

MDC HOLDINGS INC
Form 10-K
January 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the Transition period from _____ to _____

Commission file number 1-08951

M.D.C. HOLDINGS, INC.

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

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

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 June 30, 2014, the aggregate market value of the Registrants' common stock held by non-affiliates of the Registrants was \$1.2 billion based on the closing sales price of \$30.29 per share as reported on the New York Stock Exchange on June 30, 2014.

As of December 31, 2014, the number of shares outstanding of Registrant's common stock was 48,831,639.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant's 2014 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

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M.D.C. HOLDINGS, INC.

FORM 10-K

PART I

Forward-Looking Statements

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

Item 1. Business.

(a) General Development of Business

M.D.C. Holdings, Inc. is a Delaware corporation. We refer to M.D.C. Holdings, Inc. as the “Company,” “MDC,” “we” or “our” in this Annual Report on Form 10-K, and these designations include our subsidiaries unless we state otherwise. We have two primary operations, homebuilding and financial services. Our homebuilding operations consist of wholly-owned subsidiary companies that generally purchase finished lots or develop lots to the extent necessary for the construction and sale primarily of single-family detached homes to first-time and first-time move-up homebuyers under the name “Richmond American Homes.” Our homebuilding operations are comprised of various homebuilding

divisions that we consider to be our operating segments. For financial reporting, we have aggregated our homebuilding operating segments into reportable segments as follows: (1) West (Arizona, California, Nevada and Washington); (2) Mountain (Colorado and Utah); and (3) East (Virginia, Florida, Illinois and Maryland, which includes Pennsylvania, Delaware, and New Jersey).

Our financial services operations primarily consist of HomeAmerican Mortgage Corporation (“HomeAmerican”), which originates mortgage loans primarily for our homebuyers; Allegiant Insurance Company, Inc., A Risk Retention Group (“Allegiant”), which provides insurance coverage primarily to our homebuilding subsidiaries and certain subcontractors for homes sold by our homebuilding subsidiaries and for work performed in completed subdivisions; StarAmerican Insurance Ltd., which is a re-insurer on Allegiant claims; American Home Insurance Agency, Inc., which offers third-party insurance products to our homebuyers; and American Home Title and Escrow Company, which provides title agency services to our homebuilding subsidiaries and our customers in certain states. For financial reporting, we have aggregated our financial services operating segments into reportable segments as follows: (1) mortgage operations (represents HomeAmerican only) and (2) other (all remaining operating segments).

(b) Available Information

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on our website as soon as reasonably practicable after we file or furnish the materials electronically with the Securities and Exchange Commission (“SEC”). To obtain any of this information, go to our website, <http://ir.richmondamerican.com>, and select “SEC Filings.” Our website includes our: (1) Corporate Governance Guidelines; (2) Corporate Code of Conduct; (3) Rules for Senior Financial Officers; (4) Audit Committee Procedures for Handling Confidential Complaints; and (5) charters for the Audit, Compensation and Corporate Governance/Nominating Committees. These materials may also be obtained, free of charge, at <http://ir.richmondamerican.com> (select “Corporate Governance”).

(c) Financial Information About Industry Segments

Note 3 to the Consolidated Financial Statements contains information regarding our reportable segments for each of the years ended December 31, 2014, 2013 and 2012.

(d) Narrative Description of Business

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

For 2014, the percentage of our home deliveries and home sale and land sale revenues by state were as follows:

	Percentage of Deliveries	%	Percentage of Home Sale Revenues	%
Arizona	17	%	12	%
California	14	%	18	%
Nevada	13	%	11	%
Washington	6	%	6	%
West	50	%	47	%
Colorado	27	%	29	%
Utah	4	%	3	%
Mountain	31	%	32	%
Maryland	7	%	9	%
Virginia	5	%	7	%
Florida	7	%	5	%
East	19	%	21	%
Total	100	%	100	%

Our financial services operations include subsidiary companies that provide mortgage financing, place title insurance and homeowner insurance for our homebuyers, and provide general liability insurance for our subsidiaries and most of

our subcontractors.

Homebuilding Operations

Operating Divisions. The primary functions of our homebuilding segments include land acquisition and development, home construction, sales and marketing, and customer service. Operating decisions are made by our local management teams under the oversight of our Chief Operating Decision Maker (“CODM”), or decision-making group, defined as two key executives - our Chief Executive Officer and Chief Operating Officer. Our organizational structure (i.e., the grouping and reporting of divisions) changes based upon the current needs of the Company. We had 10 active homebuilding operating divisions at the end of each year ended December 31, 2014, 2013 and 2012.

Corporate Management. Our homebuilding business is managed primarily through members of senior management in our Corporate segment and our Asset Management Committees (“AMCs”). Each AMC is comprised of the Chief Operating Officer and three of our corporate officers. All real estate acquisition transactions are reviewed to ensure the transaction achieves the land strategies set forth by our CODM and must be approved by one of the AMCs. Generally, the role of our senior management team and/or AMC includes:

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

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

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

Housing. Generally, our homebuilding subsidiaries build single-family detached homes in a number of standardized series, designed to provide variety in the size and style of homes for our potential homebuyers. In certain markets, our homebuilding subsidiaries build and sell attached townhomes. Within each series for our single-family detached homes, our homebuilding subsidiaries build several different floor plans offering standard and optional features (such as upgraded appliances, cabinetry, flooring, etc.). Differences in sales prices of similar models from market-to-market depend primarily upon homebuyer demand, home prices offered by our competitors, market conditions (such as home inventory supply levels), location, cost of land, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, area demographics and, in certain cases, the requirements of major land sellers and local municipalities. We monitor levels of inventories of speculative homes (defined as homes under construction without a sales contract) in our markets in order to increase returns based on market demand. Speculative homes in various stages of completion allow us to meet the immediate and near-term demands of prospective homebuyers.

Land Acquisition and Development. Our homebuilding subsidiaries acquire our lots with the intention of constructing and selling homes on the acquired land. Generally, we prefer to purchase finished lots using option contracts, in phases or in bulk for cash. However, we do acquire entitled land for development into finished lots when we believe that the risk is justified. In making land purchases, we consider a number of factors, including projected rates of return, estimated gross margins from home sales, sales prices of the homes to be built and mortgage loan limits within the respective county, population and employment growth patterns, proximity to developed areas, estimated cost and complexity of development including environmental and geological factors, quality of schools, estimated levels of competition and demographic trends. Our homebuilding subsidiaries attempt to maintain a supply of finished lots sufficient to enable them to start homes promptly after a contract for a home sale is executed. See “**Forward-Looking Statements**” above.

