

MDC HOLDINGS INC
Form 10-Q
October 30, 2014

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 September 30, 2014

OR

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

Commission File No. 1-8951

M.D.C. HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

84-0622967

(I.R.S. employer identification no.)

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

(303) 773-1100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 October 25, 2014, 48,816,639 shares of M.D.C. Holdings, Inc. common stock were outstanding.

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

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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

	September 30, 2014	December 31, 2013
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$56,503	\$148,634
Marketable securities	437,444	569,021
Restricted cash	3,034	2,195
Trade and other receivables	24,958	23,407
Inventories:		
Housing completed or under construction	836,520	636,700
Land and land under development	854,677	774,961
Total inventories	1,691,197	1,411,661
Property and equipment, net	30,210	31,248
Deferred tax asset, net	154,542	176,262
Metropolitan district bond securities (related party)	15,379	12,729
Prepaid and other assets	68,810	53,525
Total homebuilding assets	2,482,077	2,428,682
Financial Services:		
Cash and cash equivalents	26,616	50,704
Marketable securities	17,195	19,046
Mortgage loans held-for-sale, net	58,132	92,578
Other assets	4,195	4,439
Total financial services assets	106,138	166,767
Total Assets	\$2,588,215	\$2,595,449
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$39,927	\$15,046
Accrued liabilities	128,392	152,821
Revolving credit facility	10,000	-
Senior notes, net	1,096,269	1,095,620
Total homebuilding liabilities	1,274,588	1,263,487
Financial Services:		
Accounts payable and accrued liabilities	56,270	55,639

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Mortgage repurchase facility	31,782	63,074
Total financial services liabilities	88,052	118,713
Total Liabilities	1,362,640	1,382,200
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; 48,816,639 and 48,788,887 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	488	488
Additional paid-in-capital	912,730	908,090
Retained earnings	304,985	293,096
Accumulated other comprehensive income	7,372	11,575
Total Stockholders' Equity	1,225,575	1,213,249
Total Liabilities and Stockholders' Equity	\$2,588,215	\$2,595,449

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share amounts)			
	(Unaudited)			
Homebuilding:				
Home sale revenues	\$405,051	\$433,693	\$1,154,328	\$1,165,768
Land sale revenues	2,653	25	3,171	1,832
Total home and land sale revenues	407,704	433,718	1,157,499	1,167,600
Home cost of sales	(338,037)	(354,889)	(953,690)	(956,892)
Land cost of sales	(1,985)	(35)	(2,507)	(1,470)
Inventory impairments	-	(350)	(850)	(350)
Total cost of sales	(340,022)	(355,274)	(957,047)	(958,712)
Gross margin	67,682	78,444	200,452	208,888
Selling, general and administrative expenses	(50,512)	(57,753)	(148,652)	(157,862)
Interest and other income	5,926	6,853	24,088	23,602
Interest expense	-	-	(685)	(1,726)
Other expense	(841)	(881)	(2,534)	(1,603)
Loss on early extinguishment of debt	-	-	(9,412)	-
Other-than-temporary impairment of marketable securities	(4,293)	-	(4,293)	-
Homebuilding pretax income	17,962	26,663	58,964	71,299
Financial Services:				
Revenues	10,699	14,282	31,413	40,672
Expenses	(5,643)	(6,921)	(16,182)	(19,144)
Interest and other income	906	885	2,395	2,680
Financial services pretax income	5,962	8,246	17,626	24,208
Income before income taxes	23,924	34,909	76,590	95,507
Benefit from (provision for) income taxes	(8,466)	1,342	(28,086)	188,169
Net income	\$15,458	\$36,251	\$48,504	\$283,676
Other comprehensive income (loss) related to available-for-sale securities, net of tax	(2,484)	1,960	(4,203)	2,500
Comprehensive income	\$12,974	\$38,211	\$44,301	\$286,176
Earnings per share:				
Basic	\$0.32	\$0.74	\$0.99	\$5.80

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Diluted	\$0.32	\$0.74	\$0.99	\$5.75
Weighted average common shares outstanding				
Basic	48,625,685	48,478,403	48,607,425	48,423,969
Diluted	48,830,790	48,753,649	48,824,871	48,852,870
Dividends declared per share	\$0.25	\$-	\$0.75	\$-

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

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

	Nine Months Ended September 30, 2014 2013 (Dollars in thousands) (Unaudited)	
Operating Activities:		
Net income	\$48,504	\$283,676
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on early extinguishment of debt	9,412	-
Stock-based compensation expense	4,754	8,240
Depreciation and amortization	2,928	2,960
Inventory impairments	850	350
Other-than-temporary impairment of marketable securities	4,293	-
Loss (gain) on sale of marketable securities	(7,622)	-
Amortization of discount / premiums on marketable debt securities	501	816
Deferred income tax expense (benefit)	28,363	(189,657)
Net changes in assets and liabilities:		
Restricted cash	(839)	(327)
Trade and other receivables	(5,821)	(1,599)
Mortgage loans held-for-sale	34,446	45,613
Housing completed or under construction	(200,408)	(121,165)
Land and land under development	(79,465)	(210,218)
Prepaid expenses and other assets	(14,084)	(14,033)
Accounts payable and accrued liabilities	932	(30,516)
Net cash used in operating activities	(173,256)	(225,860)
Investing Activities:		
Purchases of marketable securities	(409,846)	(369,887)
Maturities of marketable securities	165,089	132,492
Sales of marketable securities	372,301	187,083
Purchases of property and equipment	(1,919)	(1,278)
Net cash provided by (used in) investing activities	125,625	(51,590)
Financing Activities:		
Payments on mortgage repurchase facility, net	(31,292)	(37,415)
Proceeds from issuance of senior notes	248,375	346,938
Repayment of senior notes	(259,118)	-
Advances on revolving credit facility, net	10,000	-
Dividend payments	(36,616)	-
Proceeds from exercise of stock options	63	5,118
Net cash provided by (used in) financing activities	(68,588)	314,641

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Net increase (decrease) in cash and cash equivalents	(116,219)	37,191
Cash and cash equivalents:		
Beginning of period	199,338	160,095
End of period	\$83,119	\$197,286

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

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 September 30, 2014 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, 2013. Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). This update requires companies to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless certain conditions exist. ASU 2013-11 was effective for our interim and annual periods beginning January 1, 2014. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which is a comprehensive new revenue recognition model. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for our interim and annual reporting periods beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. We are currently evaluating the impact the pronouncement will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* ("ASU 2014-11"), which makes limited amendments to Accounting Standards Codification ("ASC") Topic

860, "Transfers and Servicing." ASU 2014-11 requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates accounting guidance on linked repurchase financing transactions, and expands disclosure requirements related to certain transfers of financial assets. ASU 2014-11 is effective for our fiscal periods beginning January 1, 2015 and interim periods beginning April 1, 2015. Early adoption is not permitted. This guidance is not expected to have a material impact on our consolidated financial statements.

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-maker as two key executives— our Chief Executive Officer and 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:

West (Arizona, California, Nevada and Washington)

Mountain (Colorado and Utah)

East (Virginia, Florida 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 its contributions to consolidated pretax income we consider HomeAmerican to be a reportable segment (“Mortgage operations”). The remaining operating segments have been aggregated into one reportable segment (“Other”) because they do not individually exceed 10 percent of: (1) consolidated revenue; (2) the greater of (A) the combined reported profit of all operating segments that did not report a loss or (B) the positive value of the combined reported loss of all operating segments that reported losses; or (3) consolidated assets.

M.D.C. HOLDINGS, INC.**Notes to Unaudited Consolidated Financial Statements**

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 table set forth below summarizes home sale revenues for our homebuilding operations and revenues for our financial services operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Homebuilding				
West	\$184,627	\$188,456	\$510,710	\$487,949
Mountain	144,442	134,992	392,052	402,137
East	78,635	110,270	254,737	277,514
Total home and land sale revenues	\$407,704	\$433,718	\$1,157,499	\$1,167,600
Financial Services				
Mortgage operations	\$6,416	\$9,694	\$18,887	\$29,232
Other	4,283	4,588	12,526	11,440
Total financial services revenues	\$10,699	\$14,282	\$31,413	\$40,672

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

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	Three Months Ended September 30, 2014 2013		Nine Months Ended September 30, 2014 2013	
	(Dollars in thousands)			
Homebuilding				
West	\$12,402	\$19,539	\$41,747	\$46,929
Mountain	11,031	12,203	30,572	39,341
East	1,138	6,657	9,095	12,708
Corporate	(6,609)	(11,736)	(22,450)	(27,679)
Total homebuilding pretax income	\$17,962	\$26,663	\$58,964	\$71,299
Financial Services				
Mortgage operations	\$3,327	\$5,936	\$10,387	\$18,790
Other	2,635	2,310	7,239	5,418
Total financial services pretax income	\$5,962	\$8,246	\$17,626	\$24,208
Total pretax income	\$23,924	\$34,909	\$76,590	\$95,507

M.D.C. HOLDINGS, INC.**Notes to Unaudited Consolidated Financial Statements**

The table set forth below 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 consist primarily of cash and cash equivalents, marketable securities and our deferred tax asset. The assets in our financial services segment consist mostly of cash and cash equivalents, marketable securities and mortgage loans held-for-sale.

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Homebuilding assets		
West	\$911,952	\$760,450
Mountain	519,332	418,796
East	342,766	297,627
Corporate	708,027	951,809
Total homebuilding assets	\$2,482,077	\$2,428,682
Financial services assets		
Mortgage operations	\$64,062	\$99,065
Other	42,076	67,702
Total financial services assets	\$106,138	\$166,767
Total assets	\$2,588,215	\$2,595,449

4. Earnings Per Share

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

restricted stock. Basic EPS is calculated by dividing income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding. To calculate diluted EPS, basic EPS is further adjusted to include the effect of potential dilutive stock options outstanding. The following table shows basic and diluted EPS calculations:

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(Dollars in thousands, except per share amounts)							
Numerator								
Net income	\$ 15,458		\$ 36,251		\$ 48,504		\$ 283,676	
Less: distributed earnings allocated to participating securities	(48) -			(150) -		
Less: undistributed earnings allocated to participating securities	(13) (294)		(51) (2,609)	
Net income attributable to common stockholders (numerator for basic earnings per share)	15,397		35,957		48,303		281,067	
Add back: undistributed earnings allocated to participating securities	13		294		51		2,609	
Less: undistributed earnings reallocated to participating securities	(13) (293)		(51) (2,586)	
Numerator for diluted earnings per share under two class method	\$ 15,397		\$ 35,958		\$ 48,303		\$ 281,090	
Denominator								
Weighted-average common shares outstanding	48,625,685		48,478,403		48,607,425		48,423,969	
Add: dilutive effect of stock options	205,105		275,246		217,446		428,901	
Denominator for diluted earnings per share under two class method	48,830,790		48,753,649		48,824,871		48,852,870	
Basic Earnings Per Common Share	\$0.32		\$0.74		\$0.99		\$5.80	
Diluted Earnings Per Common Share	\$0.32		\$0.74		\$0.99		\$5.75	

Diluted EPS for the three and nine months ended September 30, 2014 excluded options to purchase approximately 4.3 million and 4.5 million shares, respectively, of common stock because the effect of their inclusion would be anti-dilutive. For the same periods in 2013, diluted EPS excluded options to purchase approximately 4.2 million and 3.4 million shares, respectively.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

5. Accumulated Other Comprehensive Income

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

Three Months Ended		Nine Months Ended
September 30, 2014	2013	September 30, 2014