1,390)	\$ 5,378	\$ (1,390)

(a) All amounts net-of-tax.

(b) See separate table below for details about these reclassifications.

The following table sets forth the activity related to reclassifications out of accumulated other comprehensive income:

Affected Line Item in the Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding interest income	\$ 1,166	\$ 1,133	\$ 871	\$ 917
Financial services interest and other income	49	(16)	30	71
Income before income taxes	1,215	1,117	901	988
Tax (expense) or benefit				
Net income	\$ 1,215	\$ 1,117	\$ 901	\$ 988

6. Fair Value Measurements

ASC 820, *Fair Value Measurements* (ASC 820), as updated and amended by ASU 2011-04, defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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The following table sets forth the fair values and methods used for measuring the fair values of financial instruments on a recurring basis:

Financial Instrument	Hierarchy	Fair Value	
		June 30, 2013	December 31, 2012
(Dollars in thousands)			
Marketable securities (available-for-sale)			
Equity securities	Level 1	\$ 368,579	\$ 208,818
Debt securities - maturity less than 1 year	Level 2	111,397	54,388
Debt securities - maturity 1 to 5 years	Level 2	138,606	277,514
Debt securities - maturity greater than 5 years	Level 2	15,859	11,218
Total available-for-sale securities		\$ 634,441	\$ 551,938
Mortgage loans held-for-sale, net	Level 2	\$ 92,463	\$ 119,953
Metropolitan district bond securities (available-for-sale)*	Level 3	\$ 13,835	\$ 5,818

* These securities were recorded at cost at December 31, 2012 as they were still under the cost recovery method of accounting. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. Fair value approximates carrying value.

Marketable Securities. Consist primarily of: (1) fixed and floating rate interest earning debt securities, which may include, among others, United States government and government agency debt and corporate debt; (2) holdings in mutual fund equity securities which consist primarily of debt securities; (3) holdings in corporate equities; and (4) deposit securities, which may include, among others, certificates of deposit and time deposits. As of June 30, 2013 and December 31, 2012, all of our marketable securities were treated as available-for-sale investments and, as such, we have recorded all of our marketable securities at fair value with changes in fair value being recorded as a component of accumulated other comprehensive income.

The following table sets forth the amortized cost and estimated fair value of our available-for-sale marketable securities.

	June 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Homebuilding:				
Equity security	\$ 368,037	\$ 368,579	\$ 208,279	\$ 208,818
Debt securities	241,074	241,825	306,793	310,647
Total homebuilding available-for-sale securities	\$ 609,111	\$ 610,404	\$ 515,072	\$ 519,465

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Financial Services:

Total financial services available-for-sale debt securities	\$ 23,884	\$ 24,037	\$ 32,028	\$ 32,473
Total available-for-sale marketable securities	\$ 632,995	\$ 634,441	\$ 547,100	\$ 551,938

As of June 30, 2013 and December 31, 2012, our marketable securities (homebuilding and financial services in aggregate) were in a net unrealized gain position of \$1.5 million and \$4.8 million, respectively.

Mortgage Loans Held-for-Sale, Net. As of June 30, 2013, the primary components of our mortgage loans held-for-sale that are measured at fair value on a recurring basis are: (1) mortgage loans held-for-sale under commitments to sell; and (2) mortgage loans held-for-sale not under commitments to sell. At June 30, 2013 and December 31, 2012, we had \$69.7 million and \$108.3 million, respectively, of mortgage loans held-for-sale under commitments to sell for which fair value was based upon Level 2 inputs, which were the quoted market prices for those mortgage loans. At June 30, 2013 and December 31, 2012, we had

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\$22.7 million and \$11.8 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party, which is a Level 2 fair value input.

Metropolitan District Bond Securities (Related Party). Are included in other assets in the Homebuilding section of our accompanying consolidated balance sheets. We acquired the Metropolitan District Bond Securities (Metro Bonds) from a quasi-municipal corporation in the state of Colorado (the Metro District), which was formed to help fund and maintain the infrastructure associated with a master-planned community owned and operated by our Company. The Board of Directors of the Metro District currently is comprised of employees of the Company and therefore is a related party. Cash flows received by the Company from these securities reflect principal and interest payments from the Metro District, which are supported by an annual levy on the taxable value of real estate and personal property within the Metro District's boundaries and a one-time fee assessed on new homes closed in the Metro District. The Metro Bonds mature in 2037. However, if the unpaid principal and all accrued interest are not paid off at that date, the Company will continue to receive principal and interest payments into perpetuity until the unpaid principal and accrued interest is paid in full. Through the first quarter of 2013, we accounted for these securities under the cost recovery method and they were not carried at fair value in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30).