In their option contracts, our homebuilding subsidiaries generally obtain the right to purchase lots in consideration for an option deposit in the form of cash or letters of credit. In the event they elect not to purchase the lots within a

specified period of time, they may be required to forfeit the option deposit. Our option contracts do not contain provisions requiring our specific performance.

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

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

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

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

Backlog. At December 31, 2014 and 2013, homes under contract but not yet delivered (“backlog”) totaled 1,519 and 1,262, respectively, with an estimated sales value of \$663 million and \$506 million, respectively. We anticipate that homes in backlog at December 31, 2014 generally will close during 2015 under their existing home order contracts or through the replacement of an existing contract with a new home order contract. The estimated backlog sales value at December 31, 2014 may be impacted by, among other things, subsequent home order cancellations and incentives provided, and options and upgrades selected after December 31, 2014. See “**Forward-Looking Statements**” above.

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

Sales and Marketing. Our sales and marketing programs are designed to attract homebuyers in a cost effective manner. We have a centralized in-house advertising and marketing department that oversees our efforts to communicate the inherent value of our homes to our prospective homebuyers and distinguish our Richmond American Homes brand from our competitors or other home buying opportunities. The main objective of this team is to generate homebuyer leads, which are actively pursued by our community sales associates. Our in-house merchandising team furnishes our model homes and sales offices.

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

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

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

Financial Services Operations

Mortgage Lending Operations

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

HomeAmerican is authorized to originate Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) (together “the government-sponsored enterprises”), Federal Housing Administration-insured (“FHA”), and Veterans Administration-guaranteed (“VA”) mortgages and is an authorized issuer of Government National Mortgage Association (“Ginnie Mae”) mortgage-backed securities. HomeAmerican also is an authorized loan servicer for Fannie Mae, Freddie Mac and Ginnie Mae and, as such, is subject to the rules and regulations of these entities. Additionally, HomeAmerican is approved to sell loans to various private investors.

HomeAmerican uses a mortgage repurchase facility, internally generated funds, and temporary financing provided by its parent, to finance the origination of mortgage loans until they are sold. HomeAmerican sells originated mortgage loans to third-party purchasers on either a bulk or flow basis. Mortgage loans sold on a bulk basis include the sale of a package of substantially similar originated mortgage loans, while sales of mortgage loans on a flow basis are completed as HomeAmerican originates each loan. Mortgage loans sold to third-party purchasers include HomeAmerican’s representations and warranties with respect to certain borrower payment defaults, credit quality issues and/or misrepresentations made by HomeAmerican or our homebuyers. Substantially all of the mortgage loans originated by HomeAmerican are sold to third-party purchasers generally within 15 to 40 days of origination.

Pipeline. HomeAmerican’s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed (the “locked pipeline”) at December 31, 2014 and 2013 had an aggregate principal balance of approximately \$42.8 million and \$69.8 million, respectively, and were under interest rate lock commitments at an average interest rate of 3.69% and 4.13%, respectively.

Forward Sales Commitments. HomeAmerican is exposed to market risks related to fluctuations in interest rates. HomeAmerican creates certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (interest rate lock commitments or locked pipeline). HomeAmerican uses forward sales of mortgage-backed securities and commitments from third-parties to purchase loans to hedge the interest rate risk inherent with the locked pipeline, as well as its loan inventory held for sale. The market related risks in our business are described in more detail in our description of Risk Factors.

Competition. HomeAmerican competes with other mortgage bankers to arrange financing for our homebuyers. The significant decline in demand for re-financings during 2013 resulted in increased competition from other mortgage bankers for mortgage originations and this has continued during 2014.

The mortgage industry has been de-consolidating with a number of smaller non-bank entities entering the third-party purchaser space. These new entrants can offer HomeAmerican better prices and a potentially wider array of product options which has served to mitigate some of the competitive issues that HomeAmerican faced when the mortgage market was less fragmented. The competitive nature of our business is described in more detail in our description of Risk Factors.

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

Insurance Operations

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

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

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

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

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

Title Operations

American Home Title provides title agency services to the Company and its homebuyers in Colorado, Florida, Maryland, Nevada and Virginia.

Employees.

The table below summarizes the approximate number of employees for our combined Homebuilding, combined Financial Services and Corporate segments at December 31, 2014 and 2013.

	December 31,	
	2014	2013
Homebuilding	843	800

Financial Services	104	99
Corporate	193	212
Total	1,140	1,111

Item 1A. Risk Factors.

Changes in general economic, real estate and other business conditions may have an adverse effect on the homebuilding and mortgage industries, which could have a negative impact on our business.

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

- employment levels;

- availability of financing for homebuyers;

- interest rates;

- consumer confidence;

- levels of new and existing homes for sale;

- cost of land, labor and construction materials;

- demographic trends; and

- housing demand.

These conditions may exist on a national level or may affect some of the regions or markets in which we operate more than others. When adverse conditions affect any of our larger markets, they could have a proportionately greater

impact on us than on some other homebuilding companies.

Changes to monetary policy or other actions by the Federal Reserve could have an adverse effect on interest rates (including mortgage interest rates), equity markets and consumer confidence. Such effects could cause us to experience declines in the market value of our inventory and the demand for our homes, resulting in a negative impact to our financial position, results of operations and cash flows.

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

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

The impact of the Affordable Care Act remains uncertain and may adversely affect individuals and businesses, which could negatively impact homebuyer discretionary spending and demand for new homes.

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

Additionally, the factors discussed above may increase our counterparty risk, which may include, among others, banks under our credit facilities and mortgage purchasers who may not be willing or able to perform on obligations to us. To the extent a third-party is unable or unwilling to meet its obligations, our financial position, results of operations and cash flows could be negatively impacted.

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. Therefore, a decrease in the demand for our homes because of the preceding matters may also adversely affect the financial results of this segment of our business. Furthermore, any adverse changes in the economic conditions discussed previously could increase the default rate on the mortgages we originate, which may adversely affect our ability to sell the mortgages, the pricing we receive upon the sale of mortgages, or our potential exposure to recourse regarding mortgage loan sales.

These challenging conditions are complex and interrelated. We cannot predict their occurrence or severity, nor can we provide assurance that our responses would be successful.

Increased competition levels in the homebuilding and mortgage lending industries could have a negative impact on our homebuilding and mortgage operations.

The homebuilding industry is fragmented and highly competitive. Our homebuilding subsidiaries compete with numerous public and private homebuilders, including a number that are substantially larger than us and may have greater financial resources than we do. Our homebuilding subsidiaries also compete with subdivision developers and land development companies, some of which are themselves homebuilders or affiliates of homebuilders. Homebuilders compete for customers, land, building materials, subcontractor labor and desirable financing. Competition for home orders is based primarily on home sales price, location of property, home style, financing available to prospective homebuyers, quality of homes built, customer service and general reputation in the community, and may vary market-by-market and/or submarket-by-submarket. Additionally, competition within the homebuilding industry can be impacted by an excess supply of new and existing homes available for sale resulting from a number of factors, including, among other things, increases in the number of new home communities, increases in speculative homes available for sale and increases in home foreclosures. Increased competition can result in a decrease in our net new home orders, a decrease in our home sales prices and/or an increase in our home sales incentives in an effort to generate new home sales and maintain homes in backlog until they close. These competitive pressures may negatively impact our financial position, results of operations and cash flows.

Through our mortgage lending subsidiary, HomeAmerican, we have seen an increased level of competition with numerous banks and other mortgage bankers and brokers, many of which are larger than us and may have greater financial resources than we do. Competitive factors include pricing, mortgage loan terms, underwriting criteria and customer service. To the extent that we continue to see increased competition with other companies that originate mortgage loans, the financial position, results of operations and cash flows of our mortgage operations may be negatively impacted.

If land is not available at reasonable prices or terms, we could be required to scale back our operations in a given market and/or we may operate at lower levels of profitability.

Our operations depend on our homebuilding subsidiaries' ability to obtain land for the development of our residential communities at reasonable prices and with terms that meet our underwriting criteria. Our ability to obtain land for new residential communities may be adversely affected by changes in the general availability of land, the willingness of land sellers to sell land at reasonable prices, competition for available land, availability of financing to acquire land, zoning, regulations that limit housing density, and other market conditions. If the supply of land, and especially finished lots, appropriate for development of residential communities continues to be limited because of these factors, or for any other reason, the number of homes that our homebuilding subsidiaries build and sell may decline. To the

extent that we are unable to timely purchase land or enter into new contracts for the purchase of land at reasonable prices, due to the lag time between the time we acquire land and the time we begin selling homes, we may be required to scale back our operations in a given market and/or we may operate at lower levels of profitability, and as a result our financial position, results of operations and cash flows could be negatively impacted.

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

The residential construction industry experiences price fluctuations and shortages in labor and materials from time to time. Shortages in labor can be due to: work stoppages, labor disputes, shortages in qualified trades people, lack of availability of adequate utility infrastructure and services, or our need to rely on local subcontractors who may not be adequately capitalized or insured. Labor and material shortages can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Additionally, we could experience labor shortages as a result of subcontractors going out of business or leaving the residential construction market due to low levels of housing production and volumes. Pricing for labor and materials can be affected by the factors discussed above, changes in energy prices, and various other national, regional and local economic factors. Any of these circumstances could give rise to delays in the start or completion of our residential communities, increase the cost of developing one or more of our residential communities and/or increase the construction cost of our homes.

We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts fix the price of the homes at the time the contracts are signed, which may be in advance of the construction of the home. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, finished lots, building materials, and other resources, through higher selling prices, our financial position, cash flows and operating results, including our gross margin from home sales, could be negatively impacted.

If mortgage interest rates rise, if down payment requirements are increased, if loan limits are decreased, or if mortgage financing otherwise becomes less available, it could adversely affect our business.

Mortgage liquidity influenced by governmental entities or government-sponsored enterprises (“GSEs”) like the FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae continue to be an important factor in marketing our homes. Financial losses or other factors may limit, restrict or otherwise curtail their ability or willingness to insure mortgage loans, offer insurance at rates and on terms that are not prohibitive, or purchase mortgage loans. Should this occur, it may negatively impact the availability of mortgage financing and our sales of new homes.

Beginning in 2014, new regulations took effect that, among other things, capped the fees and placed additional restrictions on what our mortgage company and its affiliates may collect, limit the types of loans our mortgage company may originate and place additional restrictions on loans that are sold to entities such as Fannie Mae, Freddie Mac, and Ginnie Mae, insured by the FHA or guaranteed by the VA. The ultimate impact of these changes is uncertain and may have a negative impact on our financial position, results of operations and cash flows.

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

Loans sold to or insured by the GSEs are subject to various loan limits. Decreases in these loan limits may require homebuyers to make larger down payments or obtain more restrictive non-conforming or “jumbo” mortgages, which could adversely impact on our financial position, results of operations and cash flows.

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

If interest rates increase, the costs of owning a home may be affected and could result in further reductions in the demand for our homes.

Expirations, amendments or changes to tax laws, incentives or credits currently available to our customers may negatively impact our business.

Many homeowners receive substantial tax benefits in the form of tax deductions against their personal taxable income for mortgage interest and property tax payments and the loss or reduction of these deductions could affect homeowners' net cost of owning a home. Significant changes to existing tax laws that currently benefit homebuyers, such as the ability to deduct mortgage interest and real property taxes, may result in an increase in the total cost of home ownership and may make the purchase of a home less attractive to buyers. This could adversely impact demand for and/or sales prices of new homes, which would have a negative impact on our business.

Increases in our cancellations could have a negative impact on our business.

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

Increased levels of home order cancellations could have a negative impact on our financial position, results of operations and cash flows.

A decline in the market value of our homes or carrying value of our land would have a negative impact on our business.

Our homebuilding subsidiaries acquire land for the replacement of land inventory and/or expansion within our current markets and may, from time to time, purchase land for expansion into new markets. The fair value of our land and land under development inventory and housing completed or under construction inventory depends on market conditions. Factors that can impact our determination of the fair value of our inventory primarily include home sales prices, levels of home sales incentives and home construction and land costs. Our home sales prices and/or levels of home sales incentives can be impacted by, among other things, uncertainty in the homebuilding and mortgage industries or the United States / global economy overall, decreased demand for new homes, decreased home prices offered by our competitors, home foreclosure and short-sale levels, decreased ability of our homebuyers to obtain suitable mortgage loan financing and high levels of home order cancellations. Under such circumstances, we may be required to record impairments of our inventory. Any such inventory impairments would have a negative impact on our financial position and results of operations.

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

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

Change in energy prices may have an adverse effect on the economies in certain markets we operate in and our cost of building homes.

The economies of some of the markets in which we operate are impacted by the health of the energy industry. To the extent that energy prices significantly change, the economies of certain of our markets may be negatively impacted which may adversely impact the financial position, results of operations and cash flows of our business. Furthermore, pricing offered by our suppliers and subcontractors can be adversely affected by increases in various energy costs resulting in a negative impact to our financial position, results of operations and cash flows of our business.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and disruptions in these markets could have an adverse impact on the results of our business.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets. Our requirements for additional capital, whether to finance operations or to service or refinance our existing indebtedness, fluctuate as market conditions and our financial performance and operations change. We cannot provide assurance that we will maintain cash reserves and generate sufficient cash flow from operations in an amount to enable us to service our debt or to fund other liquidity needs.

The availability of additional capital, whether from private capital sources or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. Our public debt was downgraded by a rating agency in 2014. This, combined with any further reduction in our credit rankings and/or a weakening of our financial condition, could adversely affect our ability to obtain necessary funds. Even if financing is available, it could be costly or have other adverse consequences.

In addition, the sources and terms and conditions of warehouse financing and mortgage repurchase arrangements and other lending arrangements for the mortgage lending industry are subject to change. These changes may impact, among other things, availability of capital, terms and structures for debt and line of credit agreements, collateral requirements and collateral advance rates.

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

Our operations are subject to continuing compliance requirements mandated by applicable federal, state and local statutes, ordinances, rules and regulations, including zoning and land use ordinances, building, plumbing and electrical codes, contractors' licensing laws, state insurance laws, federal and state human resources laws and regulations and health and safety laws and regulations. Various localities in which we operate have imposed (or may impose in the future) fees on developers to fund schools, road improvements and low and moderate-income housing.

Availability of and costs related to permit, water/sewer tap, and impact fees can impact our homebuilding operations. From time to time, various municipalities in which our homebuilding subsidiaries operate restrict or place moratoria on the availability of utilities, including water and sewer taps. Additionally, certain jurisdictions in which our homebuilding subsidiaries operate have proposed or enacted “slow growth” or “no growth” initiatives and other measures that may restrict the number of building permits available in any given year. These initiatives or other slow or no growth measures could reduce our ability to open new subdivisions and build and sell homes in the affected markets. The availability issues previously discussed and any increases in costs of these fees may negatively impact our financial position, results of operations and cash flows.

Our homebuilding operations also are affected by environmental laws and regulations pertaining to availability of water, municipal sewage treatment capacity, stormwater discharges, land use, hazardous waste disposal, dust controls, building materials, population density and preservation of endangered species, natural terrain and vegetation.

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

We also are subject to rules and regulations with respect to originating, processing, selling and servicing mortgage loans, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities. The turmoil caused by the increased number of defaults in subprime and other mortgages during the last industry downturn has encouraged ongoing consumer lawsuits and the investigation of financial services industry practices by governmental authorities. These investigations have included the examination of consumer lending practices, sales of mortgages to financial institutions and other investors and the practices in the financial services segments of homebuilding companies. New rules and regulations or revised interpretations of existing rules and regulations applicable to our mortgage lending operations could result in more stringent compliance standards, which may substantially increase costs of compliance.

In the ordinary course of business, we are required to obtain surety bonds, the unavailability of which could adversely affect our business.

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

insurance companies to issue surety bonds. If we were unable to obtain surety bonds when required, our financial position, results of operations and cash flows could be adversely impacted.

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

We have a material amount of investments in marketable securities, the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our financial position, results of operations and cash flows.

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

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

Repurchase requirements associated with HomeAmerican's sale of mortgage loans, could negatively impact our business.

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

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

We may experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes delivered and the associated home sale revenues increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring and summer with deliveries scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets.

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

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

The interests of certain controlling shareholders may be adverse to investors

Larry A. Mizel and David D. Mandarich beneficially own, directly or indirectly through their affiliates, in the aggregate, approximately 25% of our common stock. To the extent they and their affiliates vote their shares in the same manner, their combined stock ownership may effectively give them the power to influence the election of members of our board of directors and other matters reserved for our shareholders. Circumstances may occur in which

the interest of these shareholders could be in conflict with your interests. In addition, such persons may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in us, even though such transactions may involve risks to you.

Information technology failures and data security breaches could harm our business.

We and our financial services operations use information technology and other computer resources to carry out important operational activities and to maintain our business records. These information technology systems are dependent upon electronic systems and other aspects of the internet infrastructure. A material breach in the security of our information technology systems or other data security controls could result in third parties obtaining customer, employee or company data. Such occurrences could have a material and adverse effect on our financial position, results of operations and cash flows.

Item 1B. Unresolved Staff Comments.

None

Item 2. *Properties.*

Our corporate office is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease office space in a 144,000 square foot office building. In some markets, our homebuilding divisions and other MDC subsidiaries lease additional office space. The table below outlines the number of office facilities that are leased and the approximate square footage leased in each market at December 31, 2014. While currently we are satisfied with the suitability and capacity of our office locations, we continue to evaluate them in view of market conditions and the size of our operations.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	2	18,000
California	2	22,000
Colorado	4	155,000
Florida	2	11,000
Maryland	2	18,000
Nevada	1	13,000
Utah	1	6,000
Virginia	3	13,000
Washington	2	22,000
Total	19	278,000

Item 3. *Legal Proceedings.*

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

condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

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

At December 31, 2014, we had 607 shareholders of record. The shares of our common stock are traded on the New York Stock Exchange. The following table sets forth, for the periods indicated, the closing price ranges of our common stock.

	Three Months Ended			
	March 31	June 30	September 30	December 31
2014				
High	\$32.04	\$30.29	\$ 30.42	\$ 26.66
Low	27.40	27.37	25.32	23.71
2013				
High	\$41.76	\$39.71	\$ 34.00	\$ 32.24
Low	35.90	31.56	27.12	27.81

The table below sets forth the cash dividends declared and paid in 2014. During the year ended December 31, 2013 we did not declare or pay any dividends. We paid dividends of \$2.00 per share during the year ended December 31, 2012. Of the \$2.00 per share in dividends, \$1.00 was in lieu of declaring and paying regular quarterly dividends in calendar year 2013.

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
2014				
First Quarter	01/27/14	02/26/14	\$ 0.25	\$ 12,207
Second Quarter	04/28/14	05/28/14	0.25	12,205
Third Quarter	07/21/14	08/20/14	0.25	12,204
Fourth Quarter	10/20/14	11/19/14	0.25	12,204
			\$ 1.00	\$ 48,820

There were no shares of MDC common stock repurchased during the years ended December 31, 2014, 2013 or 2012. At December 31, 2014, we were authorized to repurchase up to 4,000,000 shares of our common stock.

Performance Graph

Set forth below is a graph comparing the yearly change in the cumulative total return of MDC's common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with that of a peer group of other homebuilders over the five-year period ending on December 31, 2014, weighted as of the beginning of that period.

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

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

Item 6. Selected Financial Data.

The data in these tables and related footnotes should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share amounts)				
Income Statement Data					
Home sale and land sale revenues	\$1,650,631	\$1,629,175	\$1,156,142	\$817,023	\$926,905
Financial services revenues	43,953	51,259	46,881	26,086	30,473
Total revenues	\$1,694,584	\$1,680,434	\$1,203,023	\$843,109	\$957,378
Homebuilding pretax income (loss) ⁽¹⁾⁽³⁾	\$75,804	\$100,323	\$32,617	\$(110,628)	\$(80,896)
Financial services pretax income	24,671	29,502	28,498	3,156	10,295
Total income (loss) before income taxes	\$100,475	\$129,825	\$61,115	\$(107,472)	\$(70,601)
Net income (loss) ⁽¹⁾⁽²⁾⁽³⁾	\$63,143	\$314,385	\$62,699	\$(98,390)	\$(64,770)
Basic earnings (loss) per share	\$1.29	\$6.39	\$1.29	\$(2.12)	\$(1.40)
Diluted earnings (loss) per share	\$1.29	\$6.34	\$1.29	\$(2.12)	\$(1.40)
Weighted Average Common Shares Outstanding:					
Basic	48,615,541	48,453,119	47,660,629	46,796,334	46,627,815
Diluted	48,817,566	48,831,785	47,834,156	46,796,334	46,627,815
Balance Sheet Data					
Cash and cash equivalents	\$153,825	\$199,338	\$160,095	\$343,361	\$572,225
Marketable securities	\$156,140	\$588,067	\$551,938	\$519,943	\$968,729
Total inventories	\$1,667,960	\$1,411,661	\$1,002,521	\$806,052	\$787,659
Total assets	\$2,358,438	\$2,595,449	\$1,945,441	\$1,858,725	\$2,547,769
Senior notes, net ⁽¹⁾⁽³⁾	\$846,450	\$1,095,620	\$744,842	\$744,108	\$1,242,815
Mortgage repurchase facility	\$60,822	\$63,074	\$76,327	\$48,702	\$25,434
Stockholders' equity	\$1,228,336	\$1,213,249	\$880,897	\$868,636	\$983,683
Stockholders' equity per common share	\$25.15	\$24.87	\$18.09	\$18.11	\$20.87
Cash dividends declared per share ⁽⁴⁾	\$1.00	\$-	\$2.00	\$1.00	\$1.00
Operational Data					
Homes delivered (units)	4,366	4,710	3,740	2,762	3,245
Average selling price	\$377	\$345	\$308	\$292	\$284
Net new orders (units)	4,623	4,327	4,342	2,887	3,261
Homes in backlog at period end (units)	1,519	1,262	1,645	1,043	842
Estimated backlog sales value at period end	\$663,000	\$506,000	\$579,000	\$330,000	\$269,000

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Estimated average selling price of homes in backlog	\$437	\$401	\$352	\$316	\$320
Active subdivisions at period-end	159	146	148	187	148

During 2014, we redeemed our 5 % Senior Notes due December 2014 and our 5 % Senior Notes due July 2015. As a result of these transactions, we paid \$517.7 million to extinguish \$500 million in debt principal and recorded a (1) total of \$18.2 million in losses from early extinguishments of debt. In addition, we recorded an other-than-temporary impairment of \$4.3 million in connection with the sale of securities to fund the early redemption of the 5 % Senior Notes due July 2015.

(2) Net income for the year ended December 31, 2013 includes the impact of a \$187.6 million reversal of the valuation allowance against our deferred tax asset in the 2013 second quarter.

During 2011, we completed a debt tender offer and redemptions of our 7% Senior Notes due 2012 and 5½% Senior Notes due 2013. As a result of these transactions, we paid \$537.7 million to extinguish \$500 million in debt principal and recorded a \$38.8 million expense for loss on extinguishment of debt.

(4) Total dividends declared per share for the year ended December 31, 2012 include \$1.00 per share representing the accelerated payment of dividends for 2013.

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

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

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands, except per share amounts)		
Homebuilding:			
Home sale revenues	\$1,647,398	\$1,626,707	\$1,150,998
Land sale revenues	3,233	2,468	5,144
Total home and land sale revenues	1,650,631	1,629,175	1,156,142
Home cost of sales	(1,365,621)	(1,336,978)	(973,120)
Land cost of sales	(2,559)	(1,961)	(4,823)
Inventory impairments	(1,760)	(919)	(1,105)
Total cost of sales	(1,369,940)	(1,339,858)	(979,048)
Gross margin	280,691	289,317	177,094
Gross margin %	17.0 %	17.8 %	15.3 %
Selling, general and administrative expenses	(203,253)	(213,283)	(167,295)
Interest and other income	26,310	29,798	24,998
Interest expense	(685)	(1,726)	(808)
Other expense	(4,813)	(3,783)	(1,372)
Losses from early extinguishments of debt	(18,153)	-	-
Other-than-temporary impairment of marketable securities	(4,293)	-	-
Homebuilding pretax income	75,804	100,323	32,617
Financial Services:			
Revenues	43,953	51,259	46,881
Expenses	(22,334)	(25,271)	(21,645)
Interest and other income	3,052	3,514	3,262
Financial services pretax income	24,671	29,502	28,498
Income before income taxes	100,475	129,825	61,115
Benefit from (provision for) income taxes	(37,332)	184,560	1,584
Net income	\$63,143	\$314,385	\$62,699
Earnings per share:			
Basic	\$1.29	\$6.39	\$1.29
Diluted	\$1.29	\$6.34	\$1.29

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Weighted average common shares outstanding:			
Basic	48,615,541	48,453,119	47,660,629
Diluted	48,817,566	48,831,785	47,834,156
Dividends declared per share	\$1.00	\$-	\$2.00
Cash provided by (used in):			
Operating Activities	\$(163,647)	\$(269,549)	\$(108,819)
Investing Activities	\$423,080	\$(30,402)	\$(21,781)
Financing Activities	\$(304,946)	\$339,194	\$(52,666)

EXECUTIVE SUMMARY

Overview

For the year ended December 31, 2014, our results were mixed as we worked through an uneven recovery for the homebuilding industry. Following a significant increase in home prices during the first half of 2013 and increased difficulty in homebuyers obtaining financing, resulting from more stringent underwriting standards established in 2014 and reductions to loan limits by the FHA in late 2013, the use of incentives to stimulate demand for new homes in certain markets became more prevalent in 2014. Combined with rising construction and land costs, the increased incentives placed pressure on our homebuilding gross margins during the year, though we were able to partially offset the impact of the margin pressure by reducing overhead expenses. Additionally, we increased our net new home orders and ending backlog for 2014 by expanding our community count, establishing a foundation for future improvement in both top and bottom line results. While we may continue to see some volatility in industry conditions and our operating results in the short-term, we believe that the longer-term trend will be positive, driven by continued progress toward more healthy levels of household formation, employment and consumer confidence. See "**Forward-Looking Statements**" above.

For the year ended December 31, 2014, we reported net income of \$63.1 million, or \$1.29 per diluted share, compared to net income of \$314.4 million, or \$6.34 per diluted share for the year earlier period. The decrease was primarily attributable to a \$187.6 million benefit from the reversal of our deferred tax asset valuation allowance in the 2013 second quarter, while for 2014 we had no such benefit and recognized \$37.3 million of income tax expense. Our results for the full year were also adversely impacted by \$18.2 million of expense from the early extinguishments of debt, a \$4.3 million other-than-temporary impairment ("OTTI") on certain marketable securities sold to fund a portion of the early debt extinguishments, an 80 basis point decline in gross margin from home sales and a 16% decline in financial services income, due primarily to more competitive mortgage market conditions. These declines were slightly offset by a slight improvement in home sale revenues, due to a 9% increase in average selling price that was mostly offset by a 7% decline in home deliveries, and an 80 basis point improvement in our homebuilding selling, general and administrative ("SG&A") expenses as a percentage of home sale revenues ("SG&A rate"), primarily due to lower compensation-related and legal expenses.

Our active community count as of December 31, 2014 was 159, a 9% increase from 146 a year ago. This increase was the result of our strong acquisition efforts during much of 2013, during which we purchased approximately 7,900 lots. During 2014, we somewhat tempered our acquisition efforts, purchasing just over 4,200 lots in 112 communities, and ended 2014 with approximately 15,300 lots, a slight decrease from December 31, 2013. While our monthly sales absorption pace was marginally weaker in 2014 when compared to 2013, our higher average active community count during 2014 drove a 7% increase in net new home orders to 4,623 from 4,327 in the prior year. We ended 2014 with backlog of 1,519, up 20% from 1,252 at December 31, 2013 and the dollar value of our backlog was up 31% to \$663.2 million. With our higher backlog and active communities to start to 2015, we believe we are well positioned for growth in 2015. See "**Forward-Looking Statements**" above.

Our financial services pretax income was \$24.7 million for the year ended December 31, 2014, down \$4.8 million, or 16%, from \$29.5 million for the year ended December 31, 2013. The decline in pretax income was driven by more competitive market conditions for our mortgage operations segment, which experienced reduced volumes of loans locked and sold, lower gains on loans locked and sold compared to a year ago and lower origination income due to fewer loan originations and other incentives. Our other financial services segment, which includes our insurance and title operations, experienced a \$2.7 million year-over-year increase in pretax income, partially offsetting the decrease in our mortgage operations segment.

During 2014, we continued to maintain a balance sheet among the industry's strongest through prudent inventory management and by opportunistically accessing the capital markets. We reduced interest costs and extended our closest senior note maturity to 2020 by extinguishing \$500 million of existing senior notes during the year and issuing \$250 million of new senior notes, due January 2024. Additionally, we increased our revolving credit facility from \$450 million to \$550 million and extended its maturity date by one year to December 2019.

Homebuilding*Pretax Income (Loss)*

	Year Ended December 31,						
	2014	Change		2013	Change		2012
	(Dollars in thousands)	Amount	%		Amount	%	
West	\$63,071	\$(2,601)	(4)%	\$65,672	\$38,596	143%	\$27,076
Mountain	39,343	(13,049)	(25)%	52,392	28,090	116%	24,302
East	10,730	(8,860)	(45)%	19,590	8,579	78 %	11,011
Corporate	(37,340)	(9)	0 %	(37,331)	(7,559)	(25)%	(29,772)
Total homebuilding pretax income	\$75,804	(24,519)	(24)%	\$100,323	\$67,706	208%	\$32,617

Homebuilding pretax income for 2014 was \$75.8 million for the year ended December 31, 2014, a decrease of \$24.5 million from \$100.3 million for the year ended December 31, 2013. The decrease was primarily driven by an 80 basis point decline in our gross margin from home sales, debt extinguishment charges of \$18.2 million, a \$4.3 million OTTI and a \$3.5 million reduction in interest and other income. These items were partially offset by an 80 basis point improvement in our SG&A rate.

The decline in pretax income for our East segment was primarily the result of a 17% year-over-year decline in the number of homes delivered, partially offset by a \$3.6 million decrease in legal expenses, while the decline in our Mountain segment was primarily the result of a decrease in our gross margin from home sales and an 11% decline in deliveries. Our Corporate segment included \$18.2 million in debt extinguishment charges, but was largely offset by \$14.3 million in lower incentive-based compensation and post-retirement benefit expenses for certain of our executive officers.

For the year ended December 31, 2013, the \$67.7 million improvement in our homebuilding financial performance from 2012 was driven primarily by a 41% increase in home sale revenues, a 240 basis point improvement in our gross margin from home sales and a 140 basis point reduction in our SG&A rate.

Each of our homebuilding reportable segments, most notably our West and Mountain segments, showed substantial improvements in pretax income for the twelve months ended December 31, 2013 as compared with the same period in 2012, benefiting from significant increases in home sale revenues and gross margins from home sales. Also, excluding a \$2.5 million legal recovery in 2012 for our East segment, our SG&A rates for all homebuilding segments showed

improvements. Our pretax loss for our non-operating Corporate reportable segment for 2013 increased by \$7.6 million primarily due to increases in our general and administrative expenses related to our accrual for higher incentive-based compensation and higher legal expenses, which were partially offset by reduced stock-based compensation expense. While the SG&A expenses increased during 2013 in the Corporate segment, the SG&A rate decreased due to increased homebuilding revenues.

Assets

	December 31,		Change	
	2014	2013	Amount	%
	(Dollars in thousands)			
West	\$893,970	\$760,450	\$133,520	18 %
Mountain	516,971	418,796	98,175	23 %
East	343,718	297,627	46,091	15 %
Corporate	465,368	951,809	(486,441)	(51)%
Total homebuilding assets	\$2,220,027	\$2,428,682	\$(208,655)	(9)%

Homebuilding assets decreased by \$208.7 million during the year ended December 31, 2014 largely due to the decrease in cash and marketable securities in connection with the net payoff of \$250 million in senior notes. Homebuilding assets in our West, Mountain and East segments increased from December 31, 2013 as incremental investments in both land and new construction drove an increase in our inventory balances and corresponding active community count. The funds for these investments came from our Corporate segment. In addition, our Corporate segment assets declined due to the net payoff of \$250 million in our senior notes discussed above.

Revenues

	Year Ended December 31,				Change		
	2014	Change Amount	%	2013	Change Amount	%	2012
	(Dollars in thousands)						
West	\$770,051	\$98,773	15 %	\$671,278	\$155,199	30%	\$516,079
Mountain	534,244	(12,557)	(2)%	546,801	191,433	54%	355,368
East	346,336	(64,760)	(16)%	411,096	126,401	44%	284,695
Total home and land sale revenues	\$1,650,631	\$21,456	1 %	\$1,629,175	\$473,033	41%	\$1,156,142

Home and land sale revenues for the year ended December 31, 2014 were nearly flat compared to 2013 due to a 9% increase in the average selling price which was mostly offset by a 7% decrease in homes delivered. The increases in home and land sale revenues for the year ended December 31, 2013 was driven primarily by a 26% increase in new home deliveries and a 12% increase in average selling price.

New Home Deliveries:

	Year Ended December 31, 2014			2013			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Arizona	731	\$200,994	\$275.0	635	\$156,308	\$246.2	15 %	29 %	12 %
California	624	296,189	474.7	643	243,804	379.2	(3)%	21 %	25 %
Nevada	564	176,371	312.7	593	163,127	275.1	(5)%	8 %	14 %
Washington	267	96,496	361.4	333	108,038	324.4	(20)%	(11)%	11 %
West	2,186	770,050	352.3	2,204	671,277	304.6	(1)%	15 %	16 %
Colorado	1,172	478,669	408.4	1,287	479,619	372.7	(9)%	(0)%	10 %
Utah	165	53,136	322.0	208	65,292	313.9	(21)%	(19)%	3 %
Mountain	1,337	531,805	397.8	1,495	544,911	364.5	(11)%	(2)%	9 %
Maryland	305	144,695	474.4	368	159,169	432.5	(17)%	(9)%	10 %
Virginia	234	115,001	491.5	355	177,142	499.0	(34)%	(35)%	(2)%
Florida	304	85,847	282.4	288	74,208	257.7	6 %	16 %	10 %
East	843	345,543	409.9	1,011	410,519	406.1	(17)%	(16)%	1 %
Total	4,366	\$1,647,398	\$377.3	4,710	\$1,626,707	\$345.4	(7)%	1 %	9 %

	Year Ended December 31, 2013			2012			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Arizona	635	\$156,308	\$246.2	603	\$131,278	\$217.7	5 %	19 %	13 %
California	643	243,804	379.2	543	184,490	339.8	18%	32 %	12 %
Nevada	593	163,127	275.1	604	125,725	208.2	(2)%	30 %	32 %
Washington	333	108,038	324.4	247	73,074	295.8	35%	48 %	10 %
West	2,204	671,277	304.6	1,997	514,567	257.7	10%	30 %	18 %
Colorado	1,287	479,619	372.7	807	289,416	358.6	59%	66 %	4 %
Utah	208	65,292	313.9	226	64,006	283.2	(8)%	2 %	11 %
Mountain	1,495	544,911	364.5	1,033	353,422	342.1	45%	54 %	7 %
Maryland	368	159,169	432.5	233	99,476	426.9	58%	60 %	1 %
Virginia	355	177,142	499.0	280	135,067	482.4	27%	31 %	3 %
Florida	288	74,208	257.7	195	47,915	245.7	48%	55 %	5 %
Illinois	-	-	-	2	551	275.5	N/M	N/M	N/M
East	1,011	410,519	406.1	710	283,009	398.6	42%	45 %	2 %
Total	4,710	\$1,626,707	\$345.4	3,740	\$1,150,998	\$307.8	26%	41 %	12 %

N/M – Not meaningful

We experienced increases in the average selling price of new home deliveries for the year ended December 31, 2014 in nearly all of our markets. The improvement in each market's average selling price was primarily the result of a mix shift to higher-priced communities, particularly in California, and, to a lesser extent, price increases implemented in 2013. However, the increases in average selling price for most of our markets were mostly offset by a decrease in the number of homes delivered, due primarily to lower year-over-year beginning backlog for each of those markets. In total, our beginning backlog for 2014 was 23% lower as compared to beginning backlog for 2013. Arizona and Florida were the only two markets which had a year-over-year increase in beginning backlog, resulting in the improvement in deliveries for those markets in 2014.

The dollar value of new home deliveries for the year ended December 31, 2013 increased significantly for all of our homebuilding operating segments and was primarily attributable to an increase of 76% in the dollar value of homes in backlog to start 2013 as compared to the beginning of 2012 coupled with significant price increases implemented throughout the year at many of our communities and more speculative home deliveries. Our West and Mountain segments had the strongest increases in beginning backlog due to improved market conditions, especially within each state within the West, and in Colorado in the Mountain segment.

Gross Margin

Gross margin from home sales for the year ended December 31, 2014 was 17.0%, down 80 basis points from 17.8% for 2013. The decrease in our gross margin percentage was primarily due to increased construction and land costs and increased incentive levels offered to stimulate demand, in light of the uneven homebuilding industry conditions.

Gross margin from home sales for the year ended December 31, 2013 was 17.8%, up 240 basis points from 15.4% for 2012. The increase in our gross margin percentage was primarily due to increased prices and reduced incentives as a percentage of home sales in all of our markets, as lower new and resale inventory supply levels, historically low lending rates and general improvements in the state of the U.S. economy improved homebuyer demand.

Excluding inventory impairments and interest in cost of sales, our adjusted gross margin percentage from home sales for the years ended December 31, 2014, 2013 and 2012 was 20.8%, 21.1% and 18.2%, respectively. The table set forth below is a reconciliation of our gross margin and gross margin percentage, as reported, to gross margin from home sales excluding inventory impairments and gross margin from home sales excluding inventory impairments and interest in home cost of sales, which are non-GAAP measures.

	Year Ended December 31,					
	2014	<i>Gross Margin</i> %	2013	<i>Gross Margin</i> %	2012	<i>Gross Margin</i> %
	(Dollars in thousands)					
Gross Margin	\$280,691	17.0 %	\$289,317	17.8 %	\$177,094	15.3 %
Less: Land Sale Revenues	(3,233)		(2,468)		(5,144)	
Add: Land Cost of Sales	2,559		1,961		4,823	
Gross Margin from Home Sales	280,017	17.0 %	288,810	17.8 %	176,773	15.4 %
Add: Inventory Impairments	1,760		919		1,105	
Gross Margin from Home Sales Excluding Impairments ⁽¹⁾	281,777	17.1 %	289,729	17.8 %	177,878	15.5 %
Add: Interest in Cost of Sales	60,508		54,261		31,106	
Gross Margin from Home Sales Excluding Impairments and Interest in Cost of Sales ⁽¹⁾	\$342,285	20.8 %	\$343,990	21.1 %	\$208,984	18.2 %

(1) Gross Margin from Home Sales Excluding Impairments and Gross Margin from Home Sales Excluding Impairments and Interest in Cost of Sales are non-GAAP financial measures. We believe this information is

meaningful as it isolates the impact that interest and impairments have on our Gross Margin from Home Sales and permits investors to make better comparisons with our competitors, who also break out and adjust gross margins in a similar fashion.

Inventory Impairments

Impairments recognized for the years ended December 31, 2014, 2013 and 2012 are shown in the table below:

	Year Ended December		
	2014	2013	2012
	(Dollars in thousands)		
Inventory Impairments			
West	\$-	\$-	\$-
Mountains	760	-	-
East	1,000	919	1,105
Total	\$1,760	\$919	\$1,105

We recognized \$1.8 million in inventory impairments on four projects in our Maryland and Colorado markets during the year ended December 31, 2014. During the years ended December 31, 2013 and 2012, we recognized \$0.9 million and \$1.1 million, respectively, of inventory impairments related to three and two projects in our Maryland market, respectively. Based on the slow sales absorption rates experienced during each period and the estimated sales price reductions required to sell the remaining lots and houses in these communities, it was determined that the fair values were less than the carrying values.

The table below shows the number of subdivisions and carrying value of the inventory we tested for impairment during each quarter in the years ended December 31, 2014, 2013 and 2012. The table also includes impairments that we recorded during such periods, as well as the quarter-end fair value, number of lots and number of subdivisions for the impaired inventories. For the years ended December 31, 2014, 2013 and 2012, we used discount rates ranging from 10% to 18% for the subdivisions that were impaired.

Three Months Ended	Total Subdivisions Tested for Impairment During Quarter	Carrying Value of Inventory Tested for Impairment During Quarter	Carrying Value of Impaired Inventory Before Impairment at Quarter End	Inventory Impairments	Fair Value of Inventory After Impairments	Number of Subdivisions Impaired During the Quarter	Number of Lots Impaired During the Quarter
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(Dollars in thousands)							
March 31, 2014	16	\$ 37,404	\$ -	\$ -	\$ -	-	-
June 30, 2014	16	53,591	5,135	850	4,285	2	23
September 30, 2014	23	96,488	-	-	-	-	-
December 31, 2014	21	71,469	5,556	910	4,646	2	27
Total	76	\$ 258,952	\$ 10,691	\$ 1,760	\$ 8,931	4	50
March 31, 2013	17	\$ 42,919	\$ -	\$ -	\$ -	-	-
June 30, 2013	23	48,329	-	-	-	-	-
September 30, 2013	8	14,731	2,326	350	1,976	1	9
December 31, 2013	17	51,043	3,446	569	2,877	2	18
Total	65	\$ 157,022	\$ 5,772	\$ 919	\$ 4,853	3	27
March 31, 2012	33	\$ 81,492	\$ -	\$ -	\$ -	-	-
June 30, 2012	27	63,616	-	-	-	-	-
September 30, 2012	22	62,681	-	-	-	-	-
December 31, 2012	17	62,808	3,840	1,105	2,735	2	25
Total	99	\$ 270,597	\$ 3,840	\$ 1,105	\$ 2,735	2	25

Selling, General and Administrative Expenses

For the year ended December 31, 2014, our SG&A expenses were \$203.3 million, compared to \$213.3 million for the year ended December 31, 2013. The decline in SG&A expenses was largely attributable to \$14.3 million in lower incentive-based compensation and post-retirement benefit expense for certain of our executive officers, \$3.5 million in lower stock-based compensation expense and a \$7.8 million reduction in our legal expenses. The improvements were partially offset by an increase in marketing costs of \$8.9 million incurred to support a larger number of active communities as compared with the prior year. These year-over-year improvements drove an improvement in our SG&A rate by 80 basis points from 13.1% in 2013 to 12.3% in 2014.

For the year ended December 31, 2013, our SG&A expenses were \$213.3 million, compared to \$167.3 million for the year ended December 31, 2012. The increase in SG&A expense was largely attributable to higher incentive-based compensation expense, due to increased profitability, higher commissions expense resulting from increased sales volume, and increased headcount due to our growth during the year. In addition, the year ended December 31, 2012 benefited from significant legal recoveries totaling \$9.8 million, whereas 2013 did not benefit from any significant legal recoveries and included additional legal expense accruals for certain matters encountered in the normal course of business that totaled \$5.9 million. These increases to our 2013 SG&A expense were slightly offset by lower stock-based compensation expense. Despite the above increases, our SG&A rate decreased 140 basis points from 14.5% in 2012 to 13.1% in 2013, driven primarily by improved operating leverage that resulted from higher revenues.

Early Extinguishments of Debt & Other-Than-Temporary Impairment of Marketable Securities

During the 2014 first quarter, we redeemed our 5 % Senior Notes due December 2014 and, in the 2014 fourth quarter, we redeemed our 5 % Senior Notes due July 2015. As a result of these transactions, we paid \$517.7 million to extinguish \$500 million in debt principal and recorded a total of \$18.2 million in losses on early extinguishments of debt. We used available cash balances to fund the Senior Notes due December 2014 and for the redemption of the Senior Notes due July 2015, we used available cash balances in addition to proceeds from the sale of marketable securities. As a result of the determination in the 2014 third quarter to sell certain marketable securities to fund a portion of the 2014 fourth quarter redemption of the Senior Notes due July 2015, we recorded an other-than-temporary impairment of \$4.3 million.

Interest and Other Income

Our interest and other income for the years ended December 31, 2014, 2013 and 2012 was \$26.3 million, \$29.8 million and \$25.0 million, respectively. The change in interest and other income between each period was attributable to the year-over-year changes in our cash and cash equivalents and marketable securities balance, as well as changing

yields.

Interest Expense

For the years ended December 31, 2014, 2013 and 2012, we expensed \$0.7 million, \$1.7 million and \$0.8 million of interest, respectively, related to the portion of our homebuilding debt that exceeded our qualified assets.

Other Expense

For the years ended December 31, 2014, 2013 and 2012, our other expense was \$4.8 million, \$3.8 million and \$1.4 million, respectively. The increased other expense in 2013 and 2014 was due to a higher amount of abandoned project costs.

Other Homebuilding Operating Data

Net New Orders:

	Year Ended December 31, 2014				2013				% Change			
	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *	Homes	Dollar Value	Average Price	Monthly Absorption Rate *
	(Dollars in thousands)											
Arizona	802	\$235,041	\$293.1	2.04	645	\$165,101	\$256.0	2.91	24%	42%	14%	(30)%
California	669	327,248										