

MDC HOLDINGS INC
Form 10-Q
October 29, 2013

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, 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)

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

Accelerated Filer
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 23, 2013, 48,874,476 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, 2013

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

	September 30,	December 31,
	2013	2012
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	\$ 149,580	\$ 129,535
Marketable securities	578,441	519,465
Restricted cash	2,186	1,859
Trade and other receivables	29,488	28,163
Inventories:		
Housing completed or under construction	634,159	512,949
Land and land under development	699,974	489,572
Total inventories	1,334,133	1,002,521
Property and equipment, net	31,608	33,125
Deferred tax asset, net of valuation allowance of \$25,046 and \$248,306 at September 30, 2013 and December 31, 2012, respectively	184,986	-
Metropolitan district bond securities (related party)	14,167	5,818
Other assets	50,937	38,959
Total homebuilding assets	2,375,526	1,759,445
Financial Services:		
Cash and cash equivalents	47,706	30,560
Marketable securities	21,816	32,473
Mortgage loans held-for-sale, net	74,340	119,953
Other assets	8,693	3,010
Total financial services assets	152,555	185,996
Total Assets	\$2,528,081	\$ 1,945,441
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	\$20,030	\$73,055
Accrued liabilities	135,434	118,456
Senior notes, net	1,095,421	744,842
Total homebuilding liabilities	1,250,885	936,353

Financial Services:

Accounts payable and accrued liabilities	57,852	51,864
Mortgage repurchase facility	38,912	76,327
Total financial services liabilities	96,764	128,191
Total Liabilities	1,347,649	1,064,544

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; 48,874,476 and 48,698,757 issued and outstanding at September 30, 2013 and December 31, 2012, respectively.	489	487
Additional paid-in-capital	910,218	896,861
Retained earnings (accumulated deficit)	262,387	(21,289)
Accumulated other comprehensive income	7,338	4,838
Total Stockholders' Equity	1,180,432	880,897
Total Liabilities and Stockholders' Equity	\$2,528,081	\$1,945,441

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		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
	(Dollars in thousands, except per share amounts)			
	(Unaudited)			
Homebuilding:				
Home sale revenues	\$433,693	\$320,647	\$1,165,768	\$761,857
Land sale revenues	25	15	1,832	3,420
Total home and land sale revenues	433,718	320,662	1,167,600	765,277
Home cost of sales	(354,889)	(271,067)	(956,892)	(649,941)
Land cost of sales	(35)	(2)	(1,470)	(3,210)
Inventory impairments	(350)	-	(350)	-
Total cost of sales	(355,274)	(271,069)	(958,712)	(653,151)
Gross margin	78,444	49,593	208,888	112,126
Selling, general and administrative expenses	(57,753)	(44,788)	(157,862)	(118,135)
Interest income	6,460	5,365	21,146	16,651
Interest expense	-	-	(1,726)	(808)
Other income (expense)	(488)	16	853	592
Homebuilding pretax income	26,663	10,186	71,299	10,426
Financial Services:				
Revenues	14,282	13,668	40,672	31,974
Expenses	(6,921)	(5,155)	(19,144)	(13,459)
Interest and other income	885	785	2,680	2,323
Financial services pretax income	8,246	9,298	24,208	20,838
Income before income taxes	34,909	19,484	95,507	31,264
Benefit from income taxes	1,342	642	188,169	1,765
Net income	\$36,251	\$20,126	\$283,676	\$33,029
Other comprehensive income related to available for sale securities, net of tax	1,960	5,095	2,500	10,945
Comprehensive income	\$38,211	\$25,221	\$286,176	\$43,974
Earnings per share:				
Basic	\$0.73	\$0.41	\$5.76	\$0.69
Diluted	\$0.73	\$0.41	\$5.71	\$0.68
Weighted average common shares outstanding				

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Basic	48,492,588	47,761,307	48,438,154	47,499,429
Diluted	48,767,834	47,940,038	48,867,055	47,610,195
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, 2013	2012
	(Dollars in thousands)	
	(Unaudited)	
Operating Activities:		
Net income	\$283,676	\$33,029
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation expense	8,240	12,628
Depreciation and amortization	2,960	3,708
Inventory impairments and write-offs of land option deposits	1,624	414
Amortization of discount (premiums) on marketable debt securities	816	279
Deferred income tax benefit	(189,657)	-
Net changes in assets and liabilities:		
Restricted cash	(327)	(1,417)
Trade and other receivables	(1,599)	(13,685)
Mortgage loans held-for-sale	45,613	(8,313)
Housing completed or under construction	(121,165)	(202,994)
Land and land under development	(210,218)	112,406
Other assets	(15,307)	(553)
Accounts payable and accrued liabilities	(30,516)	14,043
Net cash used in operating activities	(225,860)	(50,455)
Investing Activities:		
Purchases of marketable securities	(369,887)	(397,167)
Maturities of marketable securities	132,492	106,000
Sales of marketable securities	187,083	285,056
Purchases of property and equipment	(1,278)	(958)
Net cash used in investing activities	(51,590)	(7,069)
Financing Activities:		
Payments on mortgage repurchase facility	(195,760)	(137,529)
Advances on mortgage repurchase facility	158,345	135,715
Dividend payments	-	(36,046)
Proceeds from issuance of senior notes	346,938	-
Proceeds from exercise of stock options	5,118	15,820
Net cash provided by (used in) financing activities	314,641	(22,040)
Net increase (decrease) in cash and cash equivalents	37,191	(79,564)

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Cash and cash equivalents:

Beginning of period	160,095	343,361
End of period	\$197,286	\$263,797

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 September 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.

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, legal 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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding				
West	\$188,456	\$148,037	\$487,949	\$335,002
Mountain	134,992	96,335	402,137	236,625
East	110,270	76,290	277,514	193,650
Total home and land sale revenues	\$433,718	\$320,662	\$1,167,600	\$765,277
Financial Services				
Mortgage operations	\$9,694	\$10,479	\$29,232	\$24,368
Other	4,588	3,189	11,440	7,606
Total financial services revenues	\$14,282	\$13,668	\$40,672	\$31,974

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Homebuilding				
West	\$19,539	\$8,334	\$46,929	\$11,178
Mountain	12,203	6,951	39,341	13,746
East	6,657	4,907	12,708	7,143
Corporate	(11,736)	(10,006)	(27,679)	(21,641)
Total homebuilding pretax income	\$26,663	\$10,186	\$71,299	\$10,426
Financial Services				
Mortgage operations	\$5,936	\$7,430	\$18,790	16,518
Other	2,310	1,868	5,418	4,320
Total financial services pretax income	\$8,246	\$9,298	\$24,208	\$20,838
Total pretax income	\$34,909	\$19,484	\$95,507	\$31,264

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

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, marketable securities, and our net deferred tax asset.

	September 30,	December 31,
	2013	2012
	(Dollars in thousands)	
Homebuilding assets		
West	\$694,591	\$459,807
Mountain	403,711	332,939
East	309,678	274,199
Corporate	967,546	692,500
Total homebuilding assets	\$2,375,526	\$1,759,445
Financial services assets		
Mortgage operations	\$85,494	\$122,941
Other	67,061	63,055
Total financial services assets	\$152,555	\$185,996