In the second quarter of 2013, we determined that these securities no longer were required to be accounted for under the cost recovery method due to an increase in the number of new homes closed coupled with the stabilization of property values within the Metro District. In accordance with ASC 310-30, we will adjust the bond principal balance on a prospective basis under the effective interest method based on estimated future cash flows expected to be collected. Furthermore, as this investment is accounted for as an available-for-sale asset, we will update its fair value on a quarterly basis, with the adjustment being recorded through other comprehensive income. The fair value is based upon a discounted future cash flow model that uses Level 3 inputs. The two primary unobservable inputs used in our discounted cash flow model are the forecasted number of homes to be closed, as they drive any increases to the tax base for the Metro District, and the discount rate. The following table provides quantitative data regarding each unobservable input and the sensitivity of fair value to potential changes in those unobservable inputs:

Unobservable Input	Quantitative Data		Sensitivity Analysis	
	Range	Weighted Average	Movement in Fair Value from Increase in Input	Movement in Fair Value from Decrease in Input
Discount rate	6% to 15%	11.1%	Decrease	Increase
Number of homes closed per year	0 to 118	38	Increase	Decrease

The table set forth below summarizes the activity for the three and six months ended June 30, 2013 and 2012 for our Metro Bonds.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	\$ 5,818	\$ 6,663	\$ 5,818	\$ 6,663
Increase in fair value (recorded in OCI)	7,354		7,354	
Change due to accretion of principal	663		663	
Cash receipts				
Balance at end of period	\$ 13,835	\$ 6,663	\$ 13,835	\$ 6,663

Mortgage Repurchase Facility. Our Mortgage Repurchase Facility is at floating rates or at fixed rates that approximate current market rates and have relatively short-term maturities, generally within 30 days. The fair value approximates carrying value and is based on level 2 inputs.

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Senior Notes. The estimated values of the senior notes in the following table are based on Level 2 inputs, including market prices of our notes and other homebuilder notes.

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
			(Dollars in thousands)	
5.375% Senior Notes due 2014, net	\$ 249,716	\$ 260,213	\$ 249,621	\$ 267,208
5.375% Senior Notes due 2015, net	249,915	263,550	249,895	268,867
5.625% Senior Notes due 2020, net	245,594	266,250	245,326	273,125
6.000% Senior Notes due 2043	350,000	318,500		
Total	\$ 1,095,225	\$ 1,108,513	\$ 744,842	\$ 809,200

7. Inventories

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

	June 30,	December 31,
	2013	2012
	(Dollars in thousands)	
Housing Completed or Under Construction:		
West	\$ 228,426	\$ 200,858
Mountain	179,882	183,522
East	160,910	128,569
Subtotal	569,218	512,949
Land and Land Under Development:		
West	347,683	230,344
Mountain	157,541	137,221
East	123,058	122,007
Subtotal	628,282	489,572
Total Inventories	\$ 1,197,500	\$ 1,002,521

Our inventories are primarily associated with communities where we intend to construct and sell homes on the land, including model and unsold started homes. Costs capitalized to land and land under development primarily include: (1) land costs; (2) land development costs; (3) entitlement costs; (4) capitalized interest; (5) engineering fees; and (6) title insurance, real property taxes and closing costs directly related to the purchase of the land parcel. Components of housing completed or under construction primarily include: (1) land costs transferred from land and land under development; (2) direct construction costs associated with a house; (3) real property taxes, engineering fees, permits and other fees; (4) capitalized interest; and (5) indirect construction costs, which include field construction management salaries and benefits, utilities and other construction related costs. Land costs are transferred from land and land under development to housing completed or under construction at

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the point in time that construction of a home on an owned lot begins.

In accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360), homebuilding inventories are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We evaluate inventories for impairment at each quarter end on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

actual and trending Operating Margin (which is defined as home sale revenues less home cost of sales and all direct incremental costs associated with the home closing, including sales commissions) for homes closed;

estimated future undiscounted cash flows and Operating Margin;

forecasted Operating Margin for homes in backlog;

actual and trending net and gross home orders;

base sales price and home sales incentive information for homes closed and homes in backlog;

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market information for each sub-market, including competition levels, home foreclosure levels, the size and style of homes currently being offered for sale and lot size; and

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

If events or circumstances indicate that the carrying value of our inventory may not be recoverable, assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision (including capitalized interest) to its carrying value. If the undiscounted future cash flows are less than the subdivision's carrying value, the carrying value of the subdivision is written down to its then estimated fair value. We generally determine the estimated fair value of each subdivision by determining the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation. For both the three and six months ended June 30, 2013 and 2012, we did not record any inventory impairment charges.

8. Capitalization of Interest

We capitalize interest to inventories during the period of development in accordance with ASC 835, *Interest* (ASC 835). Homebuilding interest capitalized as a cost of inventories is included in cost of sales as related units or lots are sold. To the extent our homebuilding debt exceeds our qualified assets as defined in ASC 835, we expense a portion of the interest incurred by us. Qualified homebuilding assets consist of all lots and homes, excluding finished unsold homes or finished models, within projects that are actively selling or under development. The table set forth below summarizes homebuilding interest activity. The homebuilding interest expensed in the table below relates to the portion of homebuilding debt which exceeded inventories that were deemed unqualified assets in accordance with ASC 835.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding interest incurred	\$ 15,345	\$ 10,573	\$ 29,684	\$ 21,166
Less: Interest capitalized	(14,436)	(10,573)	(27,958)	(20,358)
Homebuilding interest expense	\$ 909	\$	\$ 1,726	\$ 808
Interest capitalized, beginning of period	\$ 72,791	\$ 63,633	\$ 69,143	\$ 58,742
Interest capitalized during period	14,436	10,573	27,958	20,358
Less: Previously capitalized interest included in home cost of sales	(12,680)	(7,105)	(22,554)	(11,999)
Interest capitalized, end of period	\$ 74,547	\$ 67,101	\$ 74,547	\$ 67,101

9. Homebuilding Other Assets

The following table sets forth the components of homebuilding other assets.

June 30, 2013	December 31, 2012
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	(Dollars in thousands)	
Deferred marketing costs	\$ 13,584	\$ 13,874
Land option deposits	15,173	8,246
Deferred debt issuance costs, net	6,173	2,641
Prepaid expenses	3,342	5,575
Metropolitan district bond securities (related party)	13,835	5,818
Goodwill	6,008	6,008
Other	2,988	2,615
 Total	 \$ 61,103	 \$ 44,777

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Table of Contents**M.D.C. HOLDINGS, INC.****Notes to Unaudited Consolidated Financial Statements****10. Homebuilding Accrued Liabilities and Financial Services Accounts Payable and Accrued Liabilities**

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Accrued executive deferred compensation	\$ 30,796	\$ 28,475
Warranty reserves	22,725	23,151
Accrued interest payable	24,248	13,698
Customer and escrow deposits	15,528	9,413
Accrued compensation and related expenses	20,562	16,864
Land development and home construction accruals	7,427	9,545
Other accrued liabilities	15,923	17,310
 Total accrued liabilities	 \$ 137,209	 \$ 118,456

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Insurance reserves	\$ 47,834	\$ 47,852
Accounts payable and other accrued liabilities	5,964	4,012
 Total accounts payable and accrued liabilities	 \$ 53,798	 \$ 51,864

11. Warranty Accrual

We accrue warranty expenses for normal and recurring warranty claims at the time of our home closings, based on our trends in historical warranty payment levels. We also accrue warranty expense for warranty claims not considered to be normal and recurring as we become aware of them. Warranty payments incurred for an individual house may differ from the related accrual established for the home at the time it was closed. The actual disbursements for warranty claims are evaluated in the aggregate. We assess the adequacy of our warranty accrual on a quarterly basis and adjust the amounts recorded if necessary. The table set forth below summarizes warranty accrual and payment activity for the three and six months ended June 30, 2013 and 2012. The adjustment in the six month period ended June 30, 2013 was not material to our operations. Furthermore, the impact of the change in our warranty expense provision rates from the three months ended June 30, 2012 to 2013 and the six months ended June 30, 2012 to 2013 did not materially affect our warranty expense or gross margin from home sales for the three and six months ended June 30, 2013.

Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
(Dollars in thousands)			

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Balance at beginning of period	\$ 23,098	\$ 25,076	\$ 23,151	\$ 25,525
Expense provisions	1,154	878	2,276	1,643
Cash payments	(1,527)	(1,918)	(3,002)	(3,132)
Adjustments			300	
Balance at end of period	\$ 22,725	\$ 24,036	\$ 22,725	\$ 24,036

12. Insurance Reserves

We establish loss reserves for claims associated with: (1) insurance policies issued by Allegiant and re-insurance agreements issued by StarAmerican and (2) self-insurance, including workers compensation. The establishment of provisions for outstanding losses is based on actuarial or internally developed studies that include known facts and interpretations of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns such as those caused by accidents depending on the business conducted, and changing regulatory and legal environments.

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The table set forth below summarizes the insurance reserve activity for the three and six months ended June 30, 2013 and 2012. The insurance reserve is included as a component of accrued liabilities in the Financial Services section of the accompanying consolidated balance sheets. Reserves associated with self-insurance, including workers compensation, were not material to our operations and therefore have not been included in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	\$ 48,949	\$ 44,724	\$ 47,852	\$ 49,376
Expense provisions	1,775	906	3,302	1,689
Cash payments, net of recoveries	(2,890)	14	(3,320)	(5,421)
Balance at end of period	\$ 47,834	\$ 45,644	\$ 47,834	\$ 45,644

In the ordinary course of business, we make payments from our insurance reserves to settle litigation claims arising primarily from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments, net of recoveries shown for the three and six months ended June 30, 2013 are not necessarily indicative of what future cash payments will be for subsequent periods. The increases in our expense provisions were driven by a higher number of homes delivered during the three and six months ended June 30, 2013, when compared to the same periods in 2012, in addition to a higher expense provision rate per home closed as the result of a recent actuarial study.

13. Income Taxes

At the end of each interim period, we are required to estimate our annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. We recorded an income tax benefit of \$186.9 million and \$186.8 million for the three and six months ended June 30, 2013, respectively, compared to a benefit of \$1.0 million and \$1.1 million for the same respective periods in 2012. The income tax benefit in the current year periods is due primarily to a \$187.6 million, or \$3.80 per diluted share, reversal of a portion of our deferred tax asset valuation allowance in the second quarter, while the benefit from income taxes in the prior year periods was due primarily to the release of reserves related to settlements with various taxing authorities. Due to the effects of the deferred tax asset valuation allowance release and changes in unrecognized tax benefits, our effective tax rates in 2013 and 2012 are not meaningful as the income tax benefit is not directly correlated to the amount of pretax income or loss.

Deferred income taxes reflect the net tax effects of temporary differences between (1) the carrying amounts of the assets and liabilities for financial reporting purposes and (2) the amounts used for income tax purposes. 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. At March 31, 2013, we had a full valuation allowance totaling \$238.8 million recorded against our net deferred tax asset. During the quarter ended June 30, 2013, we concluded that it was more likely than not that we would be able to realize substantially all of our deferred tax assets within the applicable carryforward periods and as such, we reversed substantially all of our deferred tax asset valuation allowance.

We have a remaining valuation allowance of \$39.7 million related to (1) a portion of which will be reversed in the remaining interim periods of 2013 as pretax income is realized as required by ASC 740-270, *Income Taxes - Interim Reporting*, when a change in a valuation allowance is recognized in an interim period and (2) various state net operating loss carryforwards where realization is more uncertain at this time due to the more limited carryforward periods that exist in certain states.

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In our evaluation of the need for, and level of, a valuation allowance recorded against our deferred tax assets, the most significant piece of evidence considered was the objective and direct positive evidence related to our recent financial results. We have generated pretax income in each of the last six consecutive quarters totaling \$121.7 million, and our second quarter 2013 pretax income was higher than any of the five previous quarters. In prior periods, a significant part of the negative evidence we considered was our three-year cumulative loss position. However, at June 30, 2013, when including expected earnings from homes currently in our backlog, we no longer anticipate being in a cumulative loss position at December 31, 2013. Lastly, if our quarterly income in future years remains consistent with earnings levels experienced in recent quarters, we estimate that we will utilize all of our current federal net operating losses by 2016. Other negative evidence considered was the recent rise in mortgage

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interest rates, caused largely by an expectation that the Federal Reserve may taper its use of quantitative easing as early as the second half of 2013. However, the Federal Reserve has also indicated that such tapering would likely only occur if economic conditions continue to improve, which would help to offset the impact of rising interest rates on the homebuilding industry. Based on our evaluation of both positive and negative evidence, we concluded that the objective and direct positive evidence related to operating results achieved during the recent challenging economic and housing market conditions and the sustainability of current pretax income levels outweighed the negative evidence and that it is more likely than not that the substantial majority of the Company's deferred tax assets will be realized.

The components of our net deferred tax asset were as follows:

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Deferred tax assets:		
Federal net operating loss carryforwards	\$ 110,779	\$ 129,695
State net operating loss carryforwards	47,646	49,551
Alternative minimum tax and other tax credit carryforwards	12,069	10,988
Stock-based compensation expense	29,267	29,196
Warranty, litigation and other reserves	15,525	14,556
Deferred compensation retirement plans	12,111	11,252
Asset impairment charges	8,984	14,080
Inventory, additional costs capitalized for tax purposes	4,450	3,930
Other, net	1,703	2,063
Total deferred tax assets	242,534	265,311
Valuation allowance	(39,697)	(248,306)
Total deferred tax assets, net of valuation allowance	202,837	17,005
Deferred tax liabilities:		
Property, equipment and other assets	6,164	5,753
Discount on notes receivable	4,204	4,204
Deferred revenue	3,426	3,796
Unrealized gain on marketable securities	3,422	1,863
Other, net	1,400	1,389
Total deferred tax liabilities	18,616	17,005
Net deferred tax asset	\$ 184,221	\$

14. Senior Notes

The following table sets forth the carrying amount of our senior notes as of June 30, 2013 and December 31, 2012, net of applicable discounts:

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	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
5.375% Senior Notes due 2014	\$ 249,716	\$ 249,621
5.375% Senior Notes due 2015	249,915	249,895
5.625% Senior Notes due 2020	245,594	245,326
6.000% Senior Notes due 2043	350,000	
Total	\$ 1,095,225	\$ 744,842

On January 10, 2013, we issued \$250 million of 6% senior notes due 2043. On May 13, 2013, we issued an additional \$100 million of 6% senior notes due 2043, which are of the same series and have the same terms as the notes issued on January 10, 2013 (collectively the 6% Notes). The 6% Notes, which pay interest semi-annually in arrears on January 15 and July 15 of each year, commencing July 15, 2013, are general unsecured obligations of MDC and rank equally and ratably with our other general unsecured and unsubordinated indebtedness. We received total proceeds of \$346.9 million, net of underwriting fees of \$3.1 million.

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Our senior notes are not secured and, while the senior note indentures contain some restrictions on secured debt and other transactions, they do not contain financial covenants. Our senior notes are fully and unconditionally guaranteed on an unsecured basis, jointly and severally, by substantially all of our homebuilding segment subsidiaries.

15. Stock Based Compensation

We account for share-based awards in accordance with ASC 718, *Compensation-Stock Compensation* (ASC 718), which requires the fair value of stock-based compensation awards to be amortized as an expense over the vesting period. Stock-based compensation awards are valued at fair value on the date of grant.

During the three and six months ended June 30, 2013, we recognized \$0.8 million and \$2.8 million, respectively, for option grants, compared to \$3.6 million and \$4.7 million, respectively, during the same periods in the prior year. The decrease in expense for the three and six months ended June 30, 2013 was primarily driven by the expense recorded for the performance-based awards (discussed below) in the second quarter of 2012, which was not recorded in the second quarter of 2013 as they were fully vested in the 2013 first quarter. We recognized \$1.0 million and \$2.4 million, respectively, for restricted stock awards during the three and six months ended June 30, 2013 compared to \$1.5 million and \$3.0 million, respectively, during the same periods in the prior year.

On March 8, 2012, we granted a performance-based non-qualified stock option to each of our Chief Executive Officer and our Chief Operating Officer for 500,000 shares of common stock under our 2011 Equity Incentive Plan. The terms of the performance-based options provide that, over a three year period, one third of the option shares would vest as of March 1 following any fiscal year in which, in addition to the Company achieving a gross margin from home sales of at least 16.7% (as calculated in our 2011 Form 10-K, excluding warranty adjustments and interest), the Company achieved: (1) at least a 10% increase in total revenue over 2011 (166,667 option shares vest); (2) at least a 15% increase in total revenue over 2011 (166,667 option shares vest); or (3) at least a 20% increase in total revenue over 2011 (166,666 option shares vest). Any of the three tranches of option shares that were not performance vested by March 1, 2015 would be forfeited. ASC 718 prohibits recognition of expense associated with performance based stock awards until achievement of the performance targets are probable of occurring.

In accordance with ASC 718, the performance-based awards were assigned a fair value of \$7.42 per share on the date of grant. The maximum potential expense that would be recognized by the Company if all of the performance targets were met is approximately \$7.4 million. At December 31, 2012 all performance targets had been achieved and therefore, \$6.2 million of compensation expense was recognized related to the grant of these awards during the year ended December 31, 2012. The balance of the unamortized stock-based compensation expense was amortized during the first two months of 2013, based on the vesting date of March 1, 2013.

16. Commitments and Contingencies

Surety Bonds and Letters of Credit. We are required to obtain surety bonds and letters of credit in support of our obligations for land development and subdivision improvements, homeowner association dues, warranty work, contractor license fees and earnest money deposits. At June 30, 2013, we had issued and outstanding surety bonds and letters of credit totaling \$68.1 million and \$30.8 million, respectively, including \$16.9 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately \$24.2 million and \$10.5 million, respectively. Among our letter of credit facilities are three committed revolving facilities, the terms of which provide that up to \$65 million of letters of credit may be issued thereunder. In the event any such surety bonds or letters of credit issued by third parties are called, MDC could be obligated to reimburse the issuer of the bond or letter of credit. We believe that we were in compliance with the covenants in the letter of credit facilities at June 30, 2013.

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 things: (1) pending claims received from third-party purchasers associated with previously sold mortgage loans; and (2) a current assessment of the potential exposure associated with future claims of fraud in mortgage loans originated in prior periods. Our

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mortgage loan reserves are reflected as a component of accrued liabilities in the Financial Services section of the accompanying consolidated balance sheets, and the associated expenses are included in Expenses in the Financial Services section of the accompanying consolidated statements of operations.

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The following table summarizes the mortgage loan loss reserve activity for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	\$ 969	\$ 639	\$ 805	\$ 442
Expense provisions	324	161	574	455
Cash payments	(70)	(1)	(156)	(98)
Balance at end of period	\$ 1,223	\$ 799	\$ 1,223	\$ 799

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

Lot Option Contracts. In the normal course of business, we enter into lot option purchase contracts (Option Contracts), generally through a deposit of cash or a letter of credit, for the right to purchase land or lots at a future point in time with predetermined terms. The use of such land option and other contracts generally allows us to reduce the risks associated with direct land ownership and development, reduces our capital and financial commitments and minimizes the amount of our land inventories on our consolidated balance sheets. Our obligation with respect to Option Contracts generally is limited to forfeiture of the related deposits. At June 30, 2013, we had cash deposits and letters of credit totaling \$15.2 million and \$4.4 million, respectively, at risk associated with the option to purchase 2,661 lots.

17. Derivative Financial Instruments

We utilize certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (interest rate lock commitments or locked pipeline) and forward sales of mortgage-backed securities commitments, both of which typically are short-term in nature. Forward sales securities commitments and private investor sales commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2013, we had \$96.8 million in interest rate lock commitments and \$95.0 million in forward sales of mortgage-backed securities.

We record our mortgage loans held-for-sale at fair value to achieve matching of the changes in the fair value of our derivative instruments with the changes in fair values of hedged loans, without having to designate our 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, we record the fair value of the derivatives in Financial Services revenues in the consolidated statements of operations with an offset to Financial Services prepaid expenses and other assets or accrued liabilities in the accompanying consolidated balance sheets, depending on the nature of the change.

18. Mortgage Repurchase Facility

Mortgage Lending. HomeAmerican has a Master Repurchase Agreement (the Mortgage Repurchase Facility) with U.S. Bank National Association (USBNA). This agreement was amended on September 21, 2012 and extended until September 20, 2013. We anticipate extending the maturity date of the facility before its scheduled expiration date (See **Forward-Looking Statements** in Item 2). The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the

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documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement (Custody Agreement), dated as of November 12, 2008, by and between HomeAmerican and USBNA. The Mortgage Repurchase Facility, which had a temporary increase in commitment up to \$80 million through January 31, 2013, had a maximum aggregate commitment of \$50 million as of June 30, 2013. At June 30, 2013 and December 31, 2012, we had \$48.8 million and \$76.3 million, respectively, of mortgage loans that we were obligated to repurchase under our Mortgage Repurchase Facility. Mortgage loans that we are obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the

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consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a Pricing Rate equal to the greater of (i) the LIBOR Rate (as defined in the Mortgage Repurchase Facility) plus 2.5%, or (ii) 3.25%. The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants customary for agreements of this type. The negative covenants include, among others, (i) an Adjusted Tangible Net Worth requirement, (ii) a minimum Adjusted Tangible Net Worth Ratio, (iii) an Adjusted Net Income requirement, and (iv) a minimum Liquidity requirement. The foregoing terms are defined in the Mortgage Repurchase Facility. We believe we were in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of June 30, 2013.

19. Supplemental Guarantor Information

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

M.D.C. Land Corporation

RAH of Florida, Inc.

Richmond American Construction, Inc.

Richmond American Homes of Arizona, Inc.

Richmond American Homes of Colorado, Inc.

Richmond American Homes of Delaware, Inc.

Richmond American Homes of Florida, LP

Richmond American Homes of Illinois, Inc.

Richmond American Homes of Maryland, Inc.

Richmond American Homes of Nevada, Inc.

Richmond American Homes of New Jersey, Inc.

Richmond American Homes of Pennsylvania, Inc.

Richmond American Homes of Utah, Inc.

Richmond American Homes of Virginia, Inc.

Richmond American Homes of Washington, Inc.

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

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

During the first quarter of 2013, the Company determined that it should have classified the non-cash impact of equity income (loss) of subsidiaries as a non-cash reconciling item in the Supplemental Condensed Combining Statements of Cash Flows. As reported, the Company classified the non-cash equity income (loss) of subsidiaries in the net cash provided by (used in) operating activities in the MDC parent column (along with a corresponding elimination of this amount in the eliminating entries column). As revised, the non-cash equity income (loss) of subsidiaries is classified as a non-cash reconciling item in the MDC parent column and this item is no longer reported as an eliminating entry in the eliminating entries column of the Supplemental Condensed Combining Statements of Cash Flows statements. This change in reporting had no impact on (a) the net increase (decrease) in cash and cash equivalents column of the MDC column; (b) the previously reported consolidated net cash provided by (used in) (i) operating activities, (ii) financing activities or (iii) investing activities; or (c) the total net increase (decrease) in cash and cash equivalents line items in the consolidated MDC column.

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None of the above changes in reporting had any impact on any amounts in the previously reported Supplemental Condensed Combining Statements of Operations.

Following are reconciliations of the amounts previously reported to the reclassified amounts as stated in the following components of the Supplemental Condensed Combining Statements of Cash Flows for the six months ended June 30, 2012.

MDC Column for Six Months Ended June 30, 2012	As Previously Reported	Reclassify the non-cash equity income (loss) of subsidiaries (Dollars in thousands)	As Reclassified
Net Cash provided by (used in) operating activities	\$ 16,882	\$ (20,120)	\$ (3,238)
Payments from (advances to) subsidiaries	\$ (48,211)	\$ 20,120	\$ (28,091)
Net cash provided by (used in) financing activities	\$ (72,061)	\$ 20,120	\$ (51,941)
Net increase (decrease) in cash and cash equivalents	\$ (18,704)	\$	\$ (18,704)

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

	June 30, 2013				
	MDC	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	Dollars in thousands				
ASSETS					
Homebuilding:					
Cash and cash equivalents	\$ 204,946	\$ 3,937	\$	\$	\$ 208,883
Marketable securities	610,404				610,404
Restricted cash		2,679			2,679
Trade Receivables	9,673	29,193		(2,190)	36,676
Inventories:					
Housing completed or under construction		569,218			569,218
Land and land under development		628,282			628,282
Total inventories		1,197,500			1,197,500
Intercompany receivables	1,020,908	2,578		(1,023,486)	
Investment in subsidiaries	251,574			(251,574)	
Deferred tax asset, net	180,876			3,345	184,221
Other assets, net	49,229	44,058			93,287
Total Homebuilding Assets	2,327,610	1,279,945		(1,273,905)	2,333,650
Financial Services:					
Cash and cash equivalents			40,535		40,535
Marketable securities			24,037		24,037
Intercompany receivables			11,693	(11,693)	
Mortgage loans held-for-sale, net			92,463		92,463
Other assets, net			9,202	(3,345)	5,857
Total Financial Services Assets			177,930	(15,038)	162,892
Total Assets	\$ 2,327,610	\$ 1,279,945	\$ 177,930	\$ (1,288,943)	\$ 2,496,542
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$ 56	\$ 22,211	\$	\$	\$ 22,267
Accrued liabilities	78,863	55,624	2	2,720	137,209
Advances and notes payable to parent and subsidiaries	14,271	989,040	51	(1,003,362)	
Senior notes, net	1,095,225				1,095,225
Total Homebuilding Liabilities	1,188,415	1,066,875	53	(1,000,642)	1,254,701

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Financial Services:					
Accounts payable and other liabilities			58,708	(4,910)	53,798
Advances and notes payable to parent and subsidiaries			31,817	(31,817)	
Mortgage repurchase facility			48,848		48,848
Total Financial Services Liabilities			139,373	(36,727)	102,646
Total Liabilities	1,188,415	1,066,875	139,426	(1,037,369)	1,357,347
Equity:					
Total Stockholders Equity	1,139,195	213,070	38,504	(251,574)	1,139,195
Total Liabilities and Stockholders Equity	\$ 2,327,610	\$ 1,279,945	\$ 177,930	\$ (1,288,943)	\$ 2,496,542

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

	MDC	Guarantor Subsidiaries	December 31, 2012 Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
ASSETS					
Homebuilding:					
Cash and cash equivalents	\$ 125,904	\$ 3,308	\$ 323	\$	\$ 129,535
Marketable securities	519,465				519,465
Restricted cash		1,859			1,859
Trade and other receivables	6,563	18,846	2,754		28,163
Inventories:					
Housing completed or under construction		469,495	43,454		512,949
Land and land under development		467,915	21,657		489,572
Total inventories		937,410	65,111		1,002,521
Intercompany receivables	812,731	2,589		(815,320)	
Investment in subsidiaries	198,465			(198,465)	
Other assets	40,565	28,524	8,813		77,902
Total homebuilding assets	1,703,693	992,536	77,001	(1,013,785)	1,759,445
Financial Services:					
Cash and cash equivalents			30,560		30,560
Marketable securities			32,473		32,473
Intercompany receivables			9,779	(9,779)	
Mortgage loans held-for-sale, net			119,953		119,953
Other assets			4,710	(1,700)	3,010
Total financial services assets			197,475	(11,479)	185,996
Total Assets	\$ 1,703,693	\$ 992,536	\$ 274,476	\$ (1,025,264)	\$ 1,945,441
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	\$	\$ 67,257	\$ 5,798	\$	\$ 73,055
Accrued liabilities	63,886	46,761	7,809		118,456
Advances and notes payable to parent and subsidiaries	14,068	758,155	52,839	(825,062)	
Senior notes, net	744,842				744,842
Total homebuilding liabilities	822,796	872,173	66,446	(825,062)	936,353
Financial Services:					
Accounts payable and other liabilities			51,864		51,864
Advances and notes payable to parent and subsidiaries			1,737	(1,737)	

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Mortgage repurchase facility			76,327		76,327
Total financial services liabilities			129,928	(1,737)	128,191
Total Liabilities	822,796	872,173	196,374	(826,799)	1,064,544
Equity:					
Total Stockholders' Equity	880,897	120,363	78,102	(198,465)	880,897
Total Liabilities and Stockholders' Equity	\$ 1,703,693	\$ 992,536	\$ 274,476	\$ (1,025,264)	\$ 1,945,441

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

	Three Months Ended June 30, 2013				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
(Dollars in thousands)					
Homebuilding:					
Revenues	\$	\$ 402,134	\$	\$	\$ 402,134
Cost of Sales		(329,362)			(329,362)
Inventory impairments					
Gross margin		72,772			72,772
Selling, general, and administrative expenses	(14,517)	(37,299)	(3)	(89)	(51,908)
Equity income of subsidiaries	39,829			(39,829)	
Interest expense	(909)				(909)
Interest income	8,502	2			8,504
Other income (expense), net	1,357	(27)			1,330
Homebuilding pretax income (loss)	34,262	35,448	(3)	(39,918)	29,789
Financial Services:					
Financial services pretax income			8,134	89	8,223
Income before income taxes	34,262	35,448	8,131	(39,829)	38,012
(Provision) benefit for income taxes	190,647	(748)	(3,002)		186,897
Net income	\$ 224,909	\$ 34,700	\$ 5,129	\$ (39,829)	\$ 224,909
Other comprehensive income (loss)					
Unrealized gain (loss) related to available for sale securities, net of tax	(1,799)		(196)		(1,995)
Comprehensive income	\$ 223,110	\$ 34,700	\$ 4,933	\$ (39,829)	\$ 222,914

	Three Months Ended June 30, 2012				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
(Dollars in thousands)					
Homebuilding:					
Revenues	\$	\$ 241,323	\$ 18,707	\$ (1,683)	\$ 258,347
Cost of Sales		(207,681)	(15,940)	1,683	(221,938)

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Inventory impairments

Gross margin		33,642	2,767		36,409
Selling, general, and administrative expenses	(10,261)	(26,378)	(2,584)		(39,223)
Equity income of subsidiaries	12,415			(12,415)	
Interest expense					
Interest income	5,368	5			5,373
Other income (expense), net	420	(41)	39		418
Homebuilding pretax income (loss)	7,942	7,228	222	(12,415)	2,977
Financial Services:					
Financial services pretax income			6,678		6,678
Income before income taxes	7,942	7,228	6,900	(12,415)	9,655
(Provision) benefit for income taxes	2,696	765	(2,478)		983
Net income	\$ 10,638	\$ 7,993	\$ 4,422	\$ (12,415)	\$ 10,638
Other comprehensive income (loss)					
Unrealized gain (loss) related to available for sale securities, net of tax	(613)		(85)		(698)
Comprehensive income	\$ 10,025	\$ 7,993	\$ 4,337	\$ (12,415)	\$ 9,940

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

	Six Months Ended June 30, 2013				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
(Dollars in thousands)					
Homebuilding:					
Revenues	\$	\$ 735,130	\$	\$ (1,248)	\$ 733,882
Cost of Sales		(604,686)		1,248	(603,438)
Inventory impairments					
Gross margin		130,444			130,444
Selling, general, and administrative expenses	(30,096)	(69,845)	(3)	(165)	(100,109)
Equity income of subsidiaries	69,658			(69,658)	
Interest expense	(1,726)				(1,726)
Interest income	14,681	5			14,686
Other income (expense), net	1,368	(27)			1,341
Homebuilding pretax income (loss)	53,885	60,577	(3)	(69,823)	44,636
Financial Services:					
Financial services pretax income			15,797	165	15,962
Income before income taxes	53,885	60,577	15,794	(69,658)	60,598
(Provision) benefit for income taxes	193,540	(826)	(5,887)		186,827
Net income	\$ 247,425	\$ 59,751	\$ 9,907	\$ (69,658)	\$ 247,425
Other comprehensive income (loss)					
Unrealized gain (loss) related to available for sale securities, net of tax	832		(292)		540
Comprehensive income	\$ 248,257	\$ 59,751	\$ 9,615	\$ (69,658)	\$ 247,965

	Six Months Ended June 30, 2012				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
(Dollars in thousands)					
Homebuilding:					
Revenues	\$	\$ 416,855	\$ 30,713	\$ (2,953)	\$ 444,615
Cost of Sales		(358,755)	(26,280)	2,953	(382,082)

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Inventory impairments

Gross margin		58,100	4,433		62,533
Selling, general, and administrative expenses	(22,569)	(48,371)	(2,407)		(73,347)
Equity income of subsidiaries	20,120			(20,120)	
Interest expense	(778)	(30)			(808)
Interest income	11,278	8			11,286
Other income (expense), net	438	76	62		576
Homebuilding pretax income (loss)	8,489	9,783	2,088	(20,120)	240
Financial Services:					
Financial services pretax income			11,540		11,540
Income before income taxes	8,489	9,783	13,628	(20,120)	11,780
(Provision) benefit for income taxes	4,414	933	(4,224)		1,123
Net income	\$ 12,903	\$ 10,716	\$ 9,404	\$ (20,120)	\$ 12,903
Other comprehensive income (loss)					
Unrealized gain (loss) related to available for sale securities, net of tax	5,826		24		5,850
Comprehensive income	\$ 18,729	\$ 10,716	\$ 9,428	\$ (20,120)	\$ 18,753

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

	Six Months Ended June 30, 2013				Consolidated MDC
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	\$ 14,053	\$ (261,545)	\$ 101,249	\$	\$ (146,243)
Net cash used in investing activities	(96,420)	(629)	8,038		(89,011)
Financing activities:					
Payments from (advances to) parent/subsidiaries	(190,647)	262,803	(72,156)		
Mortgage repurchase facility			(27,479)		(27,479)
Proceeds from issuance of senior notes	346,938				346,938
Proceeds from the exercise of stock options	5,118				5,118
Net cash provided by (used in) financing activities	161,409	262,803	(99,635)		324,577
Net increase in cash and cash equivalents	79,042	629	9,652		89,323
Cash and cash equivalents:					
Beginning of period	125,904	3,308	30,883		160,095
End of period	\$ 204,946	\$ 3,937	\$ 40,535	\$	\$ 249,418
	Six Months Ended June 30, 2012				
	MDC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	\$ (3,238)	\$ (26,747)	\$ 14,395	\$	\$ (15,590)
Net cash used in investing activities	36,475	(494)	2,264		38,245
Financing activities:					
Payments from (advances to) parent/subsidiaries	(28,091)	27,792	299		
Mortgage repurchase facility			(16,042)		(16,042)
Proceeds from the exercise of stock options	140				140
Dividend payments	(23,990)				(23,990)
Net cash provided by (used in) financing activities	(51,941)	27,792	(15,743)		(39,892)
Net increase (decrease) in cash and cash equivalents	(18,704)	551	916		(17,237)
Cash and cash equivalents:					
Beginning of period	313,566	2,771	27,024		343,361

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End of period	\$ 294,862	\$ 3,322	\$ 27,940	\$	\$ 326,124
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Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in Item 1A: Risk Factors Relating to our Business of our Annual Report on Form 10-K for the year ended December 31, 2012 and this Quarterly Report on Form 10-Q.

M.D.C. HOLDINGS, INC.**Selected Financial Information (unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(Dollars in thousands, except per share amounts)				
Homebuilding:				
Home sale revenues	\$ 400,327	\$ 256,532	\$ 732,075	\$ 441,210
Land sale revenues	1,807	1,815	1,807	3,405
Total home sale and land revenues	402,134	258,347	733,882	444,615
Home cost of sales	(327,927)	(220,220)	(602,003)	(378,874)
Land cost of sales	(1,435)	(1,718)	(1,435)	(3,208)
Total cost of sales	(329,362)	(221,938)	(603,438)	(382,082)
Gross margin	72,772	36,409	130,444	62,533
Gross margin %	18.1%	14.1%	17.8%	14.1%
Selling, general and administrative expenses	(51,908)	(39,223)	(100,109)	(73,347)
Interest income	8,504	5,373	14,686	11,286
Interest expense	(909)		(1,726)	(808)
Other income (expense)	1,330	418	1,341	576
Homebuilding pretax income	29,789	2,977	44,636	240
Financial Services:				
Revenues	13,884	10,587	26,390	18,306
Expenses	(6,581)	(4,640)	(12,223)	(8,305)
Interest and other income	920	731	1,795	1,539
Financial services pretax income	8,223	6,678	15,962	11,540
Income before income taxes	38,012	9,655	60,598	11,780
Benefit from income taxes	186,897	983	186,827	1,123
Net income	\$ 224,909	\$ 10,638	\$ 247,425	\$ 12,903
Earnings per share:				
Basic	\$ 4.60	\$ 0.22	\$ 5.07	\$ 0.27
Diluted	\$ 4.56	\$ 0.22	\$ 5.02	\$ 0.27

Weighted average common shares outstanding